



ANNUAL REPORT  
2008

# HIGHLIGHTS OF THE YEAR 2008



## FEBRUARY

Estonian Accreditation Centre recognised highly the work of the Company's laboratories. There were no non-compliances recorded in the final report of the annual follow-up inspection regarding ISO 17 025 quality standard.



## MARCH

Company sent an interactive water game "Traveller Drop" to more than 750 general education schools, kindergartens and establishments providing nature education all over Estonia in order to increase children's environmental awareness



## MAY

Company's employees actively participated in the initiative Cleaning Up Estonia 2008 and cleaned the surroundings of Soodla and Raudoja water reservoirs



## AUGUST

Company concluded a cooperation contract with the City of Maardu and AS Maardu Vesi



## OCTOBER

At the European Entrepreneurship Day AS Tallinna Vesi was awarded the prize of the most socially responsible company in Tallinn in 2008



## NOVEMBER

International investor relations' magazine IR Magazine, which based its decision on the assessments of more than 500 analysts and fund managers, nominated AS Tallinna Vesi the best Estonian listed company for investor relations



## DECEMBER

Delivering over 51 km of new network and providing opportunities for more than 1 300 plots to connect to the wastewater network.

# DEAR READER

This book provides an overview of the environmental performance of AS Tallinna Vesi in 2008.

However, in addition to practical information you will find in it some fabulous nature photos taken by our own employees.

It is highly important to protect this blue home planet of ours, as we want our children and grandchildren to enjoy capturing similar moments and emotions in the future.

## VISION

We will be a role model for every service providing company and employer, exceeding the expectations of our customers, employees and owners. We will be the benchmark company for behaving in an environmentally conscious way to improve the quality of life.

## MISSION

We create a better life with pure water!

## OUR VALUES

### COMMITMENT

We work with passion, doing the maximum to achieve the objectives

### CUSTOMER FOCUS

Our actions help our customers and colleagues to find solutions

### TEAMWORK

We all form one team who know that our success depends on the contribution of each individual

### CREATIVITY

We have the courage and the energy to seek new opportunities and achieve better results

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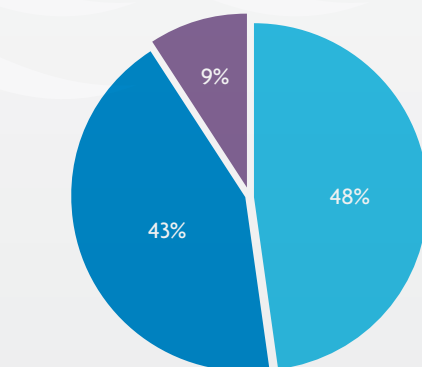
# KEY PERFORMANCE INDICATORS

MILLION EEK	2004	2005	2006	2007	2008
Sales	478.8	549.9	589.2	648.3	719.9
Gross profit	281.6	347.9	368.6	431.7	447.2
Operating profit	254.9	282.6	337.9	377.4	405.4
Profit before taxes	199.2	209.7	294.9	333.1	362.2
Net profit	173.0	174.4	248.0	277.8	296.0

PERCENTAGES					
Gross profit margin %	58.8	63.3	62.6	66.6	62.1
Operating profit margin %	46.5	47.7	48.7	58.2	56.3
Profit before taxes margin %	36.3	35.4	42.5	51.4	50.3
ROA %	7.8	7.3	10.0	10.9	11.6
ROE %	17.3	16.4	21.5	22.5	23.1

## Sales breakdown

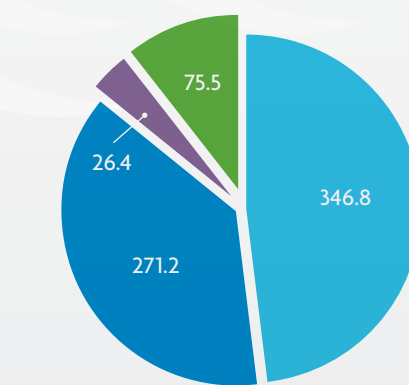
2008



- Wastewater disposal service
- Water supply service
- Other works and services

## Sales revenue

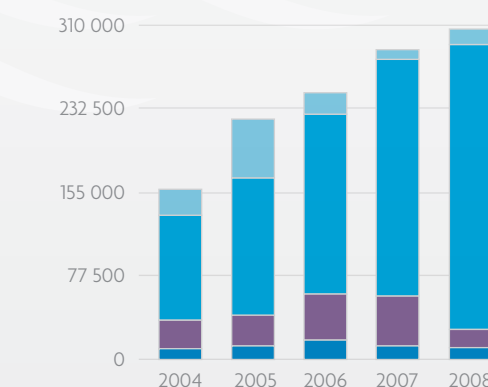
2008, million EEK



- Corporate clients
- Private clients
- Outside service area clients
- Other

## Investments in different fields

2004 - 2008, thousand EEK

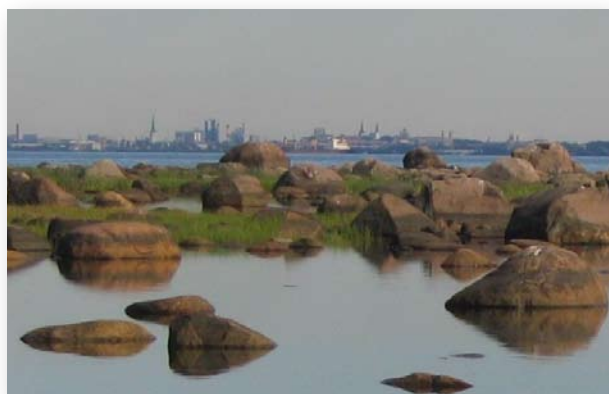


- Water supply
- Wastewater treatment
- Networks and network extensions
- Other works and services

# AS TALLINNA VESI IN BRIEF

## GENERAL FACTS

- The largest water utility company in Estonia, providing drinking water supply and wastewater disposal services to roughly 1/3 of Estonia's population.
- The Company provides drinking water supply and wastewater disposal services to over 20 000 customers and 400 000 end-users in Tallinn and its surrounding areas.
- The Company has the exclusive right to provide water and sewerage services the Tallinn service area until the year 2020.
- A Services Agreement with 97 Levels of Service has been concluded between the City of Tallinn and the Company for providing the services.
- The Company has two main treatment plants: Ülemiste Water Treatment Plant (WTP) and Paljassaare Wastewater Treatment Plant (WWTP).



**MEELIS ENOK**  
Controlroom Chief Specialist

- Water has been treated at Ülemiste WTP started working in 1927. A new water treatment plant was added in 1979.
- The Water Treatment plant produces an average of 65 000 m<sup>3</sup> of water per day.
- Almost 90% of drinking water is produced from surface water at Ülemiste, 10% of the consumers use regional ground water.
- Average water consumption in 2008 was 98 litres per inhabitant (101 litres in 2007).
- Paljassaare WWTP started operating in 1980.
- The capacity of the wastewater treatment plant is 120 000 m<sup>3</sup>/day.
- The Company has an accredited water laboratory and an accredited wastewater laboratory, which together conducted over 155 000 analyses in 2008.
- The public water supply system comprises almost 900 km of water networks, 14 water pumping stations and 57 ground water borehole pumping stations with 87 boreholes.
- The public sewerage system comprises almost 800 km of wastewater networks, over 315 km of storm water networks and over 80 sewerage-pumping stations across the service area.
- On average, the Company employed 327 people in 2008, full time employment equivalent was 317.
- AS Tallinna Vesi shares are listed on the main list of Tallinn Stock Exchange.



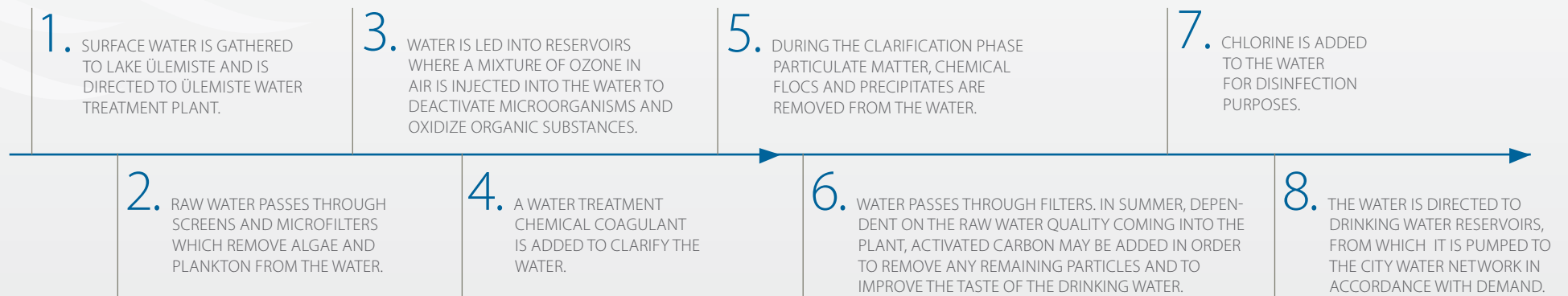
**MEELIS PLAADO**  
Wastewater Treatment System Specialist

## OPERATIONAL SITES

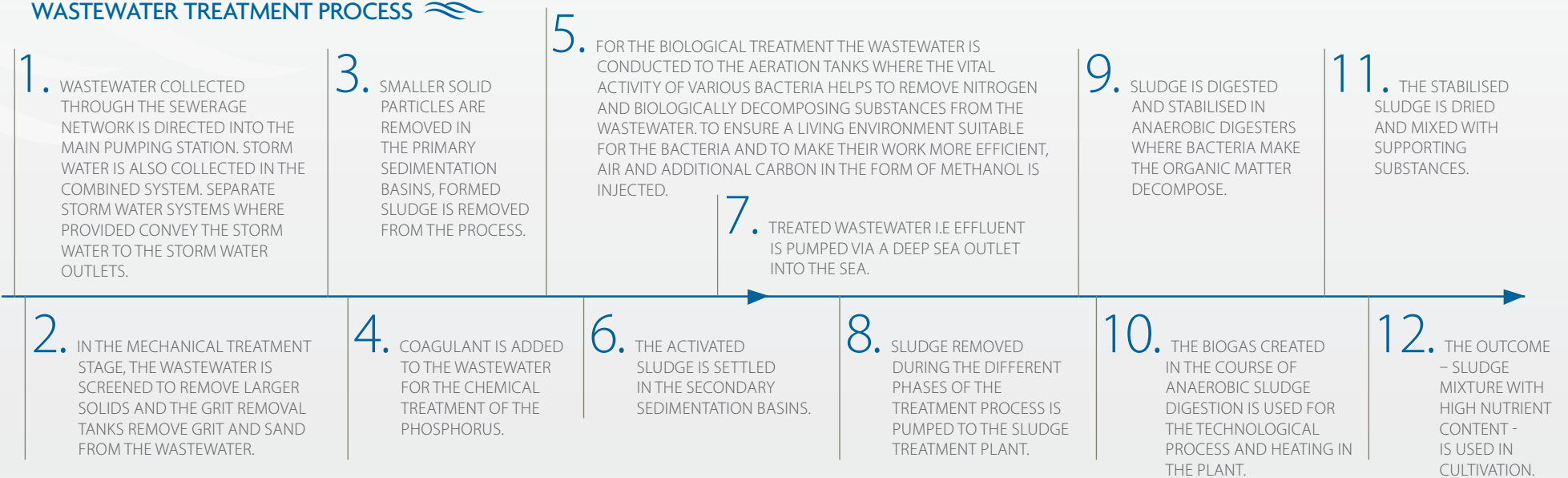
- Head office, Sales and Service Centre and support services in Ädala 10, Tallinn.
- Ülemiste Water Treatment Plant, Water and Microbiological Laboratory in Järvevana Road 3, Tallinn.
- Paljassaare Wastewater Treatment Plant, composting fields and Wastewater Laboratory in Paljassaare põik 14, Tallinn.
- Sludge composting and experimental site in Liikva village, Harju County
- The catchment area ca 1800 square kilometres in Harju and Järvamaa counties.

# TREATMENT PROCESSES

## WATER TREATMENT PROCESS



## WASTEWATER TREATMENT PROCESS

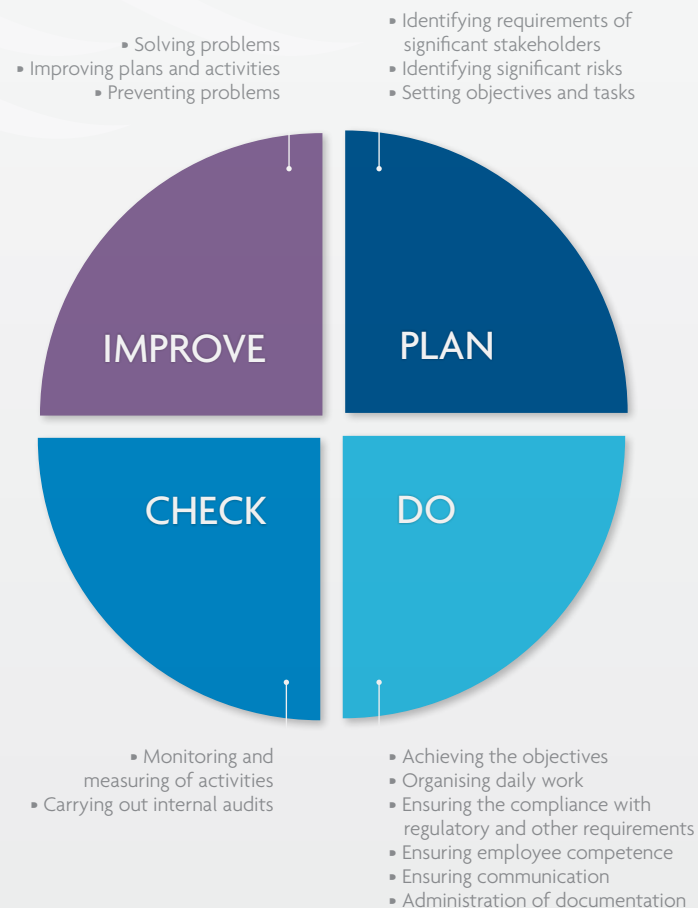




# MANAGEMENT SYSTEM

- **2001** - ISO 17025 LABORATORIES QUALITY MANAGEMENT SYSTEM \*
- **2002** - ISO 9001 QUALITY MANAGEMENT SYSTEM \*
- **2003** - ISO 14001 ENVIRONMENTAL MANAGEMENT SYSTEM \*
- **2004** - EMAS (EU Regulation 761/2001) PILOT PROJECT
- **2005** - EU EMAS ENVIRONMENTAL MANAGEMENT SYSTEM
- **2007** - OHSAS 18001 OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM

*\* required by the Services Agreement concluded between the City of Tallinn and the Company.*



The requirements from various management system standards have been integrated into the management system of the Company, proceeding from the principle of continuous improvement.



# POLICY OF A RESPONSIBLE COMPANY

Policies approved by the Company's executive team expresses the Company's principles in organizing corporate social responsibility activities.

## OUR CONTRIBUTION TO CUSTOMERS AND THE COMMUNITY

- Our customers always have pure drinking water and the possibility to discharge and treat wastewater and storm water environmentally wisely.
- Our customers can communicate with us conveniently, we are fast and professional in finding solutions to their problems.
- We take responsibility and are aware of our impact on the health and quality of life of residents.
- We do more than required by the legal acts and we follow best practices.
- We use natural resources sparingly.
- By an open dialogue, cooperation and valuing education we will shape the environmentally conscious way of thinking in our community.
- We will proactively involve different stakeholders, find sustainable solutions and constantly improve our services and work organisation.
- We are open and honest in providing regular information about our activities to our stakeholders.
- We strive to be a good neighbour in the community by supporting water related activities that promote environmental awareness and a healthy lifestyle.

