

*Tallinna Vesi*



AS Tallinna Vesi  
Results of operations – for the 1<sup>st</sup> quarter of 2010

Currency	Thousand kroons
Start of reporting period	1 January 2010
End of reporting period	31 March 2010
Address	Tallinn, Ädala 10
Chairman of the Management Board	Ian John Alexander Plenderleith
Commercial register number	10 257 326
Telephone	+372 62 62 202
Telefax	+372 62 62 300
E-mail	<a href="mailto:tvesi@tvesi.ee">tvesi@tvesi.ee</a>
Web page	<a href="http://www.tallinnavesi.ee">www.tallinnavesi.ee</a>
Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

## CONTENTS

	Page
MANAGEMENT REPORT	3
MANAGEMENT CONFIRMATION	10
CONDENSED STATEMENT OF FINANCIAL POSITION	11
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME	12
CONDENSED CASH FLOW STATEMENTS	13
CONDENSED STATEMENTS OF CHANGES IN EQUITY	14
NOTES TO THE ACCOUNTS	
NOTE 1. ACCOUNTING PRINCIPLES	15
NOTE 2. CASH AND CASH EQUIVALENTS	15
NOTE 3. PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS	16
NOTE 4. REVENUE	17
NOTE 5. STAFF COSTS	17
NOTE 6. COST OF GOODS SOLD, MARKETING AND GENERAL ADMINISTRATIONS EXPENSES	18
NOTE 7. OTHER INCOME AND EXPENSES	18
NOTE 8. FINANCIAL INCOME AND EXPENSES	19
NOTE 9. DIVIDENDS	19
NOTE 10. EARNINGS PER SHARE	19
NOTE 11. RELATED PARTIES	20
NOTE 12. LIST OF SUPERVISORY BOARD MEMBERS	21

**MANAGEMENT REPORT**  
**RESULTS OF OPERATIONS - FOR THE 1<sup>st</sup> QUARTER 2010**

**Overview**

During the three months of 2010 the Company's total sales decreased, year on year, by 0.7% to 191.4 mln EEK. The Company's underlying operating profit for three months of 2010, from water and wastewater related activities, decreased by 6.2% to 100.7 mln EEK compared to the three months of 2009. Profits from other activities (mainly construction and developments) increased by 27.1% to 4.4 mln EEK compared to the three months of 2009. The Company's profit before taxes was 81.9 mln EEK, which is a 16.8% decrease compared to the same three months of 2009.

<i>mln EEK</i>	<b>1 Q 2010</b>	<b>1 Q 2009</b>	<b>Change</b>	<b>3 months 2010</b>	<b>3 months 2009</b>	<b>Change</b>
Sales	191,4	192,8	-0,7%	191,4	192,8	-0,7%
Gross profit	119,0	126,1	-5,6%	119,0	126,1	-5,6%
Gross profit margin %	62,2	65,4	-4,9%	62,2	65,4	-4,9%
Operating profit	105,1	110,8	-5,1%	105,1	110,8	-5,1%
Operating profit - main business	100,7	107,4	-6,2%	100,7	107,4	-6,2%
Operating profit margin %	54,9	57,5	-4,5%	54,9	57,5	-4,5%
Profit before taxes	81,9	98,4	-16,8%	81,9	98,4	-16,8%
Net profit	81,9	98,4	-16,8%	81,9	98,4	-16,8%
Net profit margin %	42,8	51,0	-16,2%	42,8	51,0	-16,2%
ROA %	3,0	3,7	-19,9%	3,0	3,7	-19,9%
Debt to total capital employed	46,8	48,2	-2,9%	46,8	48,2	-2,9%

*Gross profit margin – Gross profit / Net sales*

*Operating profit margin – Operating profit / Net sales*

*Net Profit margin – Net Profit / Net sales*

*ROA – Net profit / Total Assets*

*Debt to Total capital employed – Total Liabilities / Total capital employed*

*Main business – water and wastewater activities, excl. connections profit and government grants*

**Profit and Loss Statement**

1<sup>st</sup> quarter 2010

*Sales*

In the 1<sup>st</sup> quarter of 2010 the Company's total sales decreased, year on year, by 0.7% to 191.4 mln EEK. Without the sales contribution from Maardu, a contract which commenced in the 3<sup>rd</sup> quarter of 2009, then total sales would have been down by 7.3 mln EEK and 3.8% compared to the 1<sup>st</sup> quarter of 2009. Sales in the main operating activity principally comprise of sales of water and treatment of wastewater to domestic and commercial customers within and outside of the service

area, and fees received from the City of Tallinn for operating and maintaining the storm water system.

Sales of water and wastewater services were 176.1 mln EEK, a 0.5% decrease compared to the 1<sup>st</sup> quarter of 2009, resulting from the 0.9% decrease in tariffs from 1 January 2010 for the Company's residential and commercial customers combined with the factors described below.

Included within this amount were the following changes by sectors. Within the service area, sales to residential customers decreased by 2.8% to 94.1 mln EEK. Sales to commercial customers decreased by 7.0% to 65.1 mln EEK. Sales to customers outside of the service area increased by 113.9% to 13.5 mln EEK, which now includes the Maardu operating contract which commenced from 1<sup>st</sup> July 2009. Over pollution fees received were 3.4 mln EEK, an 11.2% decrease compared to the 1<sup>st</sup> quarter of 2009.

In the 1<sup>st</sup> quarter of 2010, the volumes sold to residential customers dropped 1.9%. We believe that this is due to the combination of the economic recession and the fact that people have continued to move to the surrounding areas of Tallinn.

The volumes sold to commercial customers inside the service area decreased by 6.0% compared to the same period in 2009. The majority of the reduction in sales volumes in Tallinn is a result of the macroeconomic impact of companies reducing their production volumes. A significant impact on the volumes is due to one of the most sizeable clients, Coca-Cola, reducing their production in Tallinn which has seen a 21% decrease from the same period in 2009. Coca-Cola will cease production in Tallinn completely from April 2010 but the early reduction in volumes has had a severe impact on the 1<sup>st</sup> quarter 2010 volumes.

