AS Tallinna Vesi

Results of operations – for the 1st quarter of 2010

Currency	Thousand euros
Start of reporting period	1 January 2010
End of reporting period	31 March 2010
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Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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MANAGEMENT REPORT
RESULTS OF OPERATIONS - FOR THE 1st QUARTER 2010

Overview

During the three months of 2010 the Company’s total sales decreased, year on year, by 0.7% to 12.2 mln EUR. The Company’s underlying operating profit for three months of 2010, from water and wastewater related activities, decreased by 6.2% to 6.4 mln EUR compared to the three months of 2009. Profits from other activities (mainly construction and developments) increased by 27.1% to 0.28 mln EUR compared to the three months of 2009. The Company’s profit before taxes was 5.2 mln EUR, which is a 16.8% decrease compared to the same three months of 2009.

mln EUR	**1 Q 2010**	**1 Q 2009**	**Change**	**3 months 2010**	**3 months 2009**	**Change**
Sales	12,2	12,3	-0,7%	12,2	12,3	-0,7%
Gross profit	7,6	8,1	-5,6%	7,6	8,1	-5,6%
Gross profit margin %	62,2	65,4	-4,9%	62,2	65,4	-4,9%
Operating profit	6,7	7,1	-5,1%	6,7	7,1	-5,1%
Operating profit - main business	6,4	6,9	-6,2%	6,4	6,9	-6,2%
Operating profit margin %	54,9	57,5	-4,5%	54,9	57,5	-4,5%
Profit before taxes	5,2	6,3	-16,8%	5,2	6,3	-16,8%
Net profit	5,2	6,3	-16,8%	5,2	6,3	-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

1st quarter 2010

Sales

In the 1st quarter of 2010 the Company’s total sales decreased, year on year, by 0.7% to 12.2 mln EUR. Without the sales contribution from Maardu, a contract which commenced in the 3rd quarter of 2009, then total sales would have been down by 0.47 mln EUR and 3.8% compared to the 1st 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 11.3 mln EUR, a 0.5% decrease compared to the 1st 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 6.0 mln EUR. Sales to commercial customers decreased by 7.0% to 4.2 mln EUR. Sales to customers outside of the service area increased by 113.9% to 0.86 mln EUR, which now includes the Maardu operating contract which commenced from 1st July 2009. Over pollution fees received were 0.22 mln EUR, an 11.2% decrease compared to the 1st quarter of 2009.

In the 1st 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 1st quarter 2010 volumes.

Excluding Maardu volumes, then outside service area volumes were 34.3% higher than in the 1st 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 0.80 mln EUR in the 1st 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 4.6 mln EUR in the 1st quarter of 2010, an increase of 0.36 mln EUR or 8.6% from the equivalent period in 2009 of which Maardu added 0.26 mln EUR.

In the 1st quarter of 2010 the Company achieved the beneficial 0.5 coefficient for pollution tax, and the amount of pollution tax payable was 0.24 mln EUR compared to 0.21 mln EUR in 1st quarter of 2009. In the 1st 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 3rd 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 0.33 mln EUR, 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 0.06 mln EUR or 11.7% in the 1st quarter of 2010 compared to the 1st quarter of 2009 due to higher electricity prices and volumes treated and pumped.

Salary expenses decreased in the 1st quarter of 2010, year on year, by 0.10 mln EUR or 8.9% mainly due to the lower number of employees.

Depreciation charges decreased in the 1st quarter of 2010 by 0.03 mln EUR or 2.6% year on year.

Transport costs increased by 0.02 mln EUR, 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 0.26 mln EUR, or 60.4% year on year, exclusively due to the costs of operating in Maardu as this was not operational in the 1st quarter of 2009.

As a result of all of the above the Company's gross profit for the 1st quarter of 2010 was 7.6 mln EUR, which is a decrease of 0.45 mln EUR, or 5.6%, compared to the gross profit of 8.1 mln EUR for the 1st quarter of 2009.

Operating Costs and Operating Margin

Marketing expenses decreased by 0.01 mln EUR to 0.20 mln EUR during the 1st 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 1st quarter of 2010 the General administration expenses decreased by 0.09 mln EUR year on year to 0.82 mln EUR.