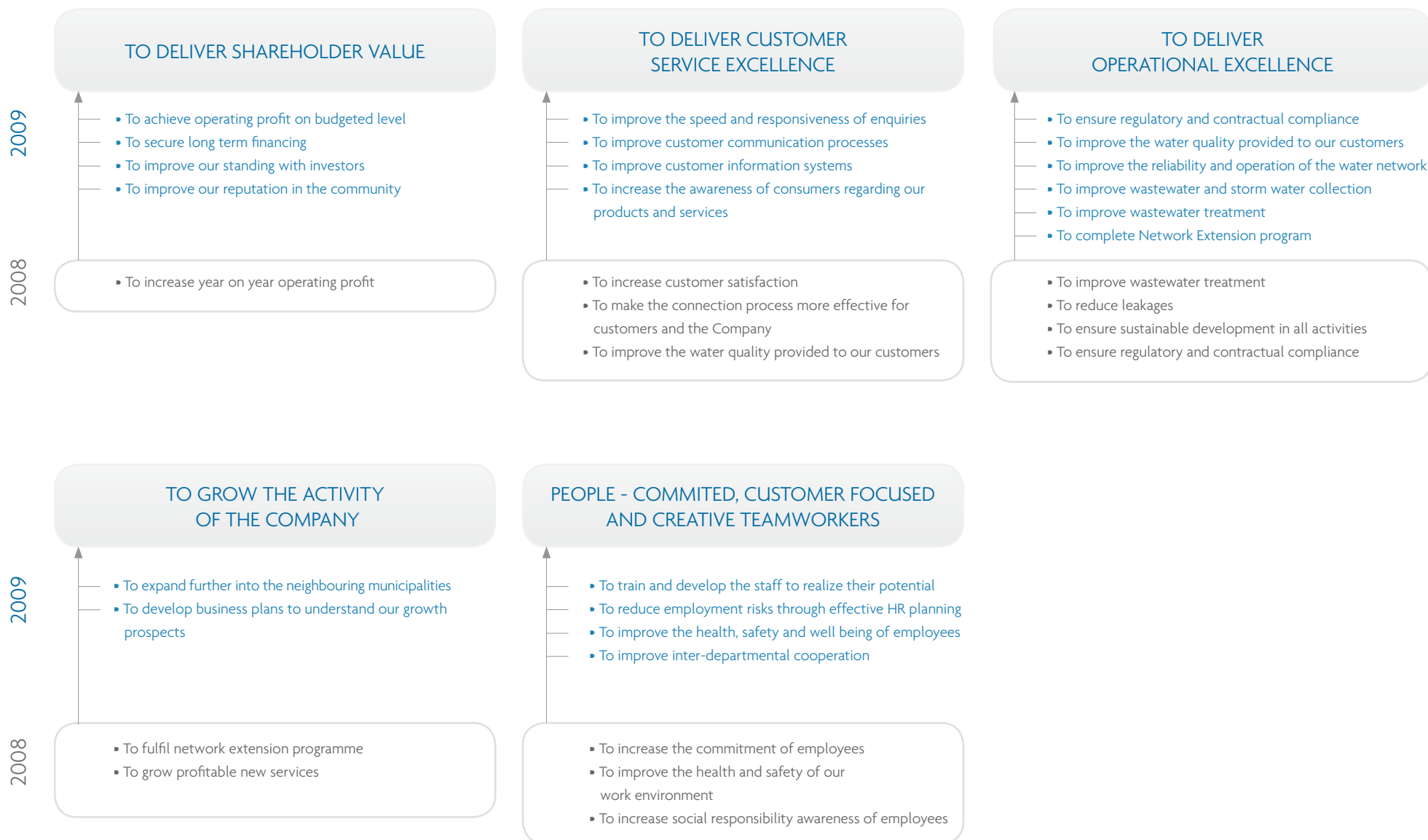
## OUR CONTRIBUTION TO EMPLOYEES

- We provide competitive pay and reward on performance and achievement, energy and commitment.
- We recruit and retain high achievers.
- We provide development and career opportunities internally.
- We encourage continuous learning and development of employees.
- We ensure a safe and secure work environment, by carrying out a systematic risk assessment and performing work environment activities.
- We value the healthy lifestyle of employees.
- We support our people in achieving a balance between work and private life.
- We provide regular, open and honest communication.
- We value diversity and take into account different needs of employees in organizing work.
- We encourage our employees to be actively involved in society and contribute to improve it
- We do more than required by the legal acts and we follow the best practices.
- We actively search for better solutions to increase employee commitment and improve work environment.

Principles for purchases and procurements in order to guarantee the supply of goods and services necessary for the Company's to provide services without interruptions or disturbances

- Via efficient procurement to ensure smooth provision of services
- We evaluate the need and volume needed before each purchase
- We purchase all necessary goods and services in a fair and transparent manner
- We ensure the best quality and price combination in all purchases
- Whenever possible we obtain offers from multiple suppliers and avoid single source procurement
- We qualify suppliers considering the value and nature of the procurement
- We follow the good corporate governance, legislation and internal rules

# COMPANY OBJECTIVES



# CHAIRMAN'S STATEMENT

It is a pleasure to write my first statement as CEO of AS Tallinna Vesi. I would like to thank my predecessor Roch Cheroux for all his hard work during his tenure in this role.

In 2007 we started work on our long term plans to deliver our strategic objectives and I am pleased to report that in 2008 we have made good progress towards company wide excellence.

We are pleased to report a good set of operational and financial results for 2008. In a challenging economic environment, high inflationary pressure in the first half of the year and the impact of the credit crunch in the last quarter we have managed to deliver an increase in profit after taxes of 6% to 296 mln EEK and improved all our key performance measures.

The first of our strategic objectives is operational excellence. Operational excellence underpins everything we do. As a company we have always focused on meeting or exceeding the services contract we have with the City of Tallinn and in 2008 we are delighted to report that we achieved this for all levels of service. In almost all indicators we improved our operational performance, the highlights being: Drinking water quality compliance at the customer's tap has improved to over 98%, which is well above the EU standard and close to the highest standards in Western Europe: Leakage level of close to 17%, which is well below our contractual target and reflects our commitment to ensure the water resource is used as sustainably as possible. One standout performance in 2008 has been the achievement of the level of service that no unplanned interruptions to supply should last more than 12 hours. In 2008, through additional investment, using all the skills and expertise of our staff, and of course a little bit of luck we were able to achieve this target with zero failures.

It gives us a great deal of satisfaction to know that our services and environmental performance are being appreciated by the

wider community. In October 2008 we were proud to receive the award of "Tallinn's Most Responsible Company" in recognition of our efforts across all aspects of our business. This is the first time this award has been presented and we will be striving to improve our performance in 2009.

To build on these successes and continue to improve we invested over 300 mln EEK in 2008 in our networks, treatment plant and catchment area and will continue to invest to ensure our quality standards remain as high as ever.

On the positive side our customers were pleased with the quality of our products and services. I was disappointed to see that our customer satisfaction rating declined in 2008, and that we were unable to remain ranked in the top 10% for world utilities. We will however need to improve our customer interactions and communications if we wish to return to the top group. To achieve this, in 2009 we will be amending our Guaranteed Service Standards to make it more customer focused and we will change the way we measure and report our service standards to drive further improvement. We recognize that you do not achieve service excellence without investing in your staff and we will ensure all our service personnel have the right skills and knowledge to consistently deliver service excellence. We are committed to make the investments necessary in our people, processes and technologies to achieve the highest service standards.

Working in partnership with the City of Tallinn we are pleased to say that in 2008 a further 1 300 homes have received the opportunity to connect to our water and wastewater networks. This has tremendous benefits for our clients as it reduces the costs of sewage disposal and improves the wider environment. In 2009 a further 1 400 homes will have the opportunity to connect, by the end of 2010 almost all households in Tallinn will have access to our services.

In respect of expanding our activities to the areas surrounding Tallinn 2008 was a good year. Within our current portfolio of bulk water supply and wastewater treatment contracts sales volumes to surrounding municipalities grew by over 40%. Furthermore, in August 2008 we signed a landmark 30 year contract with the City of Maardu to provide water, wastewater and operations and maintenance services. This will provide the citizens of Maardu with access Tallinna Vesi's EU compliant water and wastewater. This contract is the first of its kind and demonstrates the willingness of other cities and municipalities to partner with Tallinna Vesi for the benefit of their communities.

To continue our progress towards excellence we need to go further to instill our company values -commitment, customer focus, teamwork and creativity. These values are crucial in reinforcing our sense of duty to provide the highest quality to the citizens of Tallinn, whilst sharpening our focus on operational and financial performance. The key to embedding continuous improvement is through our leadership team. In 2009 we will place a far greater emphasis on leadership at every level in the Company. We have expanded our executive team to broaden the thinking and experience, and we will be investing to develop the leadership and management skills across the Company. This will enable our managers to have the necessary skills and knowledge to inspire our people to deliver further improvements.

We have seen good progress this year, but there is still some way to go if we are to reach the standards of the very best. However with quality of our people and teams I am confident of further gains in 2009.

Ian Plenderleith  
Chairman of the Management Board

A man in a light green sweater is holding a large, ornate white picture frame. The frame is empty, and the background is a solid blue color. The text is centered within the frame.

# QUALITY ABOVE ALL!

ALL OF OUR EMPLOYEES HAVE EVERY REASON TO CLINK GLASSES AND MAKE A TOAST TO TALLINNERS. EVEN MORE SO AS THE GLASSES CONTAIN CRYSTAL CLEAR PURE DRINKING WATER. ACCORDING TO THE SERVICES AGREEMENT AT LEAST 95% OF THE SAMPLES ARE REQUIRED TO BE COMPLIANT WITH THE DRINKING WATER QUALITY STANDARDS. IN 2008 THE QUALITY OF DRINKING WATER IN TALLINN WAS THE HIGHEST EVER, MEASURING UP TO 98%. THIS NUMBER INDICATES GREAT COMMITMENT, AND ABOVE ALL, PERSISTENT AND CONSCIOUS EFFORTS FROM OUR STAFF.

A TOAST TO YOU, TALLINNERS!



VALDUR ENGLAS, Technical Specialist

PILLE ÖÖVEL, Chemist

MEELIS MÄGI, Driver-Sampler



# CUSTOMER SATISFACTION

## 2008 OBJECTIVES AND TASKS

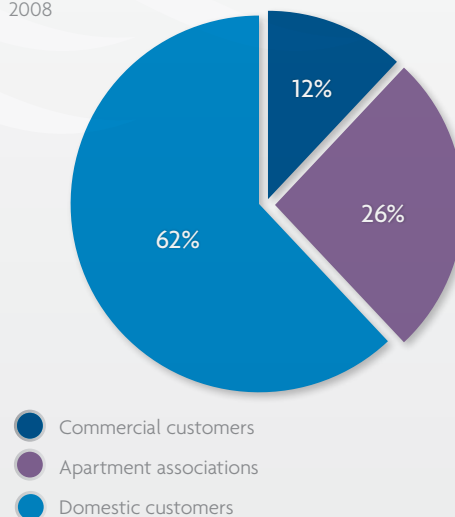
- To improve the quality of water provided to our customers ✓
- To increase customer satisfaction ✗
- To review and improve "Our Promises" and customer service standards ✗

## FOCUS IN 2009

- To improve the quality of water provided to our customers
- To improve the speed and responsiveness of enquiries, CSS rating for problem solving over 3
- To improve customer communication processes
- To increase the speed of customer information system
- To improve web-page

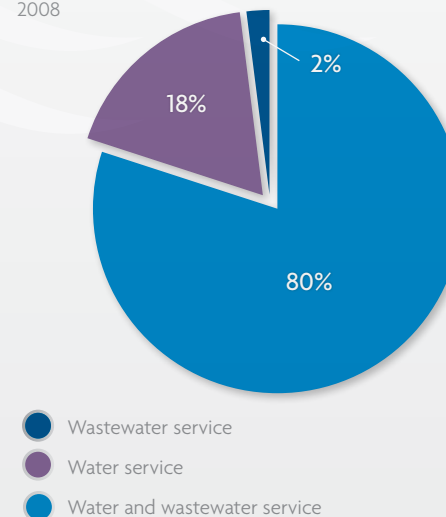
## Structure of customers

2008



## Services provided to customers

2008



The Company provides water supply and wastewater disposal services to over 20 000 customers and 400 000 end-users in Tallinn and its surrounding areas and the overriding objective of the Company is to provide the best customer service of any utility company in the Baltic States

# CUSTOMER SATISFACTION

## CUSTOMER SATISFACTION SURVEY

At the end of 2008 the independent research company TNS Emor carried out a customer satisfaction survey for the Company, interviewing over 900 customers and end-users. Services provided by AS Tallinna Vesi were rated for quality and importance. Customer satisfaction was measured on the basis of the TRI\*M index developed by the research company, which characterises the strength of customer relationships as well as allows comparison with other companies.

The result of the 2008 customer satisfaction survey TRI\*M index on a scale of 100 was 70 points as regards customers and 74 points as regards end-users. Customer satisfaction has decreased in nearly every customer segment compared to last year.

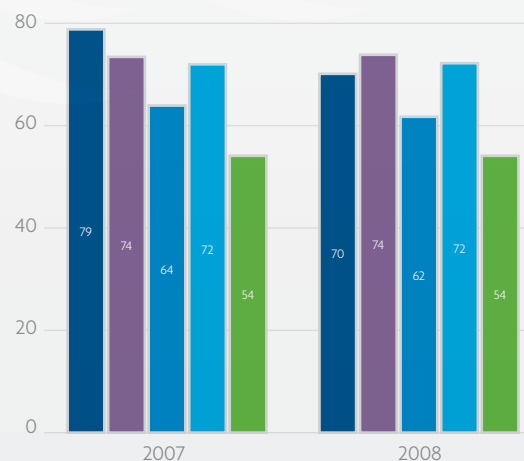
Compared to other utility companies the Company's customer relationships continues to be good and the survey results place the Company within the top 30% among peers as regards the satisfaction of both customers as well as end-users.



**LIIA KUMM**  
Communications Specialist

### Customer/end-user satisfaction

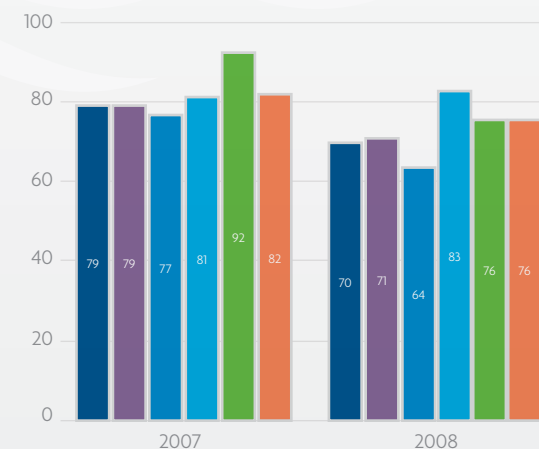
2007-2008, TRI\*M index



- Customers
- End-users
- European public sector average
- European production sector average
- World utilities average

### Customer satisfaction by customer segment

2007-2008



- All ASTV Customers
- Private houses
- Apartment buildings
- Industrial companies
- Leisure companies
- Other customers



# CUSTOMER SATISFACTION

The strength of customer relationships and customer satisfaction are first and foremost influenced by the quality of services, primarily the quality of drinking water, the condition of infrastructure, the services price and the Company's reputation, as well as the handling of problems and communication with service staff.

Compared to previous year, customer satisfaction with the different aspects has in the most part decreased slightly.

Similarly to last year, problem handling continues to be a critical issue and weaken the customer relationship significantly. Customers have critically assessed both the suitability of the proposed solution, the speed and professionalism of problem solving, as well as keeping the customer up to date with the course of problem solving.

According to customers the main strengths of the Company are predominantly linked to ensuring uninterrupted water supply, the web-based self-service and services provided in the office. In the opinion of end-users the Company's main strength is ensuring an uninterrupted water supply and the quick and responsive liquidation of unexpected disruptions.

Customers and end-users find that the services' price perception, flexibility and interest taken in customer satisfaction, problem solving, as well as the development of water and sewerage systems need to be improved further.

The main development priority for the Company is the handling of problems, which received the lowest satisfaction score in the survey. Above all, improvements are needed to the speed of solving problems and the flexibility of communication with customers. An improvement plan, based on this feedback, has been developed and will be implemented in 2009.



**SVEN MILLER**  
Catchment Area Technical Specialist

## "OUR PROMISES"

The Company has implemented a Guaranteed Standard Scheme, called "Our Promises" for its customers. This includes 22 standards, which are related to the Company's services and daily communication with customers. The promises can be divided into two groups by of their nature – promises creating and maintaining the quality of life and promises ensuring timely and clear responses to customer contacts. In case the Company fails to keep the promises, the customer will be compensated for the inconvenience caused.

In 2008 we paid compensation to five customers, with three cases relating to a delay in providing feedback to customers and two concerning the duration of repair works. In 2008 the Company launched a review of the Guaranteed Standard Scheme in order to make it simpler and easier for the customers to understand.

## CUSTOMER SATISFACTION WITH DIFFERENT ASPECTS OF SERVICES 2007- 2008, ON A SCALE OF 5

ASPECTS	2007	2008	
Water quality	3.8	3.9	↑
Water supply	3.9	3.8	↓
Water and sewerage equipment	3.8	3.8	→
Reputation	3.7	3.6	↓
Price	3.3	3.2	↓
Web-page and self-service	4.1	3.9	↓
Submitting readings	4.2	4.1	↓
Billing	4.2	4.1	↓
Service bureau	4.0	4.0	→
Technicians	4.0	3.9	↓
Technical employees	4.0	3.7	↓
Information phone	4.0	3.8	↓
Readings phone	4.2	4.1	↓
Emergencies phone	3.8	3.7	↓
Solving of problems	2.5	2.2	↓

# DRINKING WATER QUALITY



The customer satisfaction survey has demonstrated that drinking water quality is one of the main factors influencing customer satisfaction.

Drinking water quality must comply with the Minister of Social Affairs Decree no. 82 from 31 July 2001 "Potable Water Quality and Control Requirements and Analysis Methods" (hereinafter referred to as Decree No 82) that originates from the Estonian Water Act and the European Union Drinking Water Directive 98/83/EC.

The Company has a detailed drinking water control programme for 2005-2010, approved by the Tallinn Health Protection Authority, which includes separate quality control requirements for surface water, the water treatment plant, the ground water system and the city network. The frequency of taking samples and the parameters to be checked are determined in the said programme.