Excluding Maardu volumes, then outside service area volumes were 34.3% higher than in the 1<sup>st</sup> quarter of 2009. The main factor in this increase was higher storm water volumes in March following the commencement of the thaw following the winter but additionally sewage volumes were also higher in the current year.

The sales from the operation and maintenance of the storm water and fire-hydrant system increased by 2.1% to 12.5 mln EEK in the 1<sup>st</sup> quarter of 2010 compared to the same period in 2009. This is in accordance with the terms and conditions of the contract whereby the storm water and fire hydrant costs are invoiced based on actual costs and volumes treated.

### *Cost of Goods Sold and Gross Margin*

The cost of goods sold for the main operating activity was 72.4 mln EEK in the 1<sup>st</sup> quarter of 2010, an increase of 5.7 mln EEK or 8.6% from the equivalent period in 2009 of which Maardu added 4.1 mln EEK.

In the 1<sup>st</sup> quarter of 2010 the Company achieved the beneficial 0.5 coefficient for pollution tax, and the amount of pollution tax payable was 3.7 mln EEK compared to 3.3 mln EEK in 1<sup>st</sup> quarter of 2009. In the 1<sup>st</sup> quarter of 2009 we achieved the 0.5 coefficient also. Pollution tax payable is also impacted by the increase in tax rates year on year by 19% and by the increase in treatment volumes. In the 3<sup>rd</sup> quarter of 2009 an investment into an additional stage of waste water treatment was approved for which the procurement process is expected to be finalized in May 2010. Only at this time will the project cost be known with construction forecasted to start from June 2010.

Chemical costs were 5.1 mln EEK, representing a 38.4% increase compared to the corresponding period in 2009. This result is the combination of higher volumes treated and chemicals dosed which was required in order to try to meet the Nitrogen efficiency target of 70%.

Electricity costs increased by 1.0 mln EEK or 11.7% in the 1<sup>st</sup> quarter of 2010 compared to the 1<sup>st</sup> quarter of 2009 due to higher electricity prices and volumes treated and pumped.

Salary expenses decreased in the 1<sup>st</sup> quarter of 2010, year on year, by 1.5 mln EEK or 8.9% mainly due to the lower number of employees.

Depreciation charges decreased in the 1<sup>st</sup> quarter of 2010 by 0.5 mln EEK or 2.6% year on year.

Transport costs increased by 0.3 mln EEK, or 7.2% year on year, due to the combination of the increase in fuel prices and increased usage of rented machines.

Other cost of goods sold in the main operating activity increased 4.1 mln EEK, or 60.4% year on year, exclusively due to the costs of operating in Maardu as this was not operational in the 1<sup>st</sup> quarter of 2009.

As a result of all of the above the Company's gross profit for the 1<sup>st</sup> quarter of 2010 was 119.0 mln EEK, which is a decrease of 7.1 mln EEK, or 5.6%, compared to the gross profit of 126.1 mln EEK for the 1<sup>st</sup> quarter of 2009.

#### *Operating Costs and Operating Margin*

Marketing expenses decreased by 0.2 mln EEK to 3.2 mln EEK during the 1<sup>st</sup> quarter of 2010 compared to the corresponding period in 2009. This is mainly the result of the efficiency program and fewer employees than in corresponding period in 2009.

In the 1<sup>st</sup> quarter of 2010 the General administration expenses decreased by 1.4 mln EEK year on year to 12.8 mln EEK.

Via successful negotiation of a range of outsourced service contracts new, beneficial rates have been achieved for most of the cost items. The management's target is to achieve further efficiencies through a thorough review of processes and work organization.

#### *Other net income/expenses*

The majority of the income in Other net income/expenses relates to constructions and government grants. The driver for this income stream is the connections activity in Tallinn. Income/expenses from constructions and government grants totaled a net income of 4.4 mln EEK, in the 1<sup>st</sup> quarter of 2010 compared to a net income of 3.5 mln EEK in the 1<sup>st</sup> quarter of 2009. This was primarily due to an increase in the number of connections finalized.

The rest of the other income/expenses totaled an expense of 2.3 mln EEK in the 1<sup>st</sup> quarter of 2010 compared to an expense of 1.1 mln EEK in the 1<sup>st</sup> quarter of 2009, from a combination of slightly worsened debt collection and less received late payment penalties compared to 2009. It should be noted however that, more than 99% of debt is collected in a timely manner.

As a result the Company's underlying operating profit from sales of water and wastewater for the 1<sup>st</sup> quarter of 2010 totaled 100.7 mln EEK compared to 107.4 mln EEK in the corresponding quarter in

2009. In total then the Company's operating profit for main and other activities for the 1<sup>st</sup> quarter of 2010 was 105.1 mln EEK, a decrease of 5.7 mln EEK compared to an operating profit of 110.8 mln EEK achieved in the 1<sup>st</sup> quarter of 2009. Year on year the operating profit has decreased 5.1%.

#### *Financial expenses*

Net Financial expenses were 23.3 mln EEK in the 1<sup>st</sup> quarter of 2010, which is an increase of 10.8 mln EEK or 86.8% compared to the 1<sup>st</sup> quarter of 2009. Of this increase, as set out below, 19.4 mln EEK relates to a loss on the fair value of swap contracts with underlying business financial expenses reducing by 8.6 mln EEK in total compared to 2009.

The Company's interest costs have decreased by 65.1% compared to the 1<sup>st</sup> quarter of 2009 from 13.0 mln EEK to 4.5 mln EEK as a result of the reduction in Euribor rates and the replacement of our fixed interest rate loan (4.19% + risk margin), by loans with floating interest rates. The Company decided to mitigate the long term floating interest risk and in May 2009 concluded 3 interest swap agreements, each with a principal value of 15 mln EUR. All contracts have forward start dates, for a base amount of 30 mln EUR, the forward start date began on 28 November 2009, and for a base amount of 15 mln EUR the forward start date begins on 28 May 2010. At this point in time the estimated fair value of these swap contracts is negative, with a further devaluation in 1<sup>st</sup> quarter 2010 in the amount of 19.4 mln EEK which more than offsets the interest costs savings and the financial income earned during the 1<sup>st</sup> quarter of 2010.