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 0.28 mln EUR, in the 1st quarter of 2010 compared to a net income of 0.22 mln EUR in the 1st 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 0.15 mln EUR in the 1st quarter of 2010 compared to an expense of 0.07 mln EUR in the 1st 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 1st quarter of 2010 totaled 6.4 mln EUR compared to 6.9 mln EUR in the corresponding quarter in

2009. In total then the Company's operating profit for main and other activities for the 1st quarter of 2010 was 6.7 mln EUR, a decrease of 0.36 mln EUR compared to an operating profit of 7.1 mln EUR achieved in the 1st quarter of 2009. Year on year the operating profit has decreased 5.1%.

Financial expenses

Net Financial expenses were 1.5 mln EUR in the 1st quarter of 2010, which is an increase of 0.69 mln EUR or 86.8% compared to the 1st quarter of 2009. Of this increase, as set out below, 1.2 mln EUR relates to a loss on the fair value of swap contracts with underlying business financial expenses reducing by 0.55 mln EUR in total compared to 2009.

The Company's interest costs have decreased by 65.1% compared to the 1st quarter of 2009 from 0.83 mln EUR to 0.29 mln EUR 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 1st quarter 2010 in the amount of 1.2 mln EUR which more than offsets the interest costs savings and the financial income earned during the 1st quarter of 2010.

Profit Before Tax

The Company's profit before taxes for the 1st quarter of 2010 was 5.2 mln EUR, which is 1.1 mln EUR lower than the profit before taxes of 6.3 mln EUR for the 1st quarter of 2009.

Balance sheet

During the three months of 2010 the Company invested 0.83 mln EUR into fixed assets. Non-current assets were 139.2 mln EUR at 31 March 2010. Current assets increased by 6.6 mln EUR to 37.9 mln EUR in the three months of the year, with customer receivables increasing by 0.70 mln EUR and cash at bank increasing by 5.9 mln EUR.

Current liabilities increased by 0.39 mln EUR to 7.7 mln EUR in the three months of the year. This was mainly due to a 0.47 mln EUR 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 75.2 mln EUR 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 1st 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 7.6 mln EUR of cash flows from operating activities, an increase of 0.30 mln EUR 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 1.7 mln EUR, which is 1.2 mln EUR 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 2.6 mln EUR.

There were no cash flows related to the financing activities in 1st 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 5.9 mln EUR compared to a cash inflow of 6.8 mln EUR in the three months of 2009. Cash and cash equivalents stood at 24.6 mln EUR as at 31 March 2010 which is 3.1 mln EUR higher than for the corresponding period of 2009.

Employees

At the end of the 1st quarter of 2010, the total number of employees was 318 compared to 331 at the end of the 1st 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 31,956,463 EUR of dividends. Of this 639 EUR will be paid to the owner of the B-share and 31,955,824 EUR, i.e. 1.60 EUR 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.