Additional drinking water quality requirements are included in special use of water permits HR01037, HR1112, HR0960 and HR0961 (for more details please see page 33).

Drinking water quality analyses are carried out by the Company's Water Laboratory, which is accredited on the basis of the internationally recognised ISO 17025 standard. In 2008 the Water Laboratory and Microbiology Laboratory performed a total of over 76 000 analyses.

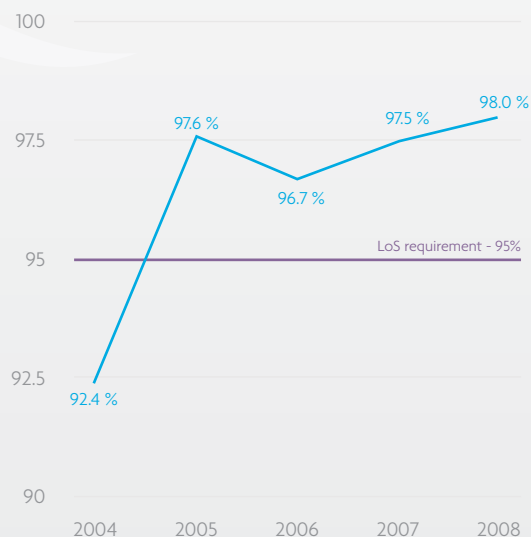
# DRINKING WATER QUALITY

## DRINKING WATER QUALITY IN THE WATER NETWORK AND AT CUSTOMER'S PREMISES

In 2008 water quality in the network and at customer's premises was the highest ever achieved. Starting from 1 January 2008 the transition period regarding the calculation of certain indicator parameters not hazardous to health (iron, manganese) ended and considerably stricter drinking water quality requirements, established with Decree No 82, became fully effective.

### Water quality compliance in 2004-2008

against the Decree no. 82 requirements



The over 95% compliance with drinking water quality requirements, as foreseen by the Services Agreement, was reached by the end of 2004, i.e. three years ahead of the deadline.

## TREATED WATER QUALITY AT ÜLEMISTE WATER TREATMENT PLANT

In 2008 the treated water quality at Ülemiste Water Treatment Plant was compliant with the requirements of Decree No 82, as provided in the table on page 23. The quality of drinking water is mostly ensured by the quality of surface water and the effectiveness of the treatment process.

## SURFACE WATER QUALITY

In 2008 the quality of raw water taken into the treatment system complied with the class A2 requirements of the European Council Directive 75/440/EC.

To ensure compliance, the raw water quality indicators are checked once per day at the intake to the treatment system. Raw water pollution indicators, such as total phosphorus (P<sub>tot</sub>) and total nitrogen (N<sub>tot</sub>), are checked once per week. Additionally, a detailed in-depth analysis of raw water is carried out once per month in accordance with the drinking water control programme.

Surface water quality is dependent on weather conditions – such as precipitation and thaw water, but also on the geographical conditions of the catchment area, moors, wetlands, areas of karst and forest, etc. Raw water quality is influenced particularly by the content of certain natural organic substances – humic substances. Humic substances have a substantial impact on the colour as well as the permanganate and chemical oxygen demand of water. The lower the permanganate oxygen demand, the smaller the amount of chemicals used in treating surface water. The clearer the water, the lower its colour. Compared to 2007, the water colour indicators were more stable in raw water in 2008, however, the permanganate oxygen demand increased slightly towards the end of the year.

## RAW WATER COLOUR 2004-2008, degrees

	2004	2005	2006	2007	2008
Colour	61	58	45	43	45

## PERMANGANATE OXYGEN DEMAND IN RAW WATER 2004 – 2008, mg/l

	2004	2005	2006	2007	2008
POD	10.3	10.6	9.3	9.3	9.8



**OLGA CHISLOVA**  
Chemist in Water Laboratory

# DRINKING WATER QUALITY

## BIOMANIPULATION

The underlying principle of biomanipulation is to achieve in the water body a functioning top-down food chain: piscivorous fish – planktivorous fish – zooplankton – phytoplankton. Such a classical food chain failed to function in Lake Ülemiste – the lake was characterised by a high phytoplankton biomass, a low number of zooplankton, planktivorous fish dominated the fish fauna and piscivorous fish formed only 5% of the fish resources.

The Company has been engaged in the biomanipulation project in Lake Ülemiste, i.e. in changing the number, variety and proportions of species of the fish fauna, since 2002. This has entailed large scale catching of planktivorous fish (bream, ruff, roach) and also the introduction of piscivorous fish (pikeperch, pike) into the lake. The objective of the project is to considerably decrease the phytoplankton biomass, resulting in improved water transparency and reduced turbidity, i.e. improved raw water quality.

Biomanipulation is a long-term project and its impact is not evident immediately. In 2008 biomanipulation was continued with catching of planktivorous fish and introduction of pike into the lake. In 2009 the main focus will be on assessing, on the basis of respective monitoring catches and studies, the changes that have taken place in the food chain.

## ÜLEMISTE SANITARY PROTECTION ZONE

Lake Ülemiste is the drinking water resource for Tallinn and thus, pursuant to the Water Act, it is not a public water body.

Taking into account the requirements set for the water quality of a lake used as a drinking water resource and the need to ensure that these are also met in the future, it is of major importance to establish a sanitary protection zone of Lake



**RUUTA LIIVE**  
Taxes and Statistics Manager

Ülemiste catchment area. The sanitary protection zone shall include the lake, the water catchment facilities thereof, the bank reinforcement facilities and the area surrounding the lake, which must be kept in its natural condition. Under the Water Act, entry into the sanitary protection zone is permitted only for persons performing duties related to environmental supervision and health protection, servicing of water intake facilities and forest maintenance, mowing of grass plants and water monitoring.

Discussions on the sanitary protection zone design were held with Tallinn Environmental Department, Tallinn City Planning Department, Tallinn Municipality Engineering Services Department and Harju County Environmental Service. The main issue was the location of prospective light traffic roads and motorways highways that have been planned to the close proximity of Lake Ülemiste sanitary protection zone boundary. Possible changes and additions were made to the design, taking into account the sanitary protection zone range of at least 90m under the Water Act, and it has been submitted to the relevant authorities for review.

## EFFICIENCY OF THE WATER TREATMENT PROCESS

Requirements established with regard to raw water quality are the basis for the design of the treatment process. Based on Lake Ülemiste raw water quality the use of physicochemical treatment – prechlorination, coagulation, sedimentation, filtering and disinfection – is foreseen by legislative acts for ensuring drinking water quality. Ülemiste Water Treatment Plant treatment process is even more efficient than prescribed by the compulsory requirements, as ozonation, which ensures the high quality of drinking water more effectively, is used instead of prechlorination and preliminary filtration.

Over the recent years activated carbon has been used during the summer for improving drinking water odour and taste as well as for reducing the organic matter content. No significant change in the organic matter content has been noted, but a positive shift was observed as regards the functioning of the technological process – the odour accompanying the flushing of sedimentation tanks was improved.

In 2008 the Company made a number of improvements and investments to upgrade the water treatment process. For example, filter material in filters was renewed, resulting in a substantial reduction in the turbidity of filtered water and improvement of other quality parameters, treated water reservoirs were fixed and diffusers in ozone basins were repaired to increase the ozonation efficiency.

# DRINKING WATER QUALITY

## GROUND WATER QUALITY

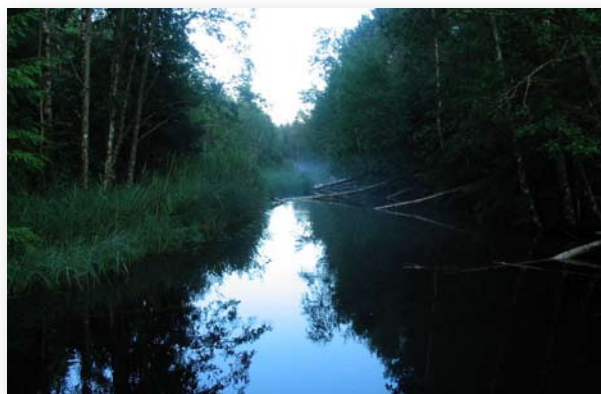
Approximately 10% of consumers in Tallinn, in the districts of Nõmme, Pirita, Merivälja, Laagri and Tiskre, are supplied with water produced from the Cambrian-Vendi or Cambrian-Ordovician aquifers. Ground water is also used in the Saue City and the Harku Rural Municipality.

Pursuant to the requirements established in the special use of water permits and to the drinking water control programme the Company monitors all quality parameters that are important in evaluating the situation.

Water samples are taken from all boreholes that are in use in order to carry out a detailed chemical analysis. In addition to the full chemical analysis required by the water permit, the Company also studies the content of 12 micro-components and analyses the water from both the Cambrian-Vendi and the Cambrian-Ordovician aquifer. The Company also partially tests ground water for substances listed as dangerous to the water environment in the Water Act, e.g. mercury, antimony, arsenic, cadmium, boron, barium and others.

According to the Water Framework Directive (Directive 2000/60/EC), the qualitative or chemical condition of ground water is considered good, if the concentration of pollutants does not indicate an inflow of salty water or other water and does not exceed the respective quality standards.

In 2008, the quality of drinking water at the borehole pumping stations complied with the requirements of the EU Drinking Water Directive (Directive 98/83/EC) on the quality of water intended for human consumption and the parameters shown in the table on page 24, which stem from Decree no. 82. There were no cases of ground water pollution or potential pollution in 2008, demanding notification to the City and Tallinn Health Protection Authority.



**JAAN NIINBERG**  
Catchment Area Manager

The EU Drinking Water Directive stipulates, amongst other parametric values intended for monitoring purposes, i.e. as a guideline and not an obligation the “effective dose” of radiological parameters with an indicative value of 0.1 mSv per year. When the EU Drinking Water Directive was transposed into Estonian law, the Ministry of Social Affairs decided to set this guideline as an obligation. Estonia has not applied for an exemption regarding this indicative dose whereas some other countries, Finland for example, has set the limit value of 0.5 mSv/an.

Radionuclides (mainly two isotopes of Radium) are naturally present in the ground water from the Cambrian-Vendi aquifer of the Northern coast area of Estonia. The natural radioactivity of Estonian ground water has been thoroughly studied by the Geological Survey of Estonia as well as the Estonian Radiation Centre and the outcome of these studies show that the majority of ground water samples from the Cambrian-Vendi aquifer do not meet the levels stipulated in the Estonian regulation.

Samples taken from the Company's borehole pumping stations showed that in the ground water pumping stations in the areas of Nõmme and Pirita-Merivälja the effective dose is above the indicative dose value (up to 0.41 mSv/an). Consumers have been informed about the levels of radionuclides content in the Company's borewells via the Company's website. General information on this topic is also available on the website of the Tallinn Health Protection Inspectorate.

At the end of 2008, the Health Protection Inspectorate conducted a procurement process to appoint a partner from the EU to complete a project “Estimation of concentrations of radionuclides in Estonian ground waters and related health risks”. The Company is taking part in this study, which is scheduled to complete in July 2009.



**OLGA CHISLOVA**  
Chemist in Water Laboratory



# DRINKING WATER QUALITY

## GROUND WATER TREATMENT

The ground water used for producing drinking water is of quality classes I-III. Quality class I water needs no treatment – all Cambrian-Ordovician aquifer boreholes in Nõmme fall under this category. Ground water from the Cambrian-Vendi aquifer, which forms the main part of ground water used as a source of drinking water, mostly falls under quality classes II and III and needs corresponding treatment. Water quality classes II and III are usually caused by an excessive iron, manganese and ammonium content and the non-compliance of colour with the raw water requirements.

The Company uses filters and aeration as ground water treatment methods to ensure drinking water compliance with requirements. Pressure filters have been installed to ground water borehole-pumping stations for the removal of excess iron and manganese. Raw ground water is aerated and filtered in the pressure filters, no chemicals are used. Water samples taken show that treatment reduces water turbidity, iron and manganese content, improves colour and the stability index and increases the content of oxygen in the water.

The mixing of water from the two aquifers is also used for improving water quality.

The Company's ground water monitoring data are used in national ground water monitoring when evaluating the quality conditions of ground water in the region of Tallinn.

## WATER NETWORKS MAINTENANCE AND FLUSHING

Preventive works in the form of networks flushing and water supply network reconstructions are used to maintain and improve the quality of drinking water used in the homes of customers and consumers.

Pressure washing and flushing of water network pipelines helps to remove sediments from the walls of water pipes and improves water quality at customers' premises. The amount of water used for flushing (ca 220 090 m<sup>3</sup> in 2008) is very small compared to the benefit arising from improved quality.

The Company achieved its 2008 target, to carry out the flushing of 225 km.



**OLGA CHISLOVA**  
Chemist in Water Laboratory

## FLUSHED WATER NETWORK 2004-2008, km

2004	2005	2006	2007	2008
195	236	238	227	229

## WATER NETWORK RECONSTRUCTION AND NETWORK EXTENSIONS

Investments into replacements of old water pipes and network extensions have facilitated both improvements in water quality, pressure and more efficient usage of water resources. In 2008 most of the construction works were carried out in the districts of Nõmme and City Centre with much of the reconstruction associated with the provision of new wastewater pipes in the areas.

## WATER NETWORK RECONSTRUCTION AND NETWORK EXTENSIONS 2004-2008, km

	2004	2005	2006	2007	2008
Reconstructions	9.0	15.8	6.4	6.9	16.7
Network extensions	2.3	0.3	0.8	2.6	3.0

# DRINKING WATER QUALITY

## DRINKING WATER QUALITY IN ÜLEMISTE WATER TREATMENT PLANT 2004 – 2008

PARAMETER	UNIT	AVERAGE RESULTS					DECREE NO 82 EU DIRECTIVE 98/83/EC
		2004	2005	2006	2007	2008	
Odour	points	1	1	1	1	1	Acceptable to consumer
Taste	points	1	1	1	1	1	Acceptable to consumer
Turbidity	NTU	0.15	0.17	0.11	0.10	0.13	1
Colour	Pt mg/l	3	3	2	2	3	Acceptable to consumer
Dry residue	mg/l	291	286	287	276	274	
pH		7.27	7.30	7.37	7.36	7.36	6.5 - 9.5
Conductivity	µS/cm	447	441	443	438	441	2500
Alkalinity	mg-ekv/l	2.9	2.9	3.05	2.72	2.70	
Total hardness	mg-ekv/l	4.3	4.2	4.3	4.15	4.16	
Temporary hardness	mg-ekv/l	2.9	2.9	3.1	2.72	2.70	
Permanent hardness	mg-ekv/l	1.4	1.3	1.2	1.44	1.45	
Permanganate index (COD Mn)	mg O <sub>2</sub> /l	3.3	3.5	3.1	3.2	3.2	5.0
Total organic carbon (TOC)	mg/l	6.7	6.9	6.3	6.2	5.9	Without unusual changes
Free CO <sub>2</sub>	mg/l	16.9	17.8	18	14	14	
Carbonates CO <sub>3</sub> <sup>2-</sup>	mg/l	0	0	0	0	0	
Bicarbonates HCO <sub>3</sub> <sup>-</sup>	mg/l	176.9	178.0	188	165	166	
Chlorides Cl <sup>-</sup>	mg/l	26.8	26.1	24	25.5	26.8	250
Sulphates SO <sub>4</sub> <sup>2-</sup>	mg/l	41.5	38.2	37	46.2	40.1	250
Orthophosphates PO <sub>4</sub> <sup>3-</sup>	mg/l	0	0	0	0	<0.01	
Fluoride F <sup>-</sup>	mg/l	0.14	0.15	0.1	0.10	0.09	1.5
Nitrates NO <sub>3</sub> <sup>-</sup>	mg/l	3.6	2.5	2.4	3.4	3.3	50
Ammonium NH <sub>4</sub> <sup>+</sup>	mg/l	0.002	0.003	0.003	0.003	0.003	0.50
Calcium Ca	mg/l	72	69.9	71.9	67.3	70.3	
Magnesium Mg	mg/l	8.0	7.6	8.7	8.5	8.1	



# DRINKING WATER QUALITY

## DRINKING WATER QUALITY IN ÜLEMISTE WATER TREATMENT PLANT 2004 – 2008

PARAMETER	UNIT	AVERAGE RESULTS					DECREE NO 82 EU DIRECTIVE 98/83/EC
		2004	2005	2006	2007	2008	
Total iron Fe	µg/l	0	0	0	<10	<10	200
Manganese Mn	µg/l	4.8	7.5	5.1	3.0	2.5	50
Aluminium Al	µg/l	108	132	88	82	93	200
Sodium Na	mg/l	6.7	6.3	6.7	6.7	7.1	200
Potassium K	mg/l	2.5	2.6	2.7	2.6	2.7	
Chromium Cr	µg/l	0.61	0.56	0.53	0.50	0.66	50
Copper Cu	µg/l	0.6	0.6	0.38	0.67	0.96	2000
Mercury Hg	µg/l	0.02	0.045	0.02	0.02	<0.05	1
Lead Pb	µg/l	0.03	0.02	0.01	0.03	0.05	10
Selenium Se	µg/l	0.00	0.09	0.28	<0.4	<0.4	10
Zinc Zn	µg/l	0.5	0.3	0.26	0.41	0.59	
Acrylic Amide	µg/l	0.036	0.028	0.015	0.014	0.02	0.10
Chloroform	µg/l	23.2	21.6	20	20	20	
THM	µg/l	25.6	26.0	25	25	26	150
Enterococh	CFU/100ml	0	0	0	0	0	0
No of nests at 22 °C	CFU/ml	0	2	2	3	0.5	100
Coli bacteria	CFU/100ml	0	0	0	0	0	0
<i>Escherichia coli</i>	CFU/100ml	0	0	0	0	0	0
<i>Clostridium perfringens</i>	CFU/100ml	0	0	0	0	0	0