#### *Profit Before Tax*

The Company's profit before taxes for the 1<sup>st</sup> quarter of 2010 was 81.9 mln EEK, which is 16.5 mln EEK lower than the profit before taxes of 98.4 mln EEK for the 1<sup>st</sup> quarter of 2009.

#### **Balance sheet**

During the three months of 2010 the Company invested 13.0 mln EEK into fixed assets. Non-current assets were 2,178.0 mln EEK at 31 March 2010. Current assets increased by 103.7 mln EEK to 592.5 mln EEK in the three months of the year, with customer receivables increasing by 11.0 mln EEK and cash at bank increasing by 92.8 mln EEK.

Current liabilities increased by 6.1 mln EEK to 121.2 mln EEK in the three months of the year. This was mainly due to a 7.4 mln EEK increase in Trade payables largely due to outstanding interest payable.

The Company continues to maintain its leverage level within its target range of 50% with total liabilities to total capital employed of 46.8% as of 31 March 2010. Long-term liabilities stood at 1,176.2 mln EEK at the end of March 2010, consisting almost entirely of the outstanding balance of three long-term bank loans. The current total available loan facility is 95 mln EUR, from which we had drawn down 75 mln EUR at the end of the 1<sup>st</sup> quarter of 2010. In April we have completed the draw down for the final 20 mln EUR. The weighted average interest margin at 75 mln EUR draw down was 0.55%, for the total available facility the margin is 0.67%.

#### **Cash flow**

During the three months of 2010, the Company generated 118.8 mln EEK of cash flows from operating activities, an increase of 4.7 mln EEK compared to the corresponding period in 2009. The

increase in operating cash flows is mainly due to the increased liability balance in the three months of 2010. Underlying operating profit still continues to be the contributor to operating cash flows.

In the three months of 2010 net cash outflows from investing activities were 26.0 mln EEK, which is 19.0 mln EEK more than in 2009. This is mainly due to reduced inflow due to timing of compensations received for construction of pipelines. To date in 2010 the cash outflows in relation to fixed asset investments are 40.0 mln EEK.

There were no cash flows related to the financing activities in 1<sup>st</sup> quarters of 2010 and 2009.

As a result of all of the above factors, the total cash inflow in the three months of 2010 was 92.8 mln EEK compared to a cash inflow of 107.1 mln EEK in the three months of 2009. Cash and cash equivalents stood at 385.3 mln EEK as at 31 March 2010 which is 48.3 mln EEK higher than for the corresponding period of 2009.

## Employees

At the end of the 1<sup>st</sup> quarter of 2010, the total number of employees was 318 compared to 331 at the end of the 1<sup>st</sup> quarter of 2009. The full time equivalent (FTE) was respectively 303 in 2010 compared to the 316 in 2009. The decrease in FTE is primarily due to reorganization in various departments at the end of 2009.

## Dividends and share performance

Based on the results of the 2009 financial year, the Company intends to pay 500,010,000 EEK of dividends. Of this 10,000 EEK will be paid to the owner of the B-share and 500,000,000 EEK, i.e. 25.00 EEK per share to the owners of the A-shares. The Annual Meeting of the Shareholders will vote to approve the dividend payment on 18 May 2010.

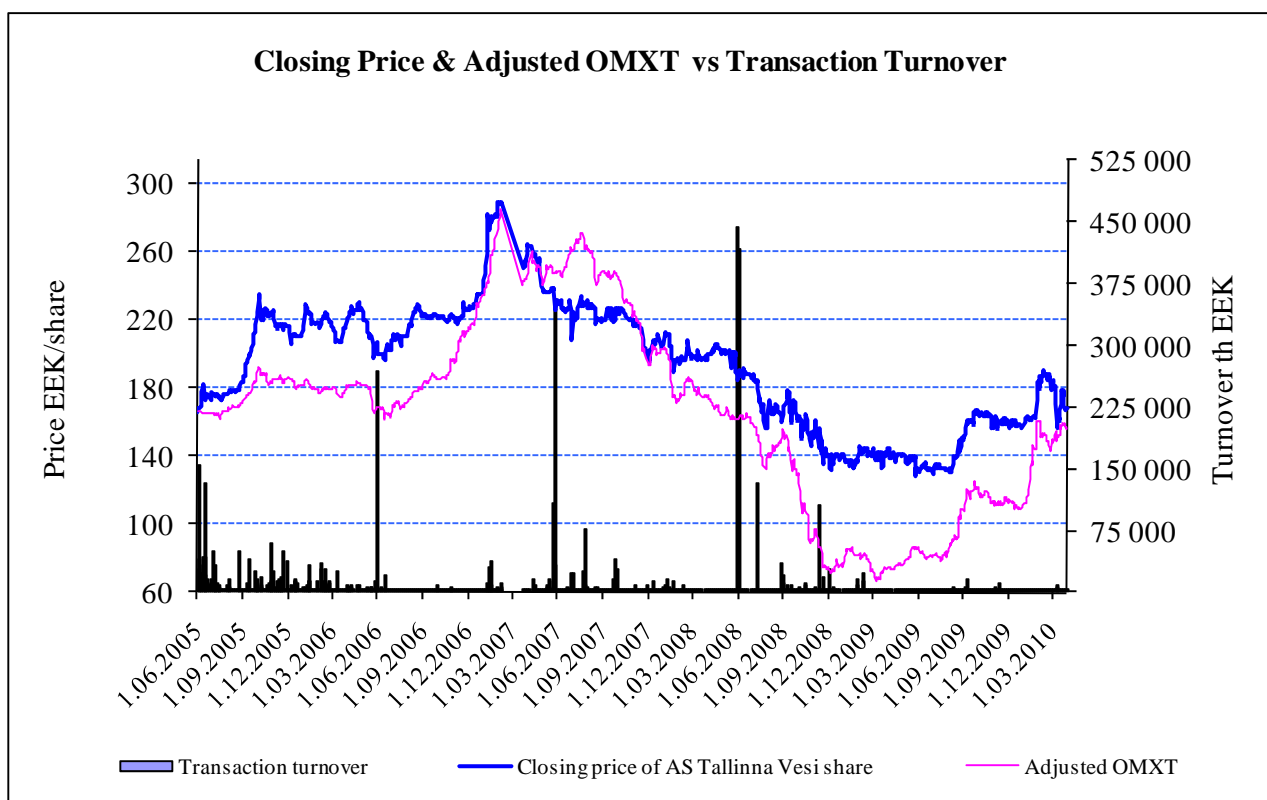
AS Tallinna Vesi is listed on OMX Main Baltic Market with trading code TVEAT and ISIN EE3100026436.