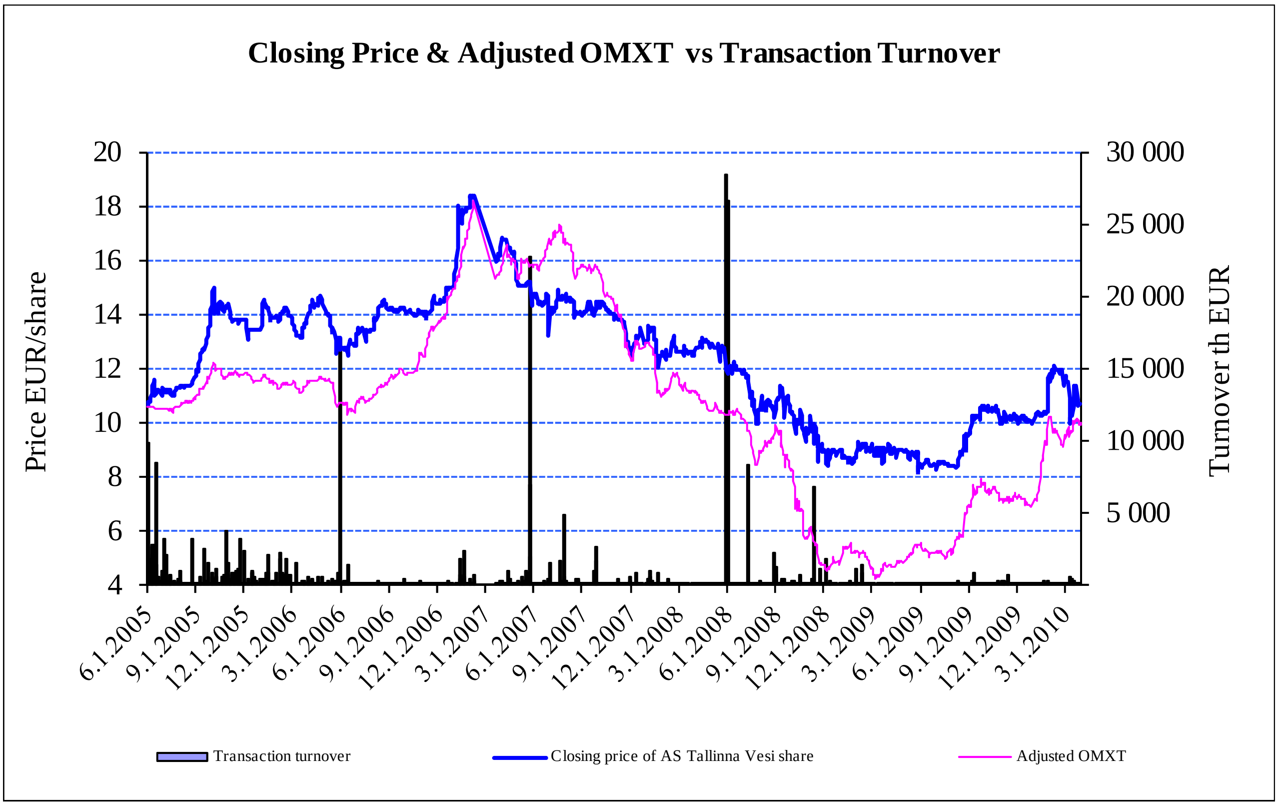
AS Tallinna Vesi is listed on OMX Main Baltic Market with trading code TVEAT and ISIN EE3100026436.

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 10.80 EUR, which is a 7.10% increase compared to the closing price of 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 1st 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 1st quarter were compliant with quality requirements.

Operation Performance	**1 Q 2009**	**1 Q 2010**
Water		
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
Wastewater		
Number of sewer blockings	302	397
Number of sewer collapses	34	27
Wastewater treatment compliance %	100	100
Share of recycled sludge %	100	100
Network Extension Program		
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 1st 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 1st 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 1st 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 1st 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 1st 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:
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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 occured 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.

I.J.A. Plenderleith

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

Stephen Howard

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

CONDENSED STATEMENTS OF FINANCIAL POSITION

(thousand EUR)

		as of 31 March		as of 31 December
ASSETS	**Note**	**2010**	**2009**	**2009**
CURRENT ASSETS				
Cash and equivalents	2	24 625	21 536	18 692
Customer receivables, accrued income and prepaid expenses		12 927	8 411	12 227
Inventories		238	228	244
Non-current assets held for sale		77	72	77
TOTAL CURRENT ASSETS		**37 867**	**30 248**	**31 241**
NON-CURRENT ASSETS				
Property, plant and equipment	3	136 765	137 474	137 599
Intangible assets	3	2 434	2 653	2 577
TOTAL NON-CURRENT ASSETS		**139 199**	**140 127**	**140 176**
TOTAL ASSETS		**177 066**	**170 375**	**171 417**
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current portion of long-term borrowings		106	5 348	124
Trade and other payables		6 730	5 506	6 255
Short-term provisions		171	172	228
Prepayments and deferred income		740	1 498	747
TOTAL CURRENT LIABILITIES		**7 746**	**12 524**	**7 354**
NON-CURRENT LIABILITIES				
Borrowings		75 057	69 627	75 034
Other payables		115	47	115
TOTAL NON-CURRENT LIABILITIES		**75 171**	**69 674**	**75 149**
TOTAL LIABILITIES		**82 918**	**82 197**	**82 503**
EQUITY				
Share capital		12 782	12 782	12 782
Share premium		24 734	24 734	24 734
Statutory legal reserve		1 278	1 278	1 278
Retained earnings		55 353	49 383	50 120
TOTAL EQUITY		**94 148**	**88 177**	**88 914**
TOTAL LIABILITIES AND EQUITY		**177 066**	**170 375**	**171 417**