# DRINKING WATER QUALITY

## GROUND WATER QUALITY IN PUMPING STATIONS 2004 - 2008

PARAMETER	UNIT	AVERAGE RESULTS					DECREE NO 82 EU DIRECTIVE 98/83/EC
		2004	2005	2006	2007	2008	
Odour	points	1	1	1.1	1.1	1.02	Acceptable to consumer
Taste	points	1	1	1	1	1	Acceptable to consumer
Temperature	°C	9.1	9.1	9.03	8.9	8.3	
Colour	mg Pt/l	7.6	7.2	4.98	4.56	3.69	Acceptable to consumer
Turbidity	NTU	1.88	1.38	0.95	0.46	0.37	Acceptable to consumer
Dissolved O <sub>2</sub>	mg/l	4.6	4.6	5.24	5.3	6.6	
pH	pH unit	8.09	8.03	8.02	8	8	>6.5 and <9.5
Conductivity	µS/cm	590	583	578	568	596	2500
Permanganate index (COD Mn)*	O <sub>2</sub> mg/l	1.12	1.02	0.7	0.7	0.75	5.0
Total organic carbon	mg/l	1.3	1.3	1.2	1.0	0.8	Without unusual changes
Alkalinity	mg-ekv/l	2.58	2.57	2.55	2.51	2.52	
Total hardness	mg-ekv/l	3.38	3.33	3.37	3.27	3.51	
Temporary hardness	mg-ekv/l	2.54	2.53	2.51	2.49	2.50	
Permanent hardness	mg-ekv/l	0.84	0.8	0.87	0.78	1.01	
Free CO <sub>2</sub>	mg/l	2.7	3	3	3	3	
Total iron Fe	mg/l	0.18	0.13	0.08	0.05	0.02	0.2
Fluoride F <sup>-</sup>	mg/l	0.66	0.69	0.58	0.58	0.61	1.5
Manganese Mn	mg/l	0.043	0.039	0.034	0.024	0.009	0.05
Ammonium NH <sub>4</sub> <sup>+</sup>	mg/l	0.288	0.273	0.202	0.143	0.114	0.5
Nitrites NO <sub>2</sub> <sup>-</sup>	mg/l	0.009	0.012	0.014	0.012	0.009	0.5
Nitrates NO <sub>3</sub> <sup>-</sup>	mg/l	0.5	0.54	0.55	0.731	0.743	50
Stability index		0.24	0.18	0.19	0.15	0.14	
Sulfides S <sub>2</sub> <sup>-</sup>	mg/l	0.006	0.006	0.005	0.004	0.005	
Dry residue	mg/l	280	286	300	307	324	

# DRINKING WATER QUALITY

## GROUND WATER QUALITY IN PUMPING STATIONS 2004 - 2008

PARAMETER	UNIT	AVERAGE RESULTS					DECREE NO 82 EU DIRECTIVE 98/83/EC
		2004	2005	2006	2007	2008	
Calcium Ca	mg/l	48	48	48	47	50	
Magnesium Mg	mg/l	13	13	13	12	13	
Sodium Na	mg/l	32	32	45	42	43	200
Potassium K	mg/l	6.5	6.3	6.8	6.7	6.7	
Sulfates $\text{SO}_4^{2-}$	mg/l	21	23	29	14	19	250
Bicarbonates $\text{HCO}_3^-$	mg/l	155.1	155.9	155.5	152.9	153.6	
Chlorides $\text{Cl}^-$	mg/l	100	95.8	90.4	90.1	101	250
Boron B	mg/l	0.23	0.18	0.15	0.17	0.17	1
Aluminium Al	µg/l	2.53	2.25	1.14	0.91	1.27	200
Arsenic As	µg/l	0.25	0.11	0.09	0.09	0.10	10
Cadmium Cd	µg/l	<0.09	<0.01	<0.01	<0.01	<0.01	5
Chromium Cr	µg/l	0.76	0.47	0.51	0.45	0.58	50
Copper Cu	mg/l	0.0033	0.0041	0.003	0.0045	0.0064	2
Mercury Hg	µg/l	<0.01	<0.01	<0.02	<0.02	<0.05	1
Nickel Ni	µg/l	2.35	2.86	1.59	1.81	2.40	20
Lead Pb	µg/l	0.49	0.37	0.12	0.13	0.41	10
Antimony Sb	µg/l	0.03	0.03	0.01	0.009	0.01	5
Selenium Se	µg/l	1.31	1.17	0.54	0.44	0.4	10
<i>Enterococci</i>	CFU/100ml	0	0	0	0	0	0
<i>Colony count 22 °C</i>	CFU /ml	5	10	6	13	5	100
<i>Coliform bacteria</i>	CFU/100ml	0	0	0	0	0	0
<i>Escherichia coli</i>	CFU/100ml	0	0	0	0	0	0

\*Decree No 82 does not establish a requirement to determine COD in drinking water, provided that TOC has been determined.

\*\*Sampling for dry residue, potassium, sulphate, sodium, boron, aluminium, arsenic, cadmium, chromium, copper, quicksilver, nickel, lead, antimony, selenium and magnesium have not been required by the Decree No 82. However, the listed substances have been determined in the drinking water sources and the content of these does not change after going through filters



## WE BUILT WITH PLEASURE!

LAST YEAR WE MANAGED TO CONSTRUCT APPROXIMATELY 34 KM OF SEWERAGE AND 14 KM OF STORM WATER NETWORK - WITH PLEASURE. ADDITIONALLY WE BUILT 3 KM AND RECONSTRUCTED MORE THAN 16 KM OF WATER NETWORK, IN ORDER TO IMPROVE WATER QUALITY AND PRESSURE - AGAIN WITH PLEASURE. IN COOPERATION WITH THE CITY OF TALLINN WE PROVIDED 1300 HOMES WITH THE OPPORTUNITY TO CONNECT TO THE WATER SUPPLY AND SEWERAGE NETWORK.

SUCH LARGE-EXTENT CONSTRUCTION WORK CANNOT BE DONE BUT WITH PLEASURE.

ANDRES ARUIVEE, Project Manager

ALEKSANDR TIMOFEJEV, Foreman

ELMAR VELTERMANN, Driver



# ENVIRONMENTAL MANAGEMENT SYSTEM

## FOCUS IN 2009

- To develop the environmental management system in order to reduce the Company's carbon footprint

The Company's environmental activity is in compliance with the requirements of the international environmental management standard ISO 14001 and EU Eco Management and Audit Scheme (EMAS) Regulation.



SVEN MILLER

Catchment Area Technical Specialist

The environmental management system forms a part of the Company's management system (for details please refer to page 62), the objective of which is to avoid or at very least minimise environmental pollution via integrating the environmental management system elements into the daily activities of the Company.

The basis for the environmental management system is the identification of both negative and positive significant environmental aspects and impacts which form the basis for determining the Company's environmental objectives and tasks for improving performance. Significant environmental aspects are those different facets of the Company's activities, which, in contact with the surrounding environment, have the most serious consequences for the natural environment, the quality of life and the Company's business activities.

Management of the environmental system has been established in accordance with the Company's structural scheme, described on page 62. The main responsibility for ensuring and improving the functioning of the environmental management system lies with the senior management and the heads of structural units. Unit managers involve their employees in setting and fulfilling environmental objectives and tasks.

An overview of the significant environmental aspects of the Company, their actual or potential environmental impact, the accompanying environmental objectives and tasks as well as progress against the objectives is presented in the chapters of this Annual Report.

## COMPANY'S CARBON FOOTPRINT

In 2008 the Company began searching for a method to measure the Company's carbon footprint. The method recognised by the parent company was adopted, as no method suitable for the Company was available in Estonia. The method has been developed for water undertakings in the UK and United Utilities Group uses it for measuring the group's carbon footprint. Although the UK model cannot be directly applied in Estonia, it can be used in calculations.

Based on last year's calculations it can be deduced that the wastewater treatment process creates twice as much greenhouse gas emissions as the water treatment process and the major part of the Company's carbon footprint is caused by energy use and sludge treatment. In 2008 the corresponding figures were 263 kg CO<sub>2</sub> eqs per Ml of drinking water treated and 757 kg CO<sub>2</sub> eqs per Ml of sewerage treated. In 2009 the Company intends to reduce its carbon footprint through focusing on more efficient energy use and on increasing employee awareness.

# COMPLIANCE WITH ENVIRONMENTAL REQUIREMENTS

## ENVIRONMENTAL LEGISLATION

The minimum requirement of the environmental management system is compliance with environmental legislation. All improvements to the environmental management system must also be in accordance with the requirements and restrictions set out in applicable legislation.

To a large extent the Company's environmental activities are regulated by requirements arising from EU, national and local government legislation.

Amongst these the Water Act, the Public Water Supply and Sewerage Act, the Waste Act, the Chemicals Act, the Ambient Air Protection Act and regulations adopted on the basis thereon have the most significant impact on the Company. In order to meet the minimum requirements, the Company systematically monitors the relevant environmental legislation and amendments thereto since 2005. Each month it is determined which area of the Company's activities is affected by the amendments and the managers responsible for the particular areas are notified thereof. Managers of the respective areas ensure that the required changes are carried out.

Together with the Estonian Water Companies Association (EVEL) the Company has participated in working groups for developing water economy and environmental legislation and has published opinions on draft acts on the participation web.

The Company's employees were also involved in the review of the Tallinn and Saue Public Water Supply and Sewerage Network Development Plan. Pursuant to the Public Water Supply and Sewerage Act the development plan is prepared by the local municipalities for a period of 12 years and is reviewed once every four years.





# COMPLIANCE WITH ENVIRONMENTAL REQUIREMENTS

## ENVIRONMENTAL PERMITS

The main licensing authority for the Company is the Harju County Environmental Service, who has issued the following environmental permits to the Company:

- 4 special use of water permits (details on pages 33);
- 2 waste permits (details on page 53);
- 2 ambient air pollution permits and 1 special permit for ambient air pollution (details on page 58).

In 2008 the Company operated in accordance with the conditions established in the environmental permits. All environmental reporting was submitted on time and matters related to environmental permits were solved in cooperation with the Harju County Environmental Service.

## REQUIREMENTS OF THE SERVICES AGREEMENT

Besides legislation, the activities of the Company are also regulated by the Services Agreement concluded between the Company and the City of Tallinn for ensuring 97 Levels of Services. Performance of the Services Agreement is supervised by the Supervisory Foundation for the Water Companies in Tallinn, appointed by the local government, to whom the Company annually submits a detailed report on compliance with the requirements of the Services Agreement. All 97 Levels of Service were met in 2008.

## REQUIREMENTS TO CONTRACTUAL PARTNERS

Considering the requirements set for the Company, the Company also requires the Company's suppliers to meet environmental and work environment requirements.

To ensure the above, the Company has established environmental and work environment criteria for the qualification of suppliers in its procurement procedures. The environmental and work environment related compliance of bidders is assessed on the basis of questionnaires filled by bidders in the course of the tendering procedure. Bidders for construction works must additionally confirm that they apply health and safety and environmental protection measures at the construction sites.

Construction supervision staff of the Company monitor the environmental and work environment activities of suppliers. In the case of bigger contracts (EEK 200 000 and above) the supervision staff assess, after the term of the contract, the activities of suppliers for ensuring compliance with the requirements. In 2008 the average assessment given to the environmental activities of the suppliers was good.



**MARGUS MARIPUU**  
Water Treatment Process Manager

# COMPLIANCE WITH ENVIRONMENTAL REQUIREMENTS

## MANAGEMENT SYSTEM CONTROL AND AUDITS

Several authorities monitored the Company's compliance with environmental and other legislation in 2008. Assessments and precepts were issued by the Estonian Technical Surveillance Authority, the Fire Safety Office of the North Estonian Rescue Board, the Tallinn Municipal Engineering Services Department, the Customer Protection Board and Tallinn Health Protection Service of the Health Protection Inspectorate. The Company has reported compliance with the precepts to the satisfaction of the authorities.

In addition to supervisory authorities, the Company's compliance with environmental legislation and Services Agreement requirements as well as with other intra-Company requirements is also monitored in the course of internal and external audits of the management system.

In the course of internal audits carried out in 2008 the internal auditors put forward a total of 82 non-conformities and proposals, which formed a good source of management system improvement ideas for the managers.

An external recertification audit was carried out in the Company in 2008 by accredited certifier Det Norske Veritas in order to evaluate the compliance of the management system with the ISO 9001, ISO 14001, OHSAS 18001 standard requirements and with the EU (EMAS) Regulation 761/2001 requirements.



**OLEG TŠAIKIN**  
Specialist in Leakages and Water Quality

As a result of external audit Det Norske Veritas confirmed the compliance of the management system with the requirements of the standards and renewed all management system certificates. 11 nonconformities were discovered, which were related to the management of subcontractors, ambient air pollution and the clarity of data in the environmental report and all these have been corrected.

The Company's financial accounts are audited by AS PricewaterhouseCoopers and in their opinion the financial statements give a true and fair view of the financial performance and the cash flows for the reporting year and of the financial position of the Company as of 31 December 2008.

AS PricewaterhouseCoopers has also examined and provided their recommendations regarding the Company's business, information systems, systems of internal controls and accounting procedures. The topics brought to the Company's attention in course of interim audit were sorted out by final audit and no major unsolved issues were identified during the final audit procedures.

# USAGE OF WATER RESOURCES



## SPECIAL USE OF WATER

The activities of a water undertaking in using water resources are regulated by the Water Act and its implementing provisions. For operating, a water company must have a permit for special use of water and pay a charge for the water resource used.

The permit for special use of water defines different activities, for instance the amount of water which the Company may extract, water quality monitoring requirements, requirements set for accounting for water extracted, the permitted limits of pollutants contained in effluent, pollutants monitoring requirements and measures reducing the impact of special use of water.

All requirements established in the permits for special use of water were met in 2008.

The fee for special use of water is paid for the amount of water taken into Ülemiste Water Treatment Plant and for water pumped out of ground water aquifers. In 2008 the fee for special use of water amounted to 3.2% of the operating costs.

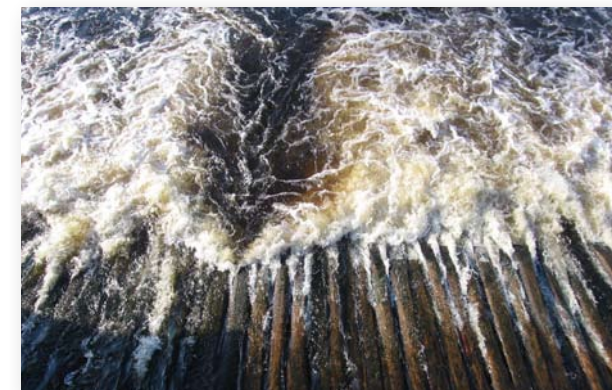
# USAGE OF WATER RESOURCES

## VALID WATER PERMITS OF AS TALLINNA VESI

PERMIT	VALID UNTIL	DESCRIPTION OF SPECIAL USE OF WATER
Water Permit no. HR1112 (L.VV.HA-194367)*	31.10.2013	<b>SAUE CITY, HARJU COUNTY.</b> Extraction of ground water from boreholes, over 5 m <sup>3</sup> /day. Collection of wastewater and directing wastewater to Paljassaare Wastewater Treatment Plant owned by AS Tallinna Vesi.
Water Permit no. HR01037 (L.VV.HA-171414)**	01.04.2013	<b>TALLINN PUBLIC WATER SUPPLY AND SEWERAGE SYSTEM MAIN LICENSED OPERATING AREA. TALLINN SURFACE WATER CATCHMENT SYSTEM FACILITIES AREA IN HARJU AND JÄRVA COUNTIES.</b> Regulating surface water resources in water bodies of Ülemiste-Pirita-Järgala surface water system, water extraction from Lake Ülemiste, extracting ground water from Ordovician-Cambrian and Cambrian-Vendi aquifers through Tallinn public water supply and sewerage system boreholes, for discharging biologically treated effluent through a deep-sea outlet pipe into Tallinn Bay and for discharging mechanically treated storm water into the sea, Mustjõe Stream and Pääsküla Wetland.
Water Permit no HR0960 (L.VV.HA-138048)	31.12.2011	<b>TISKRE VILLAGE, HARKU BOROUGH, HARJU COUNTY.</b> Extraction of ground water from borehole, over 5 m <sup>3</sup> /day. Directing all wastewater to Paljassaare Wastewater Treatment Plant.
Water Permit no HR0961 (L.VV.HA-138050)	31.10.2011	<b>HARKU VILLAGE, HARKU BOROUGH, HARJU COUNTY.</b> Extraction of ground water from borehole, over 5 m <sup>3</sup> /day. Directing all wastewater to Paljassaare Wastewater Treatment Plant.