As of 31 March 2010 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%
Credit Suisse Securities (Europe) Ltd Prime Brokerage A/C Prime Brokerage Clients	5.63%

Parvus AM has declared that their shareholding in the clients' accounts exceeds 10% and AKO Capital has declared their indirect ownership above 5% of the share capital.

At the end of the quarter, 31 March 2009, the closing price of the AS Tallinna Vesi share was 167.58 EEK (10.80 EUR), which is a 7.10% increase compared to the closing price of 156.47 EEK (10.00 EUR) at the beginning of quarter. During the same period the OMX Tallinn index rose by 41.33%.



### Operational highlights in the three months of 2010

AS Tallinna Vesi overall operating indicators suffered a decline in the 1<sup>st</sup> quarter of 2010 due to extreme weather conditions, which greatly affected the number of service interruptions and customer complaints. At the same time the Company is pleased to report that 100% water samples taken at the customers' taps in the 1<sup>st</sup> quarter were compliant with quality requirements.

<b>Operation Performance</b>	<b>1 Q 2009</b>	<b>1 Q 2010</b>
<b>Water</b>		
Water compliance at customer's premises %	99.86	100.00
Total number of customer interruptions (unplanned)	129	166
Average unplanned interruption time per property hrs	3.20	4.35
Number of customer contacts regarding water pressure	1	10
Loss of water in distribution system %	17.16	19.83
<b>Wastewater</b>		
Number of sewer blockings	302	397
Number of sewer collapses	34	27
Wastewater treatment compliance %	100	100
Share of recycled sludge %	100	100
<b>Network Extension Program</b>		
Network Extension Program completion per annual plan %	0	0
Number of properties given access to public sewerage network	0	0

#### Water quality is at its all time best

100% of water samples taken from the taps of the customers of AS Tallinna Vesi were compliant with the requirements in the 1<sup>st</sup> quarter of 2010, again demonstrating an increase of 0,14% over 2009.

The quality of drinking water provided to Tallinners has not been affected by the airplane crash landing incident at Lake Ülemiste on March 18th. The small amount of aviation fuel spilled from the aircraft was



localized immediately and collected from the lake after the aircraft had been removed. The Company will continue to monitor the quality of water at the intake to the water treatment plant and will ensure quality standards are maintained.

AS Tallinna Vesi refurbished the ozone generators at the water treatment plant, which is a necessary task undertaken every five years to improve the treatment of water. The ozonators used in Tallinn are the largest in the world.

#### **Number of interruptions on the rise due to severe weather conditions**

The number and duration of unplanned interruptions did increase in the 1<sup>st</sup> quarter of 2010 as a result of extreme winter conditions. This had an impact on overall levels of service. However, AS Tallinna Vesi increased its resources and activities to minimize disruptions and as a result, there were no interruptions lasting over 12 hours in the 1<sup>st</sup> quarter of 2010.

The majority of service interruptions were caused either by frozen pipes in the beginning of the year or pipe bursts in March, as the ground began to thaw out. The number of water pressure contacts increased by 33% compared to the 1<sup>st</sup> quarter of 2009. The main reasons being blockages of water meters, blockages occurred from frozen pipes and decrease of area water pressure associated with repair and maintenance works on utility main pipelines. All jobs were resolved within 2 working days.

Increased activity also influenced the number of customer complaints. However, response times and performance remained within targets. AS Tallinna Vesi appreciates the patience and understanding during this period, and apologises for any inconvenience caused.

#### **No imminent threat to environment despite increase in wastewater volumes**

In March the number of wastewater blockages was significantly higher than in 2009 and with the melt waters there were flooding events in Pirita, Saue and near Harku Lake at the end of March. Because of the large volumes of water, pollution of the environment was minimal and posed no danger.

AS Tallinna Vesi's air-scouring pressure trucks operated in double shifts to increase and speed up the liquidation of sewerage blockages, thus reducing any threats to the environment.

The Company constructed emergency overflow pipes in Pirita, at Andrekse and Lauri streets to avoid the further flooding of private properties in the area due to increased storm water volumes combined with wastewater collected from the district. The emergency overflows were in use for 2-3 days and the much diluted wastewater and storm water did not pose any danger to the environment, as the samples analyzed by the Wastewater Inspectorate confirmed.

The flow of wastewater to the Paljassaare wastewater treatment plant reached over 400 million litres per day in the second half of March due to the thaw period. Despite the record level inflow of wastewater, the treatment plant was still able to achieve full compliance of pollution parameters in the 1<sup>st</sup> quarter of 2010.

#### **Network extension program will be delivered as planned**

Although the prolonged winter has delayed the start of the construction season, the Company remains confident that it will deliver the network extension plan by the end of 2010 as agreed with the City of Tallinn in 2007. The extra kilometres of pipe laid in 2009 have compensated for the delay in starting the program in 2010. AS Tallinna Vesi will be constructing 5.1 kilometres of water pipes, 39.4 kilometres of wastewater pipes and 12.5 kilometres of storm water pipes in 2010.