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

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(thousand EUR)

		Quarter 1		for the year ended 31 December
	Note	**2010**	**2009**	**2009**
Revenue	4	12 236	12 320	49 368
Costs of goods sold	6	-4 628	-4 262	-18 155
GROSS PROFIT		**7 607**	**8 058**	**31 213**
Marketing expenses	6	-204	-218	-717
General administration expenses	6	-817	-904	-3 419
Other income/ expenses (-)	7	134	148	2 446
OPERATING PROFIT		**6 720**	**7 084**	**29 523**
Financial income	8	240	379	1 615
Financial expenses	8	-1 726	-1 175	-5 505
PROFIT BEFORE TAXES		**5 234**	**6 289**	**25 633**
Income tax on dividends	9	0	0	-3 908
NET PROFIT FOR THE PERIOD		**5 234**	**6 289**	**21 726**
Attributable to:				
Equity holders of A-shares		5 233	6 288	21 725
B-share holder		0,64	0,64	0,64
Earnings per A share (in euros)	10	0,26	0,31	1,09
Earnings per B share (in euros)	10	639	639	639

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

CONDENSED CASH FLOW STATEMENTS

(thousand EUR)

	Note	Quarter 1 2010	Quarter 1 2009	for the year ended 31 December 2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit		6 720	7 084	29 523
Adjustment for depreciation/amortisation	3	1 407	1 436	5 698
Adjustment for profit from government grants and connection fees		-281	-221	-3 037
Other finance expenses	8	-30	-365	-1 866
Profit from sale of property, plant and equipment, and intangible assets		0	-7	-10
Expensed property, plant and equipment		5	0	0
Change in current assets involved in operating activities		-807	-720	-938
Change in liabilities involved in operating activities		578	83	394
Interest paid		0	0	-2 479
Total cash flow from operating activities		**7 592**	**7 290**	**27 285**
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of property, plant and equipment, and intangible assets		-2 555	-3 255	-15 588
Compensations received for construction of pipelines		768	2 445	9 956
Proceeds from sale of property, plant and equipment, and intangible assets		0	7	15
Interest received		127	358	964
Total cash flow used in investing activities		**-1 660**	**-445**	**-4 654**
CASH FLOWS FROM FINANCING ACTIVITIES				
Received loans		0	0	44 800
Repayment of loans		0	0	-44 821
Dividends paid	9	0	0	-14 700
Income tax on dividends	9	0	0	-3 908
Total cash flow used in financing activities		**0**	**0**	**-18 629**
Change in cash and cash equivalents		**5 932**	**6 845**	**4 002**
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**18 692**	**14 691**	**14 691**
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	2	**24 625**	**21 536**	**18 692**

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

CONDENSED STATEMENTS OF CHANGES IN EQUITY

(thousand EUR)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2008	**12 782**	**24 734**	**1 278**	**43 094**	**81 889**
Dividends	0	0	0	-14 700	-14 700
Net profit of the financial year	0	0	0	21 726	21 726
as of 31 December 2009	**12 782**	**24 734**	**1 278**	**50 120**	**88 914**
as of 31 December 2008	**12 782**	**24 734**	**1 278**	**43 094**	**81 889**
Net profit of the financial period	0	0	0	6 289	6 289
as of 31 March 2009	**12 782**	**24 734**	**1 278**	**49 383**	**88 177**
as of 31 December 2009	**12 782**	**24 734**	**1 278**	**50 120**	**88 914**
Net profit of the financial period	0	0	0	5 234	5 234
as of 31 March 2010	**12 782**	**24 734**	**1 278**	**55 353**	**94 148**

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

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.

The interim report in euros is converted using the exchange rate 15.6466 EEK per EUR from the interim report prepared in thousands kroons for the same period.