\* Previous water permit HR0679 renewed since 01.11.2008

\*\* Previous water permit HR 0549 renewed since 01.04.2008

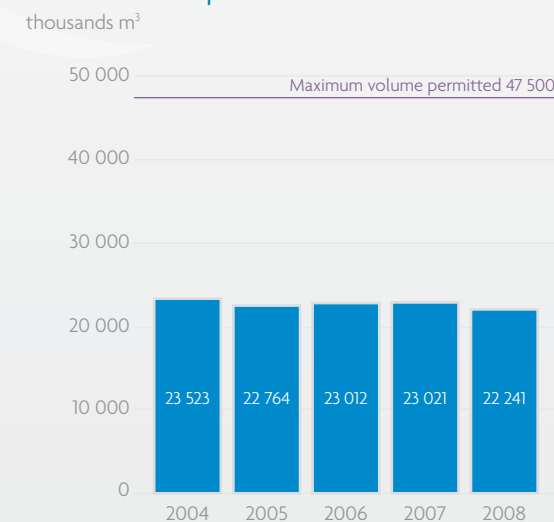


**RUUTA LIIVE**  
Taxes and Statistics Manager

# USAGE OF WATER RESOURCES



Usage of surface water from Lake Ülemiste and compliance with special use of water permit HR01037



## USAGE OF SURFACE WATER RESOURCES

The Company receives surface water from an extensive water catchment system encompassing the river basins of Pirita, Jägala and Soodla River with a total area of ca 1800km<sup>2</sup>, covering mostly the Harju sub-basin. The water catchment system consists on hydropoints constructed on rivers and of water reservoirs as well as the connecting canals.

The most important water reservoir of the is Lake Ülemiste with a net volume of 15.8 million m<sup>3</sup>. Additional water reserves for dry periods have been accumulated to Paunküla water reservoir on the headwaters of River Pirita (9.9 million m<sup>3</sup>) and to Soodla water reservoir on River Soodla (7.4 million m<sup>3</sup>).

The extent of water resources in Tallinn's surface water catchment system primarily depends on the amount of precipitation and its distribution over the year. In a year of average rainfall approximately 50% of the possible water resources in the system are used up.

The hydrological year 2008 was altogether more abundant in water than the long-term average, the runoff water volume from rivers formed 70% of the long-term average only in the second quarter. The need to use Paunküla and Soodla water reservoirs for supplementing the water resources in Lake Ülemiste did not arise. Additional water was mainly taken from Pirita river catchment area in May and June.

Continuous overview of the flow amounts allows the Company to use water resources in a more sustainable way. In order to regulate water resources in an optimal and precise manner, water metering points have been constructed to all hydropoints, allowing the measurement of both the flow amounts directed into canals as well as the so-called sanitary flow amounts remaining in the rivers. Measuring is carried out on a regular basis, following the requirements of the special use of water permit.

# USAGE OF WATER RESOURCES

## USAGE OF GROUND WATER

Ground water is mostly extracted from the Cambrian-Vendi aquifer and to a lesser degree from the Ordovician-Cambrian aquifer.

The Company regularly measures ground water levels in order to continuously control the state of Tallinn's ground water resources. Automatic hydrostatic pressure sensors, enabling the measurement of the ground water level, have been installed at all of the Company's operating ground water facilities. Measurement of the water level in boreholes shows an increase in the pressure level of the aquifers in use and thus also the recovery of the ground water resources.

Conditions of ground water usage have been determined in the permits for special use of water HR01037, HR1112, HR0960 and HR0961, issued to the Company. Although the usage of ground water is limited by the water permits, it is possible to cover the ground water demand and still have sufficient reserves to replace some of the surface water supply in case of a problem of supply from Ülemiste Water Treatment Plant.

The Company met all requirements established in the special use of water permits in 2008.

## USAGE OF GROUND WATER AND COMPLIANCE WITH SPECIAL USE OF WATER PERMITS HR01037, HR1112, HR0960 AND HR0961, m<sup>3</sup>

	2004	2005	2006	2007	2008
ACTUAL USAGE BY TALLINN	2 736 157	2 532 519	2 447 792	2 457 784	2 450 533
Incl. from Cambrian-Vendi aquifer	2 395 645	2 246 809	2 130 310	2 134 427	2 168 265
MAXIMUM VOLUME PERMITTED	6 880 250	6 880 250	6 880 250	6 880 250	6 859 080
ACTUAL USAGE BY SAUE	213 124	207 102	249 298	247 553	214 028
Incl. from Cambrian-Vendi aquifer	196 790	183 261	221 389	233 682	166 770
MAXIMUM VOLUME PERMITTED	460 250	460 250	460 250	460 250	474 500
ACTUAL USAGE BY TISKRE		5 720	33 266	40 813	39 661
MAXIMUM VOLUME PERMITTED		65 700	65 700	65 700	65 700
ACTUAL USAGE BY HARKU SETTLEMENT			20 810	32 308	6 372
MAXIMUM VOLUME PERMITTED			21 850	51 100	51 100

# USAGE OF WATER RESOURCES

## LEAKAGES

Another important aspect of water usage is the reduction of water losses in the network. By the end of 2008 the Company achieved a leakage level of 17.25%, which is better than the Company's commitment in the Services Agreement.

Quick discovery and liquidation of leakages are instrumental in retaining the leakages level reached and in reducing it further. Daily work is supported by an updated water supply network information system, network zoning and distance reading system as well as special equipment for finding the leakages. In order to achieve the abovementioned result, new equipment for leakage detection and remote reading was obtained, the remote control system was upgraded and leakage teams were equipped with new vehicles.

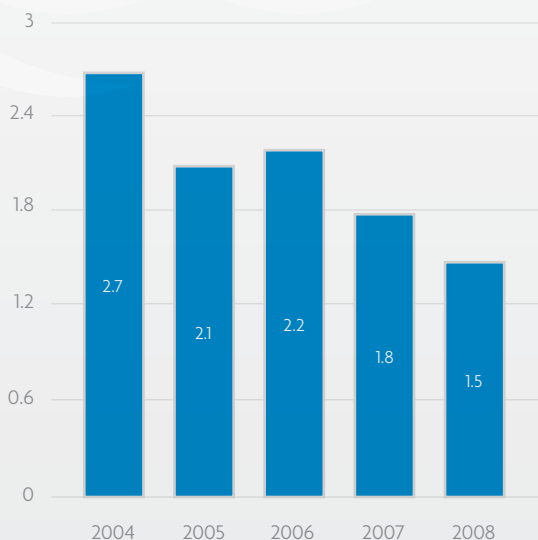
### Leakages level

2004 – 2008, in percentage terms



### Average time for liquidation of leakages

2004 – 2008, in days



The Company will continue work in 2009 to maintain and further reduce the leakages level in order to achieve the optimum leakages level. The optimum leakages level is considered to be the level where the further reduction of leakages would cost more than water production. Factors such as the cost of finding and repairing leakages and the cost of water production are taken into account in calculating the optimum leakages level.

The optimum leakages level calculation made for Tallinn shows that the suitable indicator in our conditions falls within the range of 15-18%. Company specialists have also studied the leakages related experience of our close neighbour Helsingin Vesi OY, whose leakages level is ca 17%.

## WATER METERING

All customers of the Company have been equipped with water meters. In total over 20 000 water meters have been installed to customers' connection points, facilitating the reaching of more accurate accounting for the usage of water resources.

Starting from 2005 we have taken into use the more reliable and accurate single jet class C water meters. As a result, the number of expert analyses ordered by customers for verifying the accuracy of the water meters has also decreased - while a total of 540 expert analyses were carried out in 2007, this number dropped to 391 in 2008.

The Company has the obligation to replace water meters every two years and the replacement of water meters takes place on the basis of a respective programme. The 2008 objective was to replace 9 500 water meters, which was achieved.



# WASTEWATER COLLECTION



**MEELIS ENOK**  
Controlroom Chief Specialist

The main measures for ensuring the collection and discharge of wastewater are linked to preventive flushing of wastewater networks as well as sewerage and storm water networks reconstructions and extensions, additionally wastewater concentration levels are regularly monitored in order to prevent failures of the treatment process.

# WASTEWATER COLLECTION

## CLEANING AND MAINTENANCE OF THE WASTEWATER NETWORK

The purpose of wastewater network cleaning is preventive maintenance in order to avoid flooding and reduce blockages. At the same time it must be noted that pressure washing may not directly reduce the number of blockages as it depends on various factors.

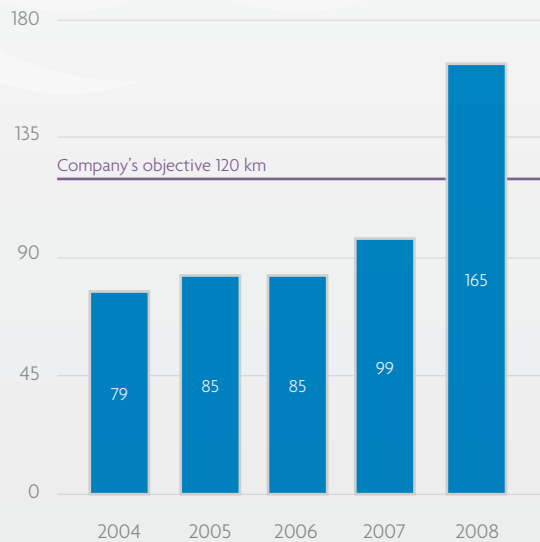
Blockages are mainly caused by sediments settling in wastewater pipes. The lower water consumption of recent years has resulted in smaller wastewater flow amounts and flow speeds, which in turn increases the risk of blockages. Additionally the sewerage network extension should also be taken into account when assessing the total number of blockages.

The Company employs three jetting and suction trucks for flushing the network. The newest of them is a recycling combination jetting and suction truck, unique in Estonia, which was taken into operation in 2007. For flushing the network a flow speed is first created with high pressure, flushing sediments into a cesspit. Sediments are thereafter collected into the jetting and suction truck and transported to the wastewater treatment plant. The recycle combination jetting and suction tank allows the repeated use of the water necessary for flushing.

The length of network flushed has increased each year and considerably more flushing was carried out in 2008, covering a total of 165 km. The number of blockages has reduced compared to previous year.

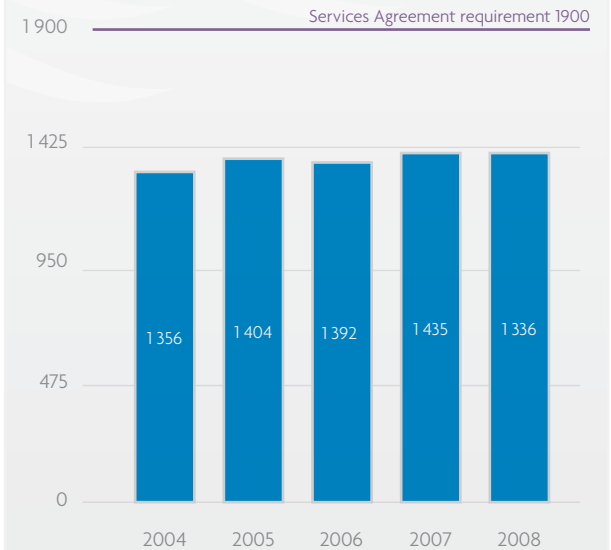
### Wastewater network flushed

2004 - 2008, km



### Number of blockages

2004 - 2008



# WASTEWATER COLLECTION

## WASTEWATER NETWORKS RECONSTRUCTION AND NETWORK EXTENSIONS

In 2008 the Company renovated the existing wastewater network and constructed new sewerage and storm water systems.

In 2008 the majority of wastewater network extensions were carried out in the districts of Nõmme, Kristiine, Haabersti and Pirita. The bulk of storm water network construction activities took place in Nõmme, Kristiine and Haabersti.

## WASTEWATER AND STORM WATER NETWORKS RECONSTRUCTION AND EXTENSIONS 2004-2008, km

	2004	2005	2006	2007	2008
Reconstructions	5.2	5.3	5.6	5.2	5.9
Wastewater network extensions	7.5	18.5	6.8	13	34
Stormwater network extensions	1.9	10.8	6.3	11.5	14

## CONTROLLING OVERPOLLUTION CAUSED BY CUSTOMERS

In order to ensure acceptable concentrations of pollution in the wastewater reaching the wastewater treatment plant, the Wastewater Inspectorate of the Company regularly monitors and checks the compliance with regulatory requirements at (industrial) commercial sites where wastewater is discharged into the public sewerage system. The main part of the industrial wastewater in the sewerage system is comprised of wastewater from the food processing industry.

The Wastewater Inspectorate has the right to take wastewater samples in order to identify overpollution caused by customers.

Based on the results of wastewater sampling the pollution group is determined, providing the Company with the right to charge the customer for over pollution fee. In 2008, 118 customers who had caused overpollution were identified and 1 224 over pollution invoices were submitted to them.

Information on the average pollution indicators of major industries is also regularly submitted to Harju County Environmental Service.

## STORM WATER OUTLETS

In 2008 the Company monitored, pursuant to the requirements set forth in the water permit, 16 storm water outlets, the largest of which are the Lasnamäe, Harku and Mustoja outlets.

Samples for determining pollutants are taken regularly from stormwater outlets pursuant to the sampling procedure determined in the special use of water permit HR01037. Upon agreement with local government four storm water outlets have been equipped with local treatment facilities such as sand- and oil traps, in order to further improve the treatment process. Maintenance and cleaning of traps takes place regularly once a month.

The requirements set forth in the water permit were met in 2008.

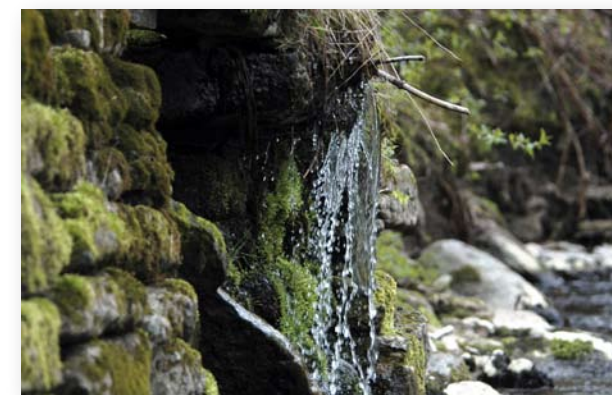
In total 5 414 016m<sup>3</sup> of stormwater, carrying pollutants to the environment, were discharged through these outlets in 2008. The increase in pollutants was primarily caused by the fact that more pollutants were „flushed“ into the sewerage network with a larger quantity of storm water. Pursuant to Environmental Charges Act pollution charge was not applied.

## STORM WATER VOLUME 2004-2008, thousands m<sup>3</sup>

	2004	2005	2006	2007	2008
Storm water volume	6 345	4 206	3 033	5 180	5 414

## POLLUTANTS FROM THE MAIN OUTLETS 2004-2008, tons

	2004	2005	2006	2007	2008
Suspended solids	91	60	43	89	109
Oil products	7.2	4.8	3.4	3.6	4.5



**SVEN MILLER**  
Catchment Area Technical Specialist

# WASTEWATER TREATMENT



**EVELIN MCQUAY**  
Customer Delivery Manager

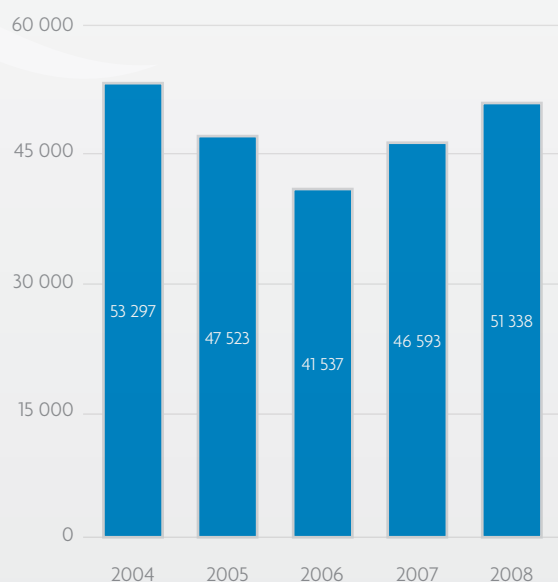
# WASTEWATER TREATMENT

## WASTEWATER TREATMENT RESULTS

51 338 thousand m<sup>3</sup> of wastewater was treated at Paljassaare Wastewater Treatment Plant in 2008. Compared to 2007 the wastewater volume grew mostly on account of a rainy late autumn and as a result of connecting new sewerage network extension areas.