#### Additional information:

Stephen Howard

Chief Financial Officer

+372 6262 262

[stephen.howard@tvesi.ee](mailto:stephen.howard@tvesi.ee)

## **AS TALLINNA VESI**

Unaudited Interim Condensed Financial Statements

for the 3 months period of financial year 2010 ended 31 March 2010

### **MANAGEMENT CONFIRMATION**

---

The Management Board of AS Tallinna Vesi (hereinafter the company) has prepared the interim accounts in the form of condensed financial statements for the 3 months period of financial year 2010 ended 31 March 2010. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 31 March 2010 have been prepared following the accounting policies and the manner of presenting the information in line with the International Financial Reporting Standards as adopted by the EU. The condensed financial statements provide a true and fair view of the assets, liabilities, financial position and profit of the company. During the preparation of condensed financial statements, the Management has made no changes in critical estimates that would have cast a significant impact on the results.

The interim management report gives a true and fair view of the main events that occurred during the 3 months of the financial year and of their effect to the condensed financial statements. It includes the description of the main risks and unclear aspects that can, based on the sensible judgement of the Management Board, have an impact on the company during the remaining 9 months of the financial year.

The significant transactions with related parties are disclosed in the interim accounts.

All material subsequent events that occurred by the interim accounts preparation date of 21 April 2010 have been assessed as part of this review.

The company is carrying on its activities as a going concern.

**Ian John Alexander Plenderleith**  
Chairman of the Management Board  
Chief Executive Officer

**Stephen Benjamin Howard**  
Member of the Management Board  
Chief Financial Officer

**Robert Thomas Yuille**  
Member of the Management Board  
Chief Operating Officer

**Siiri Lahe**  
Member of the Management Board

21 April 2010

**AS TALLINNA VESI**

Unaudited Interim Condensed Financial Statements

for the 3 months period of financial year 2010 ended 31 March 2010

**CONDENSED STATEMENTS OF FINANCIAL POSITION**

(thousand EEK)

ASSETS	Note	as of 31 March		as of 31 December
		2010	2009	2009
<b>CURRENT ASSETS</b>				
Cash and equivalents	2	385 293	336 966	292 474
Customer receivables, accrued income and prepaid expenses		202 267	131 604	191 317
Inventories		3 719	3 568	3 819
Non-current assets held for sale		1 205	1 134	1 209
<b>TOTAL CURRENT ASSETS</b>		<b>592 484</b>	<b>473 272</b>	<b>488 819</b>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	3	2 139 910	2 150 994	2 152 952
Intangible assets	3	38 083	41 516	40 319
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2 177 993</b>	<b>2 192 510</b>	<b>2 193 271</b>
<b>TOTAL ASSETS</b>		<b>2 770 477</b>	<b>2 665 782</b>	<b>2 682 090</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Current portion of long-term borrowings		1 658	83 673	1 936
Trade and other payables		105 304	86 144	97 866
Short-term provisions		2 668	2 693	3 570
Prepayments and deferred income		11 575	23 443	11 687
<b>TOTAL CURRENT LIABILITIES</b>		<b>121 205</b>	<b>195 953</b>	<b>115 059</b>
<b>NON-CURRENT LIABILITIES</b>				
Borrowings		1 174 382	1 089 419	1 174 034
Other payables		1 795	735	1 795
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1 176 177</b>	<b>1 090 154</b>	<b>1 175 829</b>
<b>TOTAL LIABILITIES</b>		<b>1 297 382</b>	<b>1 286 107</b>	<b>1 290 888</b>
<b>EQUITY</b>				
Share capital		200 001	200 001	200 001
Share premium		387 000	387 000	387 000
Statutory legal reserve		20 000	20 000	20 000
Retained earnings		866 094	772 674	784 201
<b>TOTAL EQUITY</b>		<b>1 473 095</b>	<b>1 379 675</b>	<b>1 391 202</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2 770 477</b>	<b>2 665 782</b>	<b>2 682 090</b>

Notes to the financial statements on pages 6 to 12 form an integral part of the condensed financial statements.

**AS TALLINNA VESI**

Unaudited Interim Condensed Financial Statements

for the 3 months period of financial year 2010 ended 31 March 2010

**CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**

(thousand EEK)

		Quarter 1		for the year ended
	Note	2010	2009	31 December
				2009
Revenue	4	191 444	192 759	772 446
Costs of goods sold	6	-72 420	-66 682	-284 064
<b>GROSS PROFIT</b>		<b>119 024</b>	<b>126 077</b>	<b>488 382</b>
Marketing expenses	6	-3 186	-3 414	-11 213
General administration expenses	6	-12 786	-14 140	-53 493
Other income/ expenses (-)	7	2 095	2 322	38 264
<b>OPERATING PROFIT</b>		<b>105 147</b>	<b>110 845</b>	<b>461 940</b>
Financial income	8	3 749	5 932	25 267
Financial expenses	8	-27 003	-18 380	-86 131
<b>PROFIT BEFORE TAXES</b>		<b>81 893</b>	<b>98 397</b>	<b>401 076</b>
Income tax on dividends	9	0	0	-61 142
<b>NET PROFIT FOR THE PERIOD</b>		<b>81 893</b>	<b>98 397</b>	<b>339 934</b>
Attributable to:				
Equity holders of A-shares		81 883	98 387	339 924
B-share holder		10	10	10
Earnings per A share (in kroons)	10	4,09	4,92	17,00
Earnings per B share (in kroons)	10	10 000	10 000	10 000

Notes to the financial statements on pages 6 to 12 form an integral part of the condensed financial statements.