NOTE 2. CASH AND CASH EQUIVALENTS

	as of 31 March		**as of 31 December**
	2010	**2009**	**2009**
Cash in hand and in bank	205	348	24
Short-term deposits	24 419	21 188	18 668
Total cash and cash equivalents	**24 625**	**21 536**	**18 692**

NOTES TO THE INTERIM FINANCIAL STATEMENT

(thousand EUR)

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

	Property, plant and equipment				Assets in progress				Intangible assets		
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Construction in progress - unfinished pipelines	Prepayment for fixed assets	Unfinished intangible assets	Development costs	Acquired licenses and other intangible assets	Total property, plant and equipment and intangible assets
as of 31 December 2008											
Acquisition cost	23 522	142 813	37 431	1 174	1 411	5 878	118	174	1 134	3 986	217 643
Accumulated depreciation	-4 299	-45 414	-23 279	-783	0	0	0	0	-944	-1 575	-76 293
Book value	**19 223**	**97 399**	**14 152**	**392**	**1 411**	**5 878**	**118**	**174**	**190**	**2 412**	**141 350**
Transactions in the period 01.01.2009 - 31.12.2009											
Acquisition in book value	0	0	0	0	6 346	9 212	0	492	0	0	16 050
Write off and sale of property, plant and equipment, and intangible assets in book value	0	0	-3	-3	0	0	0	0	0	0	-6
Compensated by government grants	0	0	0	0	0	-11 418	0	0	0	0	-11 418
Reclassification	391	2 795	1 681	132	-5 006	-70	-26	-571	303	268	-103
Depreciation	-268	-2 475	-2 185	-79	0	0	0	0	-141	-550	-5 698
Total transactions in the period 01.01.2009 - 31.12.2009	**123**	**319**	**-507**	**50**	**1 340**	**-2 276**	**-26**	**-79**	**162**	**-282**	**-1 175**
as of 31 December 2009											
Acquisition cost	23 913	145 442	38 587	1 179	2 752	3 602	92	95	964	4 677	221 302
Accumulated depreciation	-4 566	-47 723	-24 942	-737	0	0	0	0	-612	-2 547	-81 127
Book value	**19 347**	**97 719**	**13 646**	**441**	**2 752**	**3 602**	**92**	**95**	**352**	**2 130**	**140 176**
Transactions in the period 01.01.2010 - 31.03.2010											
Acquisition in book value	0	0	0	0	691	116	0	22	0	0	829
Compensated by government grants	0	0	0	0	0	-316	0	0	0	0	-316
Reclassification	0	1 233	91	15	-1 421	0	0	0	0	0	-82
Depreciation	-68	-629	-524	-21	0	0	0	0	-24	-141	-1 407
Total transactions in the period 01.01.2010 - 31.03.2010	**-68**	**604**	**-434**	**-6**	**-730**	**-200**	**0**	**22**	**-24**	**-141**	**-976**
as of 31 March 2010											
Acquisition cost	23 913	146 672	38 614	1 189	2 022	3 402	92	117	964	4 676	221 661
Accumulated depreciation	-4 634	-48 349	-25 402	-754	0	0	0	0	-636	-2 688	-82 462
Book value	**19 279**	**98 323**	**13 212**	**435**	**2 022**	**3 402**	**92**	**117**	**328**	**1 989**	**139 199**

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 333 thousand euros and 314 thousand euros.

NOTES TO THE INTERIM FINANCIAL STATEMENT (thousand EUR)

NOTE 4. REVENUE

	Quarter 1		for the year ended 31 December
	2010	**2009**	**2009**
Revenues from main operating activities			
Total water supply and waste water disposal service, incl:	11 255	11 313	45 212
Private clients, incl:	6 013	6 189	24 243
Water supply service	3 344	3 448	13 510
Waste water disposal service	2 669	2 741	10 734
Corporate clients, incl:	4 159	4 475	17 469
Water supply service	2 287	2 480	9 720
Waste water disposal service	1 872	1 994	7 749
Outside service area clients, incl:	865	405	2 557
Water supply service	211	39	501
Waste water disposal service	654	365	2 056
Overpollution fee	217	244	942
Stormwater treatment and disposal service	749	737	3 001
Fire hydrants service	48	43	197
Other works and services	184	226	959
Total revenue	**12 236**	**12 320**	**49 368**

100 % of AS Tallinna Vesi revenue was generated within the Estonian Republic.
Code of Estonian Classification of Economic Activities (EMTAK) is 36001.