### Treated wastewater volume

2004-2008, thousands m<sup>3</sup> / year



The quality of water discharged to the sea is set by legislation and the special use of water permit HR01037. The concentration of pollutants in sewage led to the treatment plant and in the wastewater led from treatment, as well as the efficiency of the treatment process are monitored in order to assess wastewater quality. The following are the more significant indicators monitored:

- Biological oxygen demand (BOD<sub>7</sub>) shows the amount of oxygen required for the defined biological decomposition of organic matter in the course of 7 days;
- Total phosphorus (P<sub>tot</sub>) and total nitrogen (N<sub>tot</sub>) are elements contained in nutrient salts, which increase the growth of plankton in water. If the content of nutrient salts is too high, such growth can be so strong that the oxygen is used up and a shortage of oxygen arises;
- Suspended solids (SS) shows the volume of solid matter in water which is caught in a filter with a defined mesh size;
- Chemical oxygen demand (COD) is a measure of the decomposition of organic matter, measured as the consumption of oxygen in chemical oxidation of all organic matter in water;
- Oil products show the amount of light (like petroleum) and heavy (like heavy fuel oil) oil products

The concentration of pollutants in incoming wastewater has increased over the recent years. In 2008 the pollution amounts of all pollution indicators except oil products increased. Increased pollution volumes are probably caused by the higher annual precipitation of 2008, causing the storm water to also “flush” pollutants from roads into the sewerage system.



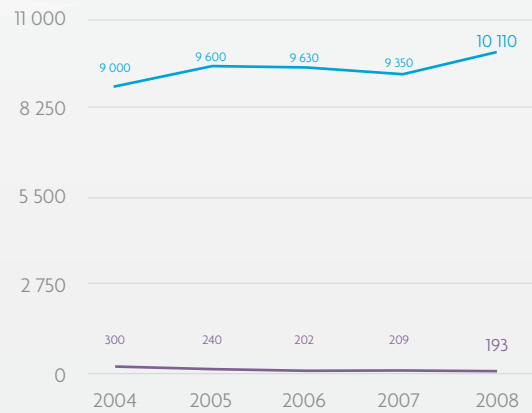
**KÄTLIN ALAMETS**  
Chief Specialist in Investments

# WASTEWATER TREATMENT

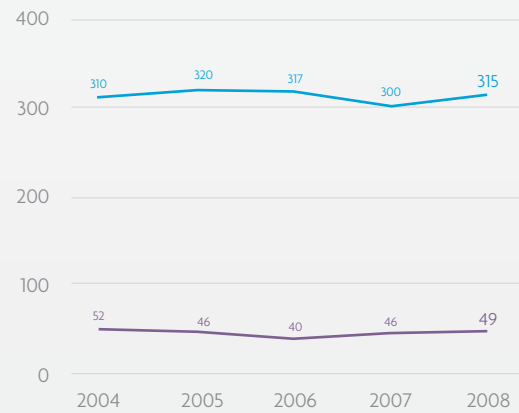
## Amounts of pollutants coming into the Treatment Plant and discharged into the sea

2004-2008, tons

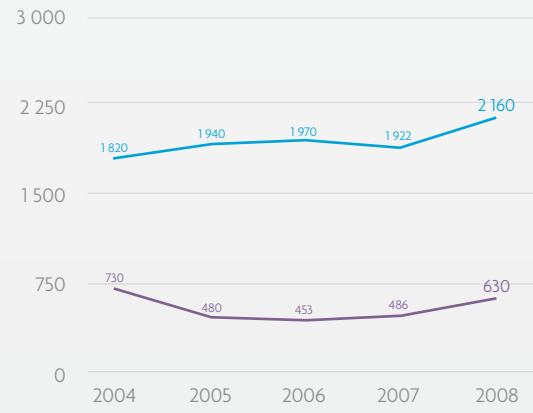
BOD<sub>7</sub>



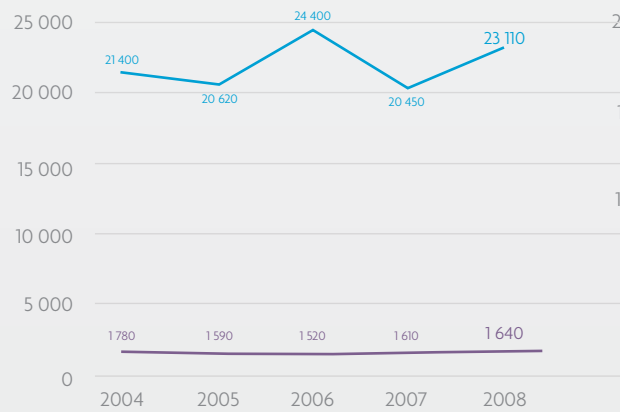
P<sub>total</sub>



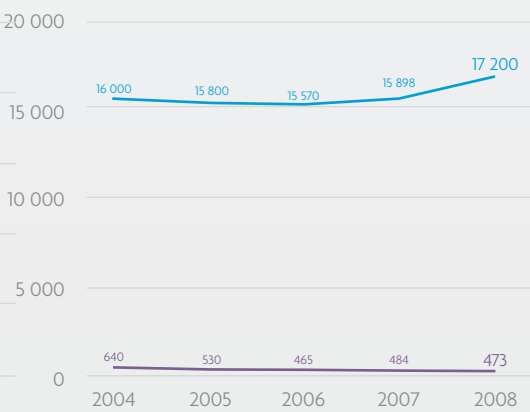
N<sub>total</sub>





COD



SS



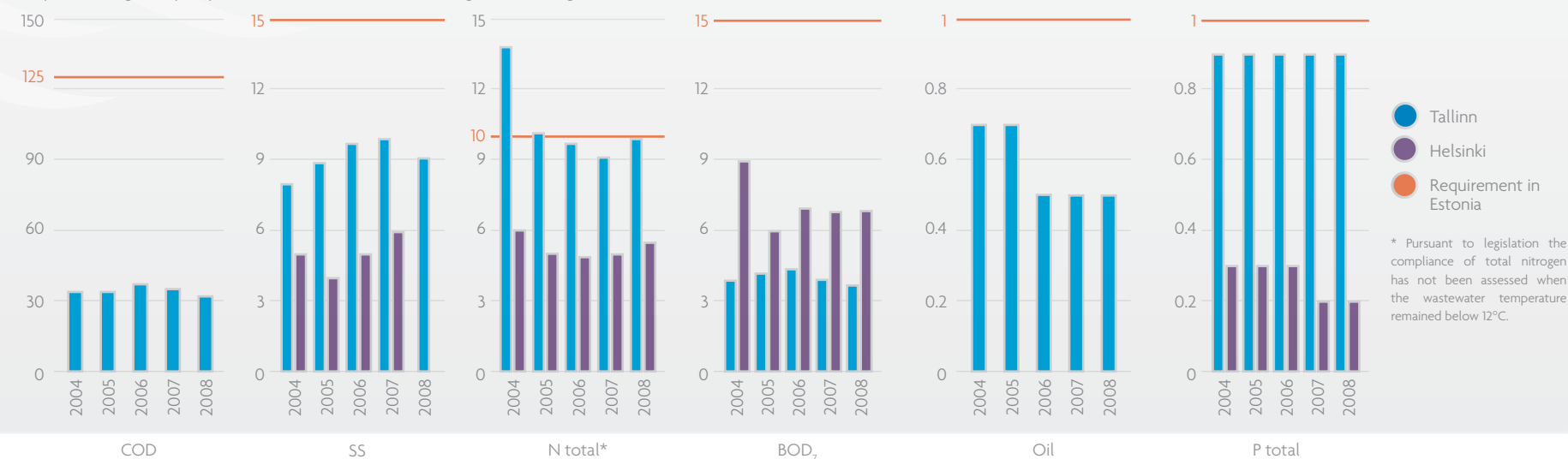
 Incoming pollutants  
 Pollutants discharged into the sea



# WASTEWATER TREATMENT

## Average pollution indicators in treated wastewater 2004-2008

compared to regulatory requirements and the results of Helsingin Vesi OY, mg/l



## Wastewater Treatment Plant treatment efficiency 2004-2008

in percentage terms, compared to the regulatory requirements, Estonia's average results\* and the results of Helsingin Vesi OY



# WASTEWATER TREATMENT

The 2008 treatment results were broadly similar to those of previous years. The required quality of treated effluent continued to be met with full compliance for all parameters for the year and all requirements set with the special use of water permit were met.

Despite the high treatment efficiency that was achieved through good operation, the stretch target for the nitrogen limit allowed in treated effluent was not achieved in quarters II and IV. However, compliance for total nitrogen as an annual average was achieved as required by the law.

In 2008 operation was continuously improved in all stages of the treatment process in order to achieve maximum treatment results despite increasing pollution loads and the changing characteristics of wastewater, namely a decrease in the carbon/nitrogen ratio important for denitrification.

Considering the Company's growth strategy, the review of the Tallinn Public Water Supply and Sewerage Development Plan, as well as the decision taken by HELCOM to lower the limit value of phosphorus by 50%, the Company has started mitigating the quality risks by undertaking a preliminary design for an additional stage of the treatment process for intensified nutrient removal. The design will be completed in 2009.

The treatment results are also comparable to those of larger Estonian water companies and our close neighbour Helsingin Vesi OY. However, differences in the conditions of pollution creation in settlements, in the treatment technology and, in the case of Helsinki, also in the regulatory environment must be taken into account when comparing the figures.

The treatment results of 2008 are also in compliance with the HELCOM requirements, which are similar to the requirements set by legislation. The Helsinki Commission, or HELCOM, organises intergovernmental cooperation between countries located at the Baltic Sea in order to protect the sea environment of the Baltic Sea from all sources of pollution.



**SVEN MILLER**  
Catchment Area Technical Specialist

## OUTLETS TO THE SEA

Unlike in 2007, when wastewater untreated due to extraordinary weather conditions was discharged to the sea, over 12 000m<sup>3</sup> of highly diluted wastewater was conducted to the sea on one occasion in August 2008. The wastewater discharged was highly diluted with storm water and the discharge occurred as a result of exceptionally heavy rainfall over two days when there was a risk of wastewater flooding parts of the City.

Due to heavy downpours on single days in January, June, July and August, when the shock loads exceeded the biological treatment capacity, over 61 000m<sup>3</sup> of highly diluted wastewater that underwent partial treatment was also discharged to the sea.

## ENVIRONMENTAL CHARGES

The Company has the obligation to pay a pollution charge for pollutants discharged to water bodies. Taxable pollutants contained in treated effluent and storm water, which are established for the specific outlet in the special use of water permit, are included in the pollution charge calculations.

Both the receiving water coefficient of the specific outlet as well as compliance with the pollutant limit value in effluent are taken into account in pollution charge calculations.

In case the limit value is exceeded, a ten-fold pollution charge is set for the exceeding amounts of pollutants; if the pollutant levels remain below the limit value or are equal to it, legislation foresees a possibility to apply for a 50% reduction of the pollution charge. A reduction of the pollution charge is only possible when the results of all outlets comply with the water permit requirements.

In 2008 the pollution charge amounted to 5.0% of operating expenses compared to 2.4% in 2007. The increase in the share of pollution charge when compared to the previous year is primarily related to exceeding the nitrogen limit, when in two quarters it was not possible to apply for a 50% reduction of pollution charge. Under the law the pollutant charge rates also increased by 20% in 2008.

## WASTEWATER TREATMENT PLANT OVERFLOWS 2004-2008, m<sup>3</sup>

	2004	2005	2006	2007	2008
Untreated wastewater discharged to the sea	43 000	131 000	0	0	12 489
Partly treated wastewater discharged to the sea	1 564 000	42 000	66 000	395 810	61 375

# CHEMICALS HANDLING



**OLGA CHISLOVA**  
Chemist in Water Laboratory

The Company uses approximately 450 hazardous and less hazardous chemicals in its operating activities. On the one hand chemicals become hazardous primarily due to their characteristics that pose a danger to the population and the environment, on the other hand, the level of hazardousness depends on the amount of chemical used.

Large amounts of hazardous chemicals are used, above all, at the Company's treatment plants. The amounts of chemicals used at the treatment plants predominantly depend on the volume and characteristics of the water reaching the plants, which, in turn, depend on weather conditions in the case of surface water and on the level of pollution in the case of wastewater.

# CHEMICALS HANDLING

## Usage of water treatment chemicals

2004-2008, in tons



## Average usage of water treatment chemicals

per unit of production 2004-2008, g/m<sup>3</sup>



## WATER TREATMENT CHEMICALS

### CHLORINE

Under the Chemicals Act AS Tallinna Vesi has been classified as a category B company with a risk of a major accident due to the large amounts of chlorine used in the water treatment process.

In the water treatment process water is disinfected, so that the water would be safe to human health. The most common disinfectant in use is chlorine, which is effective and has a longer-term effect in the water distribution network. As a chemical, chlorine that is a poisonous gas, is heavier than air, causes irritation and has a corrosive effect and affects mucous membranes both internally and externally. Thus in the case of a chlorine emergency the people in the affected area may suffer serious damage to health or die.

The likelihood of accidents involving chlorine has been minimised by applying all necessary safety requirements. A new chlorine storage building, which is among the most modern in Europe, was completed at the end of 2003. Since no requirements had been established in Estonia for the construction of a chlorine storage building, the chlorine storage technology is compliant with German design and Finnish construction standards.

A crisis action plan has been put in place in order to be able to liquidate an unlikely but still possible chlorine emergency. In addition, a practical training of chlorine emergency liquidation is carried out in cooperation with the Rescue Centre annually (please also see page 74).

# CHEMICALS HANDLING

## OZONE

The usage of chlorine has decreased considerably over the past decade. The main reason behind the reduction is the replacement of water prechlorination with ozonation. Ozone effectively breaks down organic matter and disinfects water. Ozone is produced locally in the Company and only in amounts needed. Thanks to the closed process and the fact that no stock is kept, the risk for the environment is minimal.

An ambient air pollution permit has been issued to the Company for limiting the residual ozone emissions (see more details on page 58). A thermic destructor of residual ozone has been integrated into the process in order to meet the requirements of the ozone plant pollution permit. With temperature increasing, residual ozone emitted from the system is in turn broken down into oxygen and thus no ozone is emitted into ambient air. 100% of the residual ozone was broken down in 2008.

## COAGULANTS AND POLYMERS

In addition to chlorine, significant amounts of coagulants and polymers, which help to remove the particulate matter, suspended solids, etc. from water, are used in the treatment process. Both coagulants and polymers are used in liquid form. These do not possess as toxic characteristics as chlorine and provided that the safety requirements are met, they do not pose a danger to the environment or the population.

## USAGE OF WATER

### TREATMENT CHEMICALS

Despite the very different characteristics of water and the highly variable weather conditions the usage of chemicals has remained relatively stable. Chemicals usage is directly dependent on the surface water quality. In order to guarantee drinking water quality with the 2008 surface water characteristics (please also see page 18) a significantly higher amount of ozone as well as to some extent more chlorine and coagulant had to be used.



**OLGA CHISLOVA**  
Chemist in Water Laboratory

# CHEMICALS HANDLING

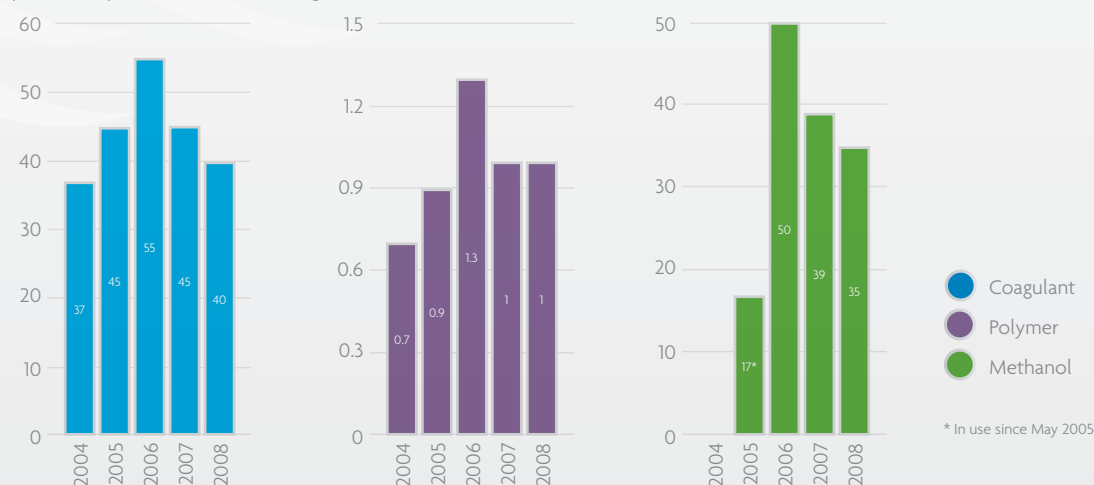
## Usage of wastewater treatment chemicals

2004-2008, in tons



## Average usage of wastewater treatment chemicals

per unit of production 2004-2008, g/m<sup>3</sup>



## WASTEWATER TREATMENT CHEMICALS

### METHANOL

Due to the methanol used in wastewater treatment, the Company has been classified as a hazardous company on the basis of chemicals legislation. Methanol usage was started in 2005 in connection with the nitrogen project in order to increase the efficiency of the nitrogen removal activities of the bacteria participating in the biological treatment process.