**AS TALLINNA VESI**

Unaudited Interim Condensed Financial Statements

for the 3 months period of financial year 2010 ended 31 March 2010

**CONDENSED CASH FLOW STATEMENTS**

(thousand EEK)

		Quarter 1		for the year ended 31 December
	Note	2010	2009	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Operating profit		105 147	110 845	461 940
Adjustment for depreciation/amortisation	3	22 015	22 471	89 153
Adjustment for profit from government grants and connection fees		-4 401	-3 462	-47 512
Other finance expenses	8	-462	-5 715	-29 203
Profit from sale of property, plant and equipment, and intangible assets		-3	-116	-150
Expensed property, plant and equipment		85	0	0
Change in current assets involved in operating activities		-12 626	-11 258	-14 675
Change in liabilities involved in operating activities		9 039	1 306	6 160
Interest paid		0	0	-38 793
<b>Total cash flow from operating activities</b>		<b>118 794</b>	<b>114 071</b>	<b>426 920</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisition of property, plant and equipment, and intangible assets		-39 984	-50 937	-243 906
Compensations received for construction of pipelines		12 014	38 252	155 772
Proceeds from sale of property, plant and equipment, and		3	116	238
Interest received		1 992	5 604	15 077
<b>Total cash flow used in investing activities</b>		<b>-25 975</b>	<b>-6 965</b>	<b>-72 819</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Received loans		0	0	700 968
Repayment of loans		0	0	-701 303
Dividends paid	9	0	0	-230 010
Income tax on dividends	9	0	0	-61 142
<b>Total cash flow used in financing activities</b>		<b>0</b>	<b>0</b>	<b>-291 487</b>
<b>Change in cash and cash equivalents</b>		<b>92 819</b>	<b>107 106</b>	<b>62 614</b>
<b>CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>				
		<b>292 474</b>	<b>229 860</b>	<b>229 860</b>
<b>CASH AND EQUIVALENTS AT THE END OF THE PERIOD</b>				
	2	<b>385 293</b>	<b>336 966</b>	<b>292 474</b>

Notes to the financial statements on pages 6 to 12 form an integral part of the condensed financial statements.

**AS TALLINNA VESI**

Unaudited Interim Condensed Financial Statements

for the 3 months period of financial year 2010 ended 31 March 2010

**CONDENSED STATEMENTS OF CHANGES IN EQUITY**

(thousand EEK)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
<b>as of 31 December 2008</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>674 277</b>	<b>1 281 278</b>
Dividends	0	0	0	-230 010	-230 010
Net profit of the financial year	0	0	0	339 934	339 934
<b>as of 31 December 2009</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>784 201</b>	<b>1 391 202</b>
<b>as of 31 December 2008</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>674 277</b>	<b>1 281 278</b>
Net profit of the financial period	0	0	0	98 397	98 397
<b>as of 31 March 2009</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>772 674</b>	<b>1 379 675</b>
<b>as of 31 December 2009</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>784 201</b>	<b>1 391 202</b>
Net profit of the financial period	0	0	0	81 893	81 893
<b>as of 31 March 2010</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>866 094</b>	<b>1 473 095</b>

Notes to the financial statements on pages 6 to 12 form an integral part of the condensed financial statements.

**AS TALLINNA VESI**

Unaudited Interim Condensed Financial Statements

for the 3 months period of financial year 2010 ended 31 March 2010

**NOTES TO THE INTERIM FINANCIAL STATEMENT**

(thousand EEK)

**NOTE 1. ACCOUNTING PRINCIPLES**

The interim accounts have been prepared according to International Financial Reporting Standards as adopted by the EU. The same accounting policies are followed in the interim financial statements as in the most recent annual financial statements. The interim report is prepared in accordance with IAS 34 Interim Financial Reporting.

**NOTE 2. CASH AND CASH EQUIVALENTS**

	as of 31 March		as of 31 December
	2010	2009	2009
Cash in hand and in bank	3 212	5 444	376
Short-term deposits	382 081	331 522	292 098
<b>Total cash and cash equivalents</b>	<b>385 293</b>	<b>336 966</b>	<b>292 474</b>

**AS TALLINNA VESI**

Unaudited Interim Condensed Financial Statements  
for the 3 months period of financial year 2010 ended 31 March 2010

**NOTES TO THE INTERIM FINANCIAL STATEMENT**

(thousand EEK)