NOTE 5. STAFF COSTS

	Quarter 1		for the year ended 31 December
	2010	**2009**	**2009**
Salaries and wages	-1 052	-1 167	-4 563
Social security and unemployment insurance taxation	-350	-389	-1 520
Staff costs total	**-1 402**	**-1 556**	**-6 083**
Number of employees at the end of reporting period	**318**	**331**	**336**

NOTES TO THE INTERIM FINANCIAL STATEMENT (thousand EUR)

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

	Quarter 1		for the year ended 31 December
	2010	**2009**	**2009**
Cost of goods sold			
Tax on special use of water	-220	-177	-734
Chemicals	-328	-237	-1 283
Electricity	-582	-521	-2 136
Pollution tax	-236	-211	-1 081
Staff costs	-999	-1 097	-4 491
Development	0	-1	-2
Depreciation and amortization	-1 277	-1 311	-5 177
Transport	-296	-276	-1 114
Other costs of goods sold	-690	-430	-2 136
Total cost of goods sold	**-4 628**	**-4 262**	**-18 155**
Marketing expenses			
Staff costs	-82	-97	-289
Depreciation and amortization	-84	-83	-333
Other marketing expenses	-38	-38	-95
Total cost of marketing expenses	**-204**	**-218**	**-717**
General administration expenses			
Staff costs	-321	-362	-1 303
Depreciation and amortization	-46	-42	-188
Other general administration expenses	-450	-500	-1 928
Total cost of general administration expenses	**-817**	**-904**	**-3 419**

NOTE 7. OTHER INCOME / EXPENSES

	Quarter 1		for the year ended 31 December
	2010	**2009**	**2009**
Profit from connection fees	48	101	392
Profit from government grant	233	121	2 644
Other income / expenses (-)	-147	-73	-591
Total other income / expenses	**134**	**148**	**2 446**

NOTES TO THE INTERIM FINANCIAL STATEMENT (thousand EUR)

NOTE 8. FINANCIAL INCOME AND EXPENSES	**Quarter 1**		**for the year ended 31 December**
	2010	**2009**	**2009**
Interest income	239	379	1 615
Interest expense	-281	-809	-2 252
Other financial expenses	-1 444	-365	-3 252
Total finane income / expenses	**-1 486**	**-796**	**-3 890**

NOTE 9. DIVIDENDS	**Quarter 1**		**for the year ended 31 December**
	2010	**2009**	**2009**
Dividends declared during the period	0	0	14 700
Dividends paid during the period	0	0	14 700
Income tax on dividends paid	0	0	-3 908
Income tax accounted for	**0**	**0**	**-3 908**
Paid-up dividends per shares:			
Dividends per A-share (in euros)	0	0	0,73
Dividends per B-share (in euros)	0	0	639

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

NOTE 10. EARNINGS PER SHARE

	Quarter 1		**for the year ended 31 December**
	2010	**2009**	**2009**
Net profit minus B-share preference rights (in euros)	5 233	6 288	21 725
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 euros)	0,26	0,31	1,09
Earnings per B share (in euros)	639	639	639

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.

NOTES TO THE INTERIM FINANCIAL STATEMENT (thousand EUR)

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
Balances recorded in working capital on the balance sheet of the Company	**2010**	**2009**	**2009**
Accounts receivable	2 522	2 256	138
Accrued income	4 145	0	5 957
Prepayments and deferred income	0	245	0
Accounts payable - short-term trade and other payables	207	267	245

	Quarter 1		for the year ended 31 December
	2010	**2009**	**2009**
Transactions with the related parties			
Sales services	787	780	3 179
Compensations received from the local governments for constructing new pipelines	547	2 501	11 922
Purchase of administrative and consulting services	293	331	1 237
Financial income	105	0	642
Management Board fees excluding social tax	38	50	163
Supervisory Board fees excluding social tax	10	10	38

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.

NOTE 12. LIST OF SUPERVISORY COUNCIL MEMBERS

Robert John Gallienne	Chairman of the Supervisory Council
Leslie Anthony Bell	Member of the Supervisory Council
Matti Hyyrynen	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.