### COAGULANTS AND POLYMERS

In addition to methanol, significant amounts of coagulants and polymers are used in the wastewater treatment processes. Coagulants are used for the chemical processing of wastewater to remove phosphorus. Polymers are used to change the qualities of sediment and adding them makes it easier to remove water from the sludge. Provided that safety requirements are followed, these are not hazardous to the environment or the population.

## USAGE OF WASTEWATER TREATMENT CHEMICALS

The results of 2008 demonstrate that the chemicals dosing has been optimised and the same trend continues. Keeping the cost of chemicals stable was in turn aided by the significantly larger share of storm water in wastewater, which resulted in decreased shock loads and lower incoming concentrations.



# CHEMICALS HANDLING

## ENSURING CHEMICALS SAFETY

The likelihood of accidents involving chemicals has been minimised, as the chemicals handling systems are compliant with the security and safety requirements.

The necessary conditions for the storage and use of all chemicals have been created, also the information from the chemicals safety cards, the regulatory requirements and the safety instructions are followed. Chemicals safety cards are available in the Company both electronically as well as in hard copy at the handling sites of the given chemical.

Absorbents and personal protective equipment are also available at the chemicals handling sites. The sites for handling hazardous chemicals are equipped with automated alarm and degassing systems for the early detection and liquidation of possible leakages.



**LIIA KUMM**  
Communications Specialist

The Company has established procedures for ensuring the training of employees and the liquidation of emergencies. Provided that the security and safety requirements are followed, the likelihood of chemicals emergencies with serious consequences to human health and the environment is small (for more information see also pages 46, 47, 48).

As a rule, chemicals emergencies constitute smaller leakages that do not escape the purposefully adapted production premises and do not damage the environment or people.

There were no reported chemicals accidents in 2008, which would have caused damage to people or the environment.

# WASTE MANAGEMENT

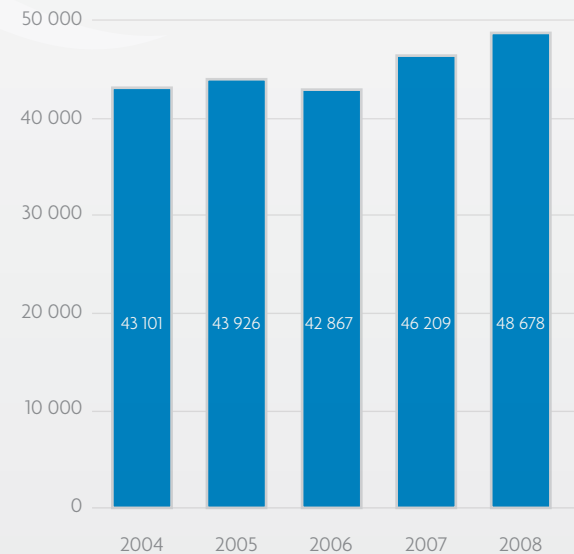


A total of 48 678 tons of waste, which is more than during the previous years, was produced in the Company in 2008. Most of the waste produced is non-hazardous waste.

The increase in the amount of waste in 2008 is primarily linked to the increase in the amount of wastewater sludge and waste produced in networks' maintenance works.

## Waste produced

2004-2008, tons



# WASTE MANAGEMENT

## WASTE RELATED TO WASTEWATER TREATMENT

The largest share, i.e. over 70% of non-hazardous waste is made up of wastewater sludge as a by-product from the wastewater treatment process. Other treatment process related waste such as waste from screens and sand traps' sludge is also produced in significant amounts.

The amount of sludge, but also of waste from screens and sand trap grids, depends directly on the amount of incoming wastewater, the weather conditions and the efficiency of the city's road cleaning services. The amount of sand reaching treatment facilities has more than doubled compared to recent years, indicating shortfalls in the condition of streets.

All sludge is reused (please see page 52), the Company stopped depositing it to landfill in 2003. In addition to wastewater sludge processing, possibilities for additional treatment of other waste created in wastewater treatment and reduction of waste going to landfill are explored.



**OLGA CHISLOVA**  
Chemist in Water Laboratory

## TYPES AND AMOUNTS OF THE MORE SIGNIFICANT WASTE 2004-2008, tons

TYPE OF WASTE	2004	2005	2006	2007	2008
Mixed municipal waste	151	156	149	134	115
Paper and cardboard	12	11	11	14	14
Packages	1.7	1	1.4	2	4
Biodegradable waste					2.5
Waste from screens	174	273	280	275	286
Wastewater sludge	35 770	36 404	35 434	33 834	35 691
Sandtraps grid	715	319	288	957	1 105
Excavated stones and soil	6 126	6 000*	6 000*	10 432	10 334
Asphalt waste	83	81	301	489	1 022
Mixed building waste	1	8	209	31	33
Concrete and bricks	17	34	36	8	48
Metal scrap	0	118	39	28	14
Hazardous waste	4	4	4	3.5	5
Other waste	46	517	115	1.5	4.5
<b>TOTAL</b>	<b>43 101</b>	<b>43 926</b>	<b>42 867</b>	<b>46 209</b>	<b>48 678</b>

\* Estimated volumes

\*\* Possible to reuse

In 2007 a new sludge screen was installed to the reconstructed sludge treatment building, enabling the removal of finer waste from the sludge. The sludge screen has functioned efficiently, reducing considerably the number of interruptions in the process related to the maintenance of jammed equipment.

The possibility of washing screen waste and sand traps' sludge produced during mechanical treatment prior to transportation to landfill was also considered.

In 2008 one screen waste press with a washer was installed for testing at the screens used for removing larger waste. Testing showed that it is reasonable to systematically regulate the volume of water required for washing the waste and it was decided to combine the employment of waste presses with washers with the entire mechanical treatment reconstruction project. The planning of this project, aimed at reducing the volume of waste and increasing the efficiency of mechanical treatment, was initiated in 2008 and the works will continue in 2009.

# WASTE MANAGEMENT

## EXCAVATION WASTE

Excavated soil and stones form the bulk of the waste produced at networks maintenance and repair works, the amount of which has been relatively similar over the past two years. In connection with the amendments to the requirements of local government excavation regulation and supervision in May 2008, which set an obligation for performers of excavation works to carry out asphalt restoration works to a larger extent and also due to excavation works on a couple of major sites the amount of asphalt waste has increased significantly in 2008. Starting from 2007 the Company has two stable partners for managing excavation waste, organising the further treatment of waste and its reuse at different construction sites as well as submitting data on the waste.

## SORTED OFFICE WASTE

In 2008 the Company continued to separate paper and cardboard as well as packages from mixed municipal waste, in order to allow further recycling and reuse. The proportion of electronic bills to customers was increased and double-sided printing was made automatic, where possible, in order to reduce the amount of paper used.

In 2008 the Company started to collect biodegradable waste separately from mixed municipal waste in order to ensure compliance with legislation.



**MARGUS MARIPUU**  
Water Treatment Process Manager

## HAZARDOUS WASTE

The share of hazardous waste of all waste is small, below 1%, and its amounts have remained stable over recent years. The largest category of hazardous waste is old oil, which is the result of maintenance works on machinery and equipment.

In 2008 the amount of hazardous water created was somewhat larger than previously. In connection with large-scale maintenance works of the equipment in treatment plants, more waste oil and waste containing oil was created.

Similarly to the recent years, the proportion of reusable waste from ordinary waste is over 90%, with both sludge reuse and reusable waste delivered to partners taken into account.

## SLUDGE REUSAGE

The main part of recycled waste was made up of wastewater sludge. Sludge mixed with peat, i.e. the sludge mixture, can be used for landscaping and horticulture. Sludge mixture is prepared on 14ha of composting fields constructed on the territory of the wastewater treatment plant over the period of 2004-2007, a part of the sludge is also transported to the Company's field in Liikva.

The Wastewater Laboratory monitors the sludge mixture quality on a regular basis. Analyses results confirmed the compliance of the sludge mixture with regulatory requirements in force. 15.250 tons of sludge mixture was sold to customers in 2008.

The completion of the reconstruction of the sludge treatment plant in 2007 also contributed to more efficient wastewater sludge processing in 2008.

## RESEARCH INTO SLUDGE REUSAGE POSSIBILITIES

Already in 2002 studies into the different possibilities of using wastewater sludge were conducted. The main purpose of the studies conducted to date was to evaluate different options for the use of sludge in the afforestation and recultivation of exhausted and closed quarries and in the afforestation of alvars. Any environmental impact on surface water and ground water, resulting from the use of sludge in afforestation, was also studied.

Based on the studies to date, the peat soils of bogs are the most suitable soil for afforestation. The tolerance of different tree species towards the amount of sludge used differs, being higher among bigger plants with a stronger root system. The main factors hindering tree growth in bogs are the insufficient air content of the soil, an excess amount of sludge as well as wild animals, for whom the trees in areas processed with sludge serve as a tasty forage.

# WASTE MANAGEMENT

A study into alternative possibilities for sludge usage was started in 2007 as a continuation of the forest experiments project. In addition to afforestation, another possible area for sludge usage is the process of peat bogs recultivation.

In 2008 a memorandum of understanding was signed with State Forest Management Centre (RMK) with the aim to use wastewater sludge in the afforestation of exhausted and unusable peat production areas. The cooperation agreement refers above all to two large areas previously used for peat production and located on the territory managed by State Forest Management Centre in Ida-Viru and Pärnu County. The total area of exhausted peat production areas in the said areas is approximately 2000ha. The cooperation will continue in 2009.

## WASTE PERMITS

Since sludge usage qualifies as sludge processing and reusage, the Company has obtained waste permits in accordance with the requirements of the Waste Act.

First waste qualifying as domestic wastewater treatment sludge is created, which will be processed, i.e. stabilised in the digesters. Processing yields stabilised waste, which in turn will be reused – composted on the composting fields. Thus the wastewater sludge is processed into a sludge mixture via two reusage processes.

PERMIT	VALID UNTIL	DESCRIPTION OF WASTE PERMIT
Waste permit no. L.JÄ.HA-31326	08.09.2009	Issued for recycling stabilised waste in Paljassaare as regards part of stabilised waste, domestic wastewater sludge and biodegradable waste.
Waste permit no. L.JÄ.HA-34941	30.12.2009	Issued for recycling stabilised waste and for transporting waste to Liikva as well as for recycling biodegradable waste.

The conditions of waste permits related to sludge recycling were met in 2008.

## COMPLIANCE WITH PALJASSAARE WASTE PERMIT L.JÄ.HA-31326, tons

TYPE OF WASTE	PERMITTED	ACTUAL				
		2004	2005	2006	2007	2008
Domestic wastewater treatment sludge	300 000	35 770	36 404	35 434	33 834	35 691
Stabilised waste	40 000	30 244	24 547	25 935	24 429	26 270
Biodegradable waste	10 000	0	0	0	0	0

## COMPLIANCE WITH LIIKVA WASTE PERMIT L.JÄ.HA-34941, tons

TYPE OF WASTE	PERMITTED	ACTUAL				
		2004	2005	2006	2007	2008
Stabilised waste	15 000	5 526	8 857	9 499	9 405	9 421
Biodegradable waste	3 000	0	0	0	0	0

# ENERGY CONSUMPTION



## ELECTRICITY CONSUMPTION

The bulk of electricity consumed is used for running the core processes of the Company – in the Water and Wastewater Treatment Plants, and in the Networks to operate pumping stations and other equipment.

The total consumption of electricity by the Company has increased over recent years, mostly due to updating the technological process of wastewater treatment and due to extending the operating area of the networks' pumping stations. At the same time the 24/7 operation of equipment necessary for achieving the needed service level must be ensured. Electricity consumption is also significantly affected by the weather, e.g. a constant period of high precipitation enables steady pumping without causing any energy peaks due to frequent restarts.

Electricity generated from biogas compensates for the use of grid electricity to a certain degree.

The increase in energy demand linked to the new technology used in wastewater treatment is also illustrated by electricity consumption per unit of wastewater treated, which has been higher since the reconstruction of the process, but has stabilised over the last couple of years.

Electricity consumption per treated drinking water unit is mainly affected by the production of ozone.



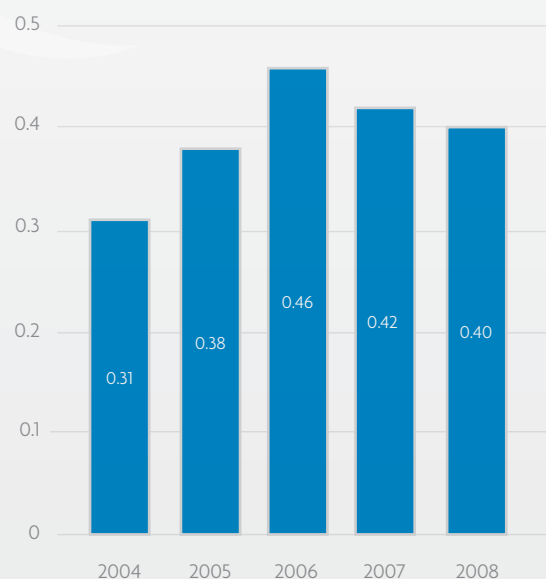
# ENERGY CONSUMPTION

## ELECTRICITY CONSUMPTION 2004-2008, kWh

UNIT	2004	2005	2006	2007	2008
Water Treatment	11 206 594	10 968 383	10 173 744	10 389 470	10 237 200
Wastewater Treatment	16 478 684	17 599 611	18 803 680	19 443 371	20 167 157
Including electricity from biogas	889 560	2 330 691	1 190 978	1 159 057	1 390 471
Networks pumping station	6 000 153	5 554 768	5 636 745	5 588 984	6 213 493
Other	870 376	981 480	982 193	994 502	924 809
<b>TOTAL</b>	<b>34 555 807</b>	<b>35 104 242</b>	<b>35 596 362</b>	<b>36 416 336</b>	<b>37 542 659</b>

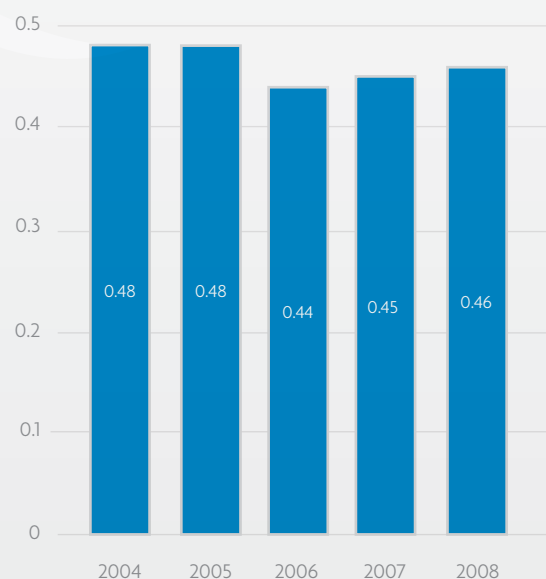
### Electricity consumption per unit of wastewater treated

2004 - 2008, kWh/m<sup>3</sup>



### Electricity consumption per unit produced at the Water Treatment Plant

2004 - 2008, kWh/m<sup>3</sup>



**ELMO KORTEI**  
Automatician

Other intra-Company electricity consumers, such as the head office, support services, asset management workshops, etc. are mostly located on the Ädala site territory.

In order to monitor and reduce energy consumption in the offices, it was decided that the head office will take part in the 2007-2008 European energy saving competition Energy Trophy+, led in Estonia by the Tallinn Centre of the Stockholm Energy Institute. The objective of the competition was to reduce energy consumption via non-monetary means, i.e. predominantly by changing the behavioural habits of employees and work organisation.

The Company became third at the competition, and managed to reduce the energy consumption per employee in the head office compared to the base year. Regulating the heating and ventilation systems had the greatest impact on the reduction of consumption, whilst additional lighting and new air conditioning had to be installed in several offices in order to ensure compliance with the work environment requirements. Energy saving tips were also introduced to employees via the internal newspaper.

# ENERGY CONSUMPTION

## GREEN ENERGY

An excellent opportunity for reducing damage to the environment is the use of green energy. For the Company this means maximum usage of biogas created as a result of sludge fermentation in sludge handling in other processes.

An intra-Company study was carried out in 2008 in different units to identify additional opportunities for the use of wind and hydro energy. Regarding wind energy it was concluded that the Company should seek contacts with the developers of wind parks already under planning, as not enough land is available on the Company's territory in locations suitable for wind power plants (e.g. next to water reservoirs). Paljassaare Wastewater Treatment Plant is also unsuitable, as it is located in a densely populated area and adjoins a bird conservation area. For details on hydro energy, please refer to page 56.

## BIOGAS REUSAGE

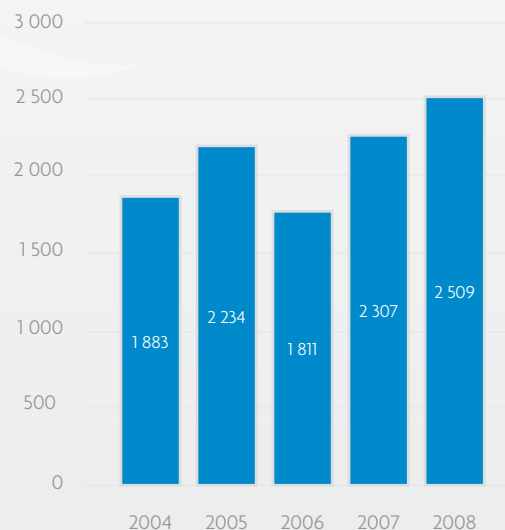
In 2008, a total of 2 508 537 m<sup>3</sup> of biogas was produced in Paljassaare Wastewater Treatment Plant digesters, which is the best result over recent years. Biogas is directed to an air blower operating on a gas engine, which produces air necessary for the biological treatment bacteria, or to the boiler house for heat production.