**NOTE 3. PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS**

	Property, plant and equipment			Assets in progress			Intangible assets			Total property, plant and equipment and intangible assets	
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress - unfinished pipelines	Prepayment for fixed assets	Unfinished intangible assets	Development costs	Acquired licenses and other intangible assets		
<b>as of 31 December 2008</b>											
Acquisition cost	368 045	2 234 538	585 674	18 373	22 082	91 974	1 853	2 726	17 742	62 372	3 405 379
Accumulated depreciation	-67 263	-710 568	-364 236	-12 247	0	0	0	0	-14 774	-24 638	-1 193 726
<b>Book value</b>	<b>300 782</b>	<b>1 523 970</b>	<b>221 438</b>	<b>6 126</b>	<b>22 082</b>	<b>91 974</b>	<b>1 853</b>	<b>2 726</b>	<b>2 968</b>	<b>37 734</b>	<b>2 211 653</b>
<b>Transactions in the period 01.01.2009 - 31.12.2009</b>											
Acquisition in book value	0	0	0	0	99 293	144 141	0	7 698	0	0	251 132
Write off and sale of property, plant and equipment, and intangible assets in book value	-2	0	-44	-54	0	0	0	0	0	0	-100
Compensated by government grants	0	0	0	0	0	-1 786 646	0	0	0	0	-1 786 646
Reclassification	6 123	43 729	26 302	2 063	-78 323	-1 103	-406	-8 938	4 740	4 198	-1 615
Depreciation	-4 196	-38 733	-34 188	-1 229	0	0	0	0	-2 200	-8 607	-89 153
<b>Total transactions in the period 01.01.2009 - 31.12.2009</b>	<b>1 925</b>	<b>4 996</b>	<b>-7 930</b>	<b>780</b>	<b>20 970</b>	<b>-35 608</b>	<b>-406</b>	<b>-1 240</b>	<b>2 540</b>	<b>-4 409</b>	<b>-18 382</b>
<b>as of 31 December 2009</b>											
Acquisition cost	374 151	2 275 666	603 762	18 441	43 052	56 366	1 447	1 486	15 083	73 172	3 462 626
Accumulated depreciation	-71 444	-746 700	-390 254	-11 535	0	0	0	0	-9 575	-39 847	-1 269 355
<b>Book value</b>	<b>302 707</b>	<b>1 528 966</b>	<b>213 508</b>	<b>6 906</b>	<b>43 052</b>	<b>56 366</b>	<b>1 447</b>	<b>1 486</b>	<b>5 508</b>	<b>33 325</b>	<b>2 193 271</b>
<b>Transactions in the period 01.01.2010 - 31.03.2010</b>											
Acquisition in book value	0	0	0	0	10 811	1 813	0	348	0	0	12 972
Write off and sale of property, plant and equipment, and intangible assets in book value	0	0	0	0	0	0	0	0	0	0	0
Compensated by government grants	0	0	0	0	0	-4 945	0	0	0	0	-4 945
Reclassification	0	19 291	1 421	228	-22 230	0	0	0	0	0	-1 290
Depreciation	-1 062	-9 838	-8 206	-325	0	0	0	0	-375	-2 209	-22 015
<b>Total transactions in the period 01.01.2010 - 31.03.2010</b>	<b>-1 062</b>	<b>9 453</b>	<b>-6 785</b>	<b>-97</b>	<b>-11 419</b>	<b>-3 132</b>	<b>0</b>	<b>348</b>	<b>-375</b>	<b>-2 209</b>	<b>-15 278</b>
<b>as of 31 March 2010</b>											
Acquisition cost	374 152	2 294 911	604 180	18 600	31 633	53 234	1 447	1 834	15 083	73 171	3 468 245
Accumulated depreciation	-72 507	-756 492	-397 457	-11 791	0	0	0	0	-9 950	-42 055	-1 290 252
<b>Book value</b>	<b>301 645</b>	<b>1 538 419</b>	<b>206 723</b>	<b>6 809</b>	<b>31 633</b>	<b>53 234</b>	<b>1 447</b>	<b>1 834</b>	<b>5 133</b>	<b>31 116</b>	<b>2 177 993</b>

16

Property, plant and equipment and intangible assets are written off if the conditions of the asset do not enable further usage for production purposes.

As of 31 December 2009 and 31 March 2010 the net balance sheet value of finance leases was respectively 5 203 thousand kroons and 4 908 thousand kroons.



**AS TALLINNA VESI**

Unaudited Interim Condensed Financial Statements  
for the 3 months period of financial year 2010 ended 31 March 2010

**NOTES TO THE INTERIM FINANCIAL STATEMENT**

(thousand EEK)

<b>NOTE 4. REVENUE</b>	<b>Quarter 1</b>		<b>for the year ended</b>
	<b>2010</b>	<b>2009</b>	<b>31 December</b>
			<b>2009</b>
<b>Revenues from main operating activities</b>			
Total water supply and waste water disposal service, incl:	176 100	177 007	707 408
<u>Private clients, incl:</u>	<u>94 085</u>	<u>96 838</u>	<u>379 322</u>
Water supply service	52 320	53 943	211 379
Waste water disposal service	41 765	42 895	167 943
<u>Corporate clients, incl:</u>	<u>65 078</u>	<u>70 014</u>	<u>273 338</u>
Water supply service	35 782	38 807	152 092
Waste water disposal service	29 296	31 207	121 246
<u>Outside service area clients, incl:</u>	<u>13 541</u>	<u>6 331</u>	<u>40 003</u>
Water supply service	3 301	614	7 841
Waste water disposal service	10 240	5 717	32 162
<u>Overpollution fee</u>	<u>3 396</u>	<u>3 824</u>	<u>14 745</u>
Stormwater treatment and disposal service	11 718	11 539	46 957
Fire hydrants service	748	672	3 083
Other works and services	2 878	3 541	14 998
<b>Total revenue</b>	<b>191 444</b>	<b>192 759</b>	<b>772 446</b>

100 % of AS Tallinna Vesi revenue was generated within the Estonian Republic.

Code of Estonian Classification of Economic Activities (EMTAK) is 36001.

<b>NOTE 5. STAFF COSTS</b>	<b>Quarter 1</b>		<b>for the year ended</b>
	<b>2010</b>	<b>2009</b>	<b>31 December</b>
			<b>2009</b>
Salaries and wages	-16 457	-18 258	-71 400
Social security and unemployment insurance taxation	-5 482	-6 081	-23 777
<b>Staff costs total</b>	<b>-21 939</b>	<b>-24 339</b>	<b>-95 177</b>
<b>Number of employees at the end of reporting period</b>	<b>318</b>	<b>331</b>	<b>336</b>

**AS TALLINNA VESI**

Unaudited Interim Condensed Financial Statements

for the 3 months period of financial year 2010 ended 31 March 2010

**NOTES TO THE INTERIM FINANCIAL STATEMENT**

(thousand EEK)

**NOTE 6. COST OF GOODS SOLD, MARKETING AND GENERAL ADMINISTRATIONS EXPENSES**

	Quarter 1		for the year ended 31 December
	2010	2009	2009
<b>Cost of goods sold</b>			
Tax on special use of water	-3 442	-2 765	-11 479
Chemicals	-5 135	-3 710	-20 082
Electricity	-9 109	-8 154	-33 422
Pollution tax	-3 697	-3 304	-16 918
Staff costs	-15 635	-17 170	-70 273
Development	0	-23	-29
Depreciation and amortization	-19 981	-20 508	-81 006
Transport	-4 626	-4 317	-17 427
Other costs of goods sold	-10 795	-6 731	-33 428
<b>Total cost of goods sold</b>	<b>-72 420</b>	<b>-66 682</b>	<b>-284 064</b>
<b>Marketing expenses</b>			
Staff costs	-1 283	-1 510	-4 516
Depreciation and amortization	-1 308	-1 302	-5 207
Other marketing expenses	-595	-602	-1 490
<b>Total cost of marketing expenses</b>	<b>-3 186</b>	<b>-3 414</b>	<b>-11 213</b>
<b>General administration expenses</b>			
Staff costs	-5 021	-5 659	-20 388
Depreciation and amortization	-726	-661	-2 940
Other general administration expenses	-7 039	-7 820	-30 165
<b>Total cost of general administration expenses</b>	<b>-12 786</b>	<b>-14 140</b>	<b>-53 493</b>

**NOTE 7. OTHER INCOME / EXPENSES**

	Quarter 1		for the year ended 31 December
	2010	2009	2009
Profit from connection fees	752	1 574	6 139
Profit from government grant	3 649	1 888	41 373
Other income / expenses (-)	-2 306	-1 140	-9 248
<b>Total other income / expenses</b>	<b>2 095</b>	<b>2 322</b>	<b>38 264</b>

**AS TALLINNA VESI**

Unaudited Interim Condensed Financial Statements

for the 3 months period of financial year 2010 ended 31 March 2010

**NOTES TO THE INTERIM FINANCIAL STATEMENT**

(thousand EEK)

<b>NOTE 8. FINANCIAL INCOME AND EXPENSES</b>	<b>Quarter 1</b>		<b>for the year ended</b>
	<b>2010</b>	<b>2009</b>	<b>31 December</b>
			<b>2009</b>
Interest income	3 741	5 924	25 267
Interest expense	-4 400	-12 657	-35 241
Other financial expenses	-22 595	-5 715	-50 890
<b>Total finance income / expenses</b>	<b>-23 254</b>	<b>-12 448</b>	<b>-60 864</b>

<b>NOTE 9. DIVIDENDS</b>	<b>Quarter 1</b>		<b>for the year ended</b>
	<b>2010</b>	<b>2009</b>	<b>31 December</b>
			<b>2009</b>
Dividends declared during the period	0	0	230 010
Dividends paid during the period	0	0	230 010
Income tax on dividends paid	0	0	-61 142
<b>Income tax accounted for</b>	<b>0</b>	<b>0</b>	<b>-61 142</b>
<i>Paid-up dividends per shares:</i>			
Dividends per A-share (in kroons)	0	0	11,50
Dividends per B-share (in kroons)	0	0	10 000

The income tax rates were 21/79 in 2010 and 2009.

**NOTE 10. EARNINGS PER SHARE**

	<b>Quarter 1</b>		<b>for the year ended</b>
	<b>2010</b>	<b>2009</b>	<b>31 December</b>
			<b>2009</b>
Net profit minus B-share preference rights (in kroons)	81 883	98 387	339 924
Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces)	20 000 000	20 000 000	20 000 000
Earnings per A share (in kroons)	4,09	4,92	17,00
Earnings per B share (in kroons)	10 000	10 000	10 000

Diluted earnings per share for the periods ended 31 March 2010 and 2009 and 31 December 2009 do not vary significantly from the earnings per share figures stated above.

**AS TALLINNA VESI**

Unaudited Interim Condensed Financial Statements

for the 3 months period of financial year 2010 ended 31 March 2010

**NOTES TO THE INTERIM FINANCIAL STATEMENT**

(thousand EEK)

**NOTE 11. RELATED PARTIES**

Transactions with related parties are considered to be transactions with members of the Supervisory Board and Management Board, their relatives and the companies in which they hold majority interest and transactions with shareholder having the significant influence. Dividend payments are indicated in the Statement of Changes in Equity.

**Shareholders having the significant influence**

	as of 31 March		as of 31 December
<b>Balances recorded in working capital on the balance sheet of the Company</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
Accounts receivable	39 468	35 303	2 160
Accrued income	64 861	0	93 200
Prepayments and deferred income	0	3 832	0
Accounts payable - short-term trade and other payables	3 238	4 175	3 836
	<b>Quarter 1</b>	<b>for the year ended</b>	
	<b>2010</b>	<b>2009</b>	<b>31 December</b>
			<b>2009</b>
<b>Transactions with the related parties</b>			
Sales services	12 316	12 211	49 740
Compensations received from the local governments for constructing new pipelines	8 559	39 129	186 533
Purchase of administrative and consulting services	4 589	5 174	19 357
Financial income	1 642	0	10 047
<b>Management Board fees excluding social tax</b>	590	781	2 558
<b>Supervisory Board fees excluding social tax</b>	150	150	600

The fees disclosed above are contractual payments made by the Company to the management board members. In addition to this the board members have also received direct compensations from the companies belonging to the group of United Utilities (Tallinn) B.V. as overseas secondees.

The market prices were implemented in transactions with related parties.

**Company shares belonging to the Management Board and Supervisory Board members**

As at report generation date Siiri Lahe owned 700 and Valdur Laid owned 1 000 AS Tallinna Vesi shares.

## **AS TALLINNA VESI**

Unaudited Interim Condensed Financial Statements  
for the 3 months period of financial year 2010 ended 31 March 2010

### **NOTES TO THE INTERIM FINANCIAL STATEMENT**

---

#### **NOTE 12. LIST OF SUPERVISORY COUNCIL MEMBERS**

Robert John Gallienne	Chairman of the Supervisory Council
Leslie Anthony Bell	Member of the Supervisory Council
Matti Hyrynen	Member of the Supervisory Council
Andrew James Prescott	Member of the Supervisory Council
Elmar Sepp	Member of the Supervisory Council
Mart Mägi	Member of the Supervisory Council
Rein Ratas	Member of the Supervisory Council
Valdur Laid	Member of the Supervisory Council
Deniss Boroditš	Member of the Supervisory Council

Elmar Sepp will be recalled from the Supervisory Council as of 30th April 2010 and Ardo Ojasalu will be appointed as a Supervisory Council member as of 1st May 2010.