Over recent winters the production of biogas has been hindered by wastewater collected from the streets, which has mixed with snow clearing chemicals and causes disruptions in the digesters' fermentation process. In 2008 more biogas was produced thanks to an operating tactic reducing these disruptions, which helped to keep the sludge fermentation process in the digesters more stable.

In 2008, 81% (2 044 378 m<sup>3</sup>) of biogas was used for operating the gas engine or for heat production. A part of the biogas produced was burned in connection with emergency interruptions of the gas engine.

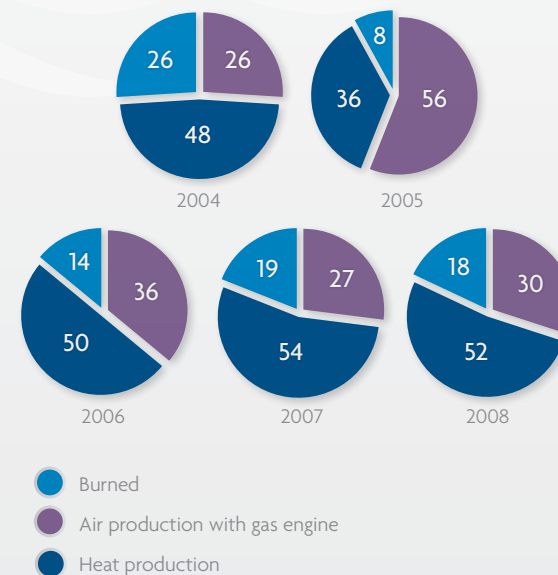
### Biogas production

2004 - 2008, thousand m<sup>3</sup>



### Biogas usage

2004 - 2008, %



## OPPORTUNITIES FOR PRODUCING HYDRO ENERGY

Regulating the water regime of the catchment system (please also see page 34), the damming up of rivers and the availability of excess water resources in years of average precipitation have created the conditions for producing hydropower. Since 2003 a hydropower plant is in use on Kaunissaare dam, operated by OÜ Kaunissaare Hüdrolektrijaam. Starting from the end of 2008 a hydropower plant is also operating on the Soodla water reservoir dam, which is operated by OÜ Uus Energia. The maximum capacities of these hydropower plants are ca 260kW and 170kW respectively.

Biogas contains about 70% of methane. The methane contained in biogas is explosive and it is one of the gases recognised as having a negative impact on the ozone layer.

No biogas related accidents took place in 2008.

# ENERGY CONSUMPTION

## FUEL CONSUMPTION

Altogether the Company has approximately 140 vehicles for carrying out different operating tasks, over half of them use petrol for fuel. The biggest group of vehicles is passenger cars and operating vehicles, which include minivans and team vans. A smaller group of vehicles includes special purpose vehicles such as jetting and suction trucks, water tank lorries, tractors, trailers, water tanks and trucks.

Fuel consumption has increased somewhat, compared to the previous year. The growth in consumption has been influenced by increased petrol consumption, as well as by the fact that

employees must drive more due to the Company expanding the service area and providing new services. At the same time mobile workstations have been established in the Networks Department in order to reduce the mileage when performing maintenance works. The use of environmentally friendlier fuel has decreased compared to the previous year, the primary influence on consumption being the higher price of this fuel.

The Company controls fuel consumption primarily through limits set for car users. Options for a more efficient use of transport were analysed in 2008 and the Company has planned activities for the following years.

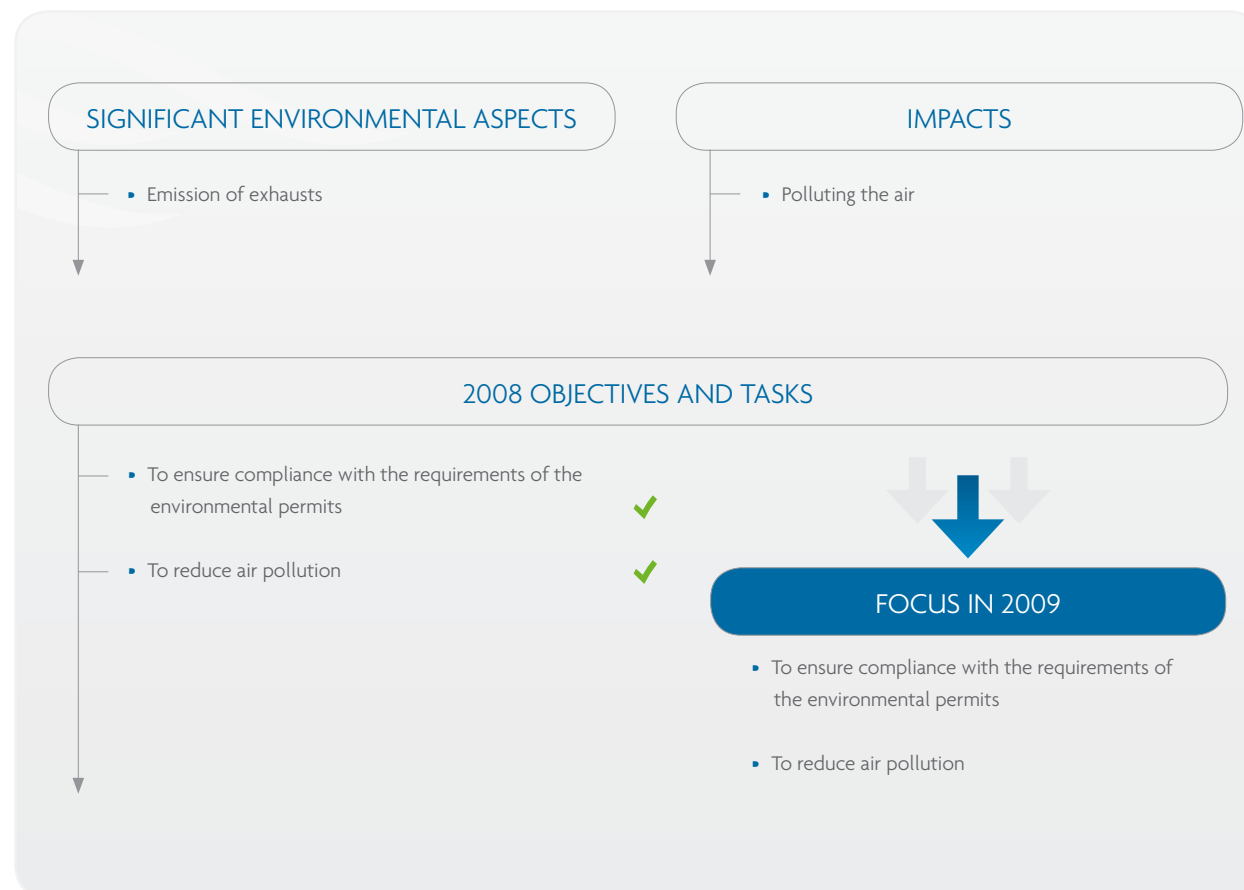


**RUUTA LIIVE**  
Taxes and Statistics Manager

## FUEL CONSUMPTION 2004-2008, in litres

	2004	2005	2006	2007	2008
Petrol	117 932	117 483	123 868	135 251	141 644
Including more environment friendly fuel	3 721	10 557	10 202	8 885	6 782
Diesel	248 899	229 224	216 604	210 827	205 738
<b>TOTAL FUEL</b>	<b>366 831</b>	<b>346 707</b>	<b>340 472</b>	<b>346 078</b>	<b>347 382</b>

# AIR EMISSIONS



In order to reduce ambient air pollution, the Company focuses on limiting the amount of pollutants emitted from Ülemiste and Paljassaare boiler houses, particularly the pollutants of primary importance, such as nitrogen dioxide, carbon monoxide and volatile organic compounds as well as CO<sub>2</sub> greenhouse gas emissions. Also the emissions of ozone produced for drinking water treatment are regulated (please see also page 58).

The Company pays a pollution charge for pollutants emitted into ambient air. In 2008 the charge remained under 1% of the total pollution charge paid.

All conditions set for treatment plants with the ambient air pollution permits were met in 2008.

Exceeding the permitted level of hydrogen sulphide, which was a problem at the Wastewater Treatment Plant in 2007 was caused by to inconsistencies in the calculation method, as the levels were not measured. The calculation method was adjusted with approval of the Ministry of Environment in 2008 to comply with combined sewerage system and the conditions of the permit were met.

PERMIT	VALID UNTIL	DESCRIPTION OF AMBIENT AIR POLLUTION PERMIT
Pollution Permit no. L.ÕV.HA-21334	31.12.2010	Valid for Ülemiste Water Treatment Plant pollution sources – the chimney of the boiler house and the exhaust pipe of the diesel generator. Establishes the list of pollutants emitted into ambient air and the annual permitted emission amounts thereof.
Pollution Permit no. L.ÕV.HA-48701	termless	Valid for Paljassaare Wastewater Treatment Plant pollution sources – the chimney of the boiler house, exhaust pipes, the chimney of the combined heat plant. Establishes the list of pollutants emitted into ambient air and the annual permitted emission amounts thereof.
Pollution Permit no. L.ÕV.HA-21490	31.12.2010	Valid for a pollution source at Ülemiste Water Treatment Plant - the ventilation system of the ozone production plant. Establishes the list of pollutants emitted into ambient air and the annual permitted emission amounts thereof.

# AIR EMISSIONS

## AMBIENT AIR POLLUTION FROM WATER TREATMENT PLANT POLLUTION SOURCES 2004-2008, tons

POLLUTANT	2004		2005		2006		2007		2008	
	Permitted	Actual	Permitted	Actual	Permitted	Actual	Permitted	Actual	Permitted	Actual
Nitrogen dioxide	2.4	1.6	2.4	1.6	2.4	1.9	2.4	1.5	2.4	1.4
Carbon monoxide	1.9	1.6	1.9	1.6	1.9	1.8	1.9	1.5	1.9	1.3
Volatile organic compounds	0.17	0.1	0.17	0.1	0.17	0.12	0.17	0.1	0.17	0.1
Carbon dioxide	1 691	1 483	1 691	1 490	1 691	1 660	1 691	1 360	1 691	1 209
Sulphur dioxide					0.01	0.001	0.01	0	0.01	0
Total solid particles					0.05	0.003	0.05	0.002	0.05	0.002



**MARGUS MARIPUU**  
Water Treatment Process Manager

## AMBIENT AIR POLLUTION FROM WASTEWATER TREATMENT PLANT POLLUTION SOURCES 2004-2008, tons

POLLUTANT	2004		2005		2006		2007		2008	
	Permitted	Actual	Permitted	Actual	Permitted	Actual	Permitted	Actual	Permitted	Actual
Nitrogen dioxide	31.6	11.3	31.6	26.5	29.8	14.2	29.8	14.9	29.8	17.4
Carbon monoxide	216.4	73.7	216.4	190.1	210.1	979	210.1	96.5	210.1	115
Volatile organic compounds	14.4	4.9	14.4	12.7	14	6.8	14	6.4	14	7.7
Carbon dioxide	6 439	3 484	6 439	4 480	4 440	3 438	4 440	4 798	4 440	3 697
Hydrogen sulphide							17.8	18.7	17.8	17.5

# WE DID IT!

EVERY THIRD CHAIR IN AS TALLINNA VESI WAS EMPTY ON THE 3RD OF MAY LAST YEAR.

ONE THIRD OF OUR STAFF DECIDED TO JOIN 50,000 OTHER ESTONIANS AND CLEAN UP ESTONIA OF GARBAGE AND WASTE. WE STARTED WITH OUR HOME, I.E. THE CATCHMENT AREA OF LAKE ÜLEMISTE WITH A TOTAL AREA OF 1800 KM<sup>2</sup>. THIS CATCHMENT AREA PROVIDES WATER TO THE MAIN DRINKING WATER SOURCE OF TALLINNERS – LAKE ÜLEMISTE. THE CATCHMENT AREA OF THE LAKE IS KNOWN FOR ITS NATURAL RECREATIONAL OPPORTUNITIES AS WELL AS BEING A GREAT PLACE FOR EXPLORING THE NATURE, UNFORTUNATELY THIS HAS ALSO BROUGHT ALONG A LOT OF GARBAGE.







IVO LIPP, Head of Network Planning

MARI KURIG, Interpreter-Secretary

# ORGANISATION AND EMPLOYEES

## 2008 OBJECTIVES AND TASKS

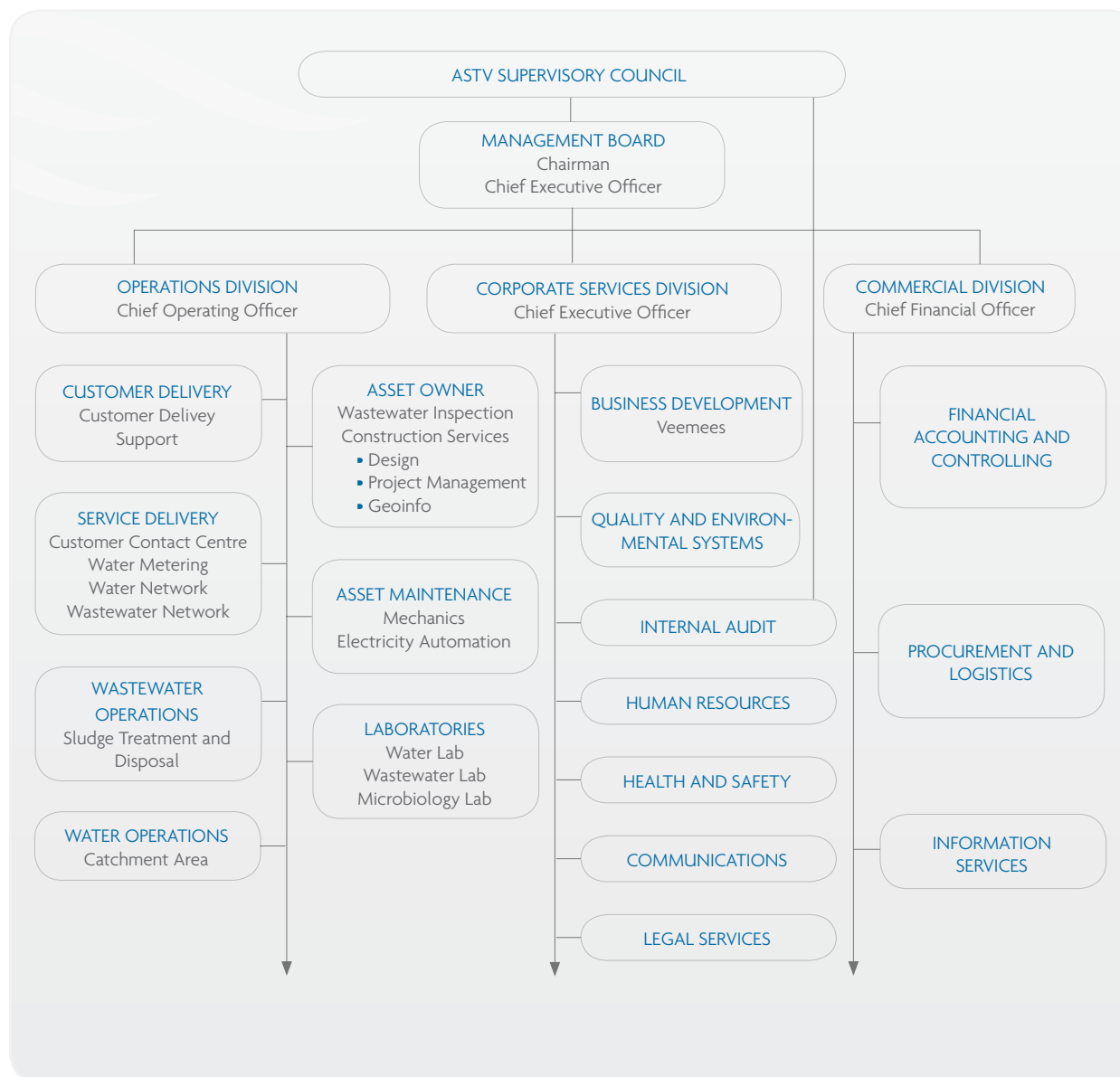
- To increase employee commitment ✓
- To improve the health and safety of the work environment ✓
- To avoid work accidents ✗



## FOCUS IN 2009

- To train and develop the staff to realize their potential
- To reduce employment risks through effective HR planning
- To improve the health, safety and well being of employees
- To improve inter-departmental cooperation

## COMPANY'S ORGANISATIONAL STRUCTURE AT THE END OF 2008



## ORGANISATIONAL STRUCTURE

No significant changes were introduced to the organisational structure in 2008.

# ORGANISATION AND EMPLOYEES

## OUR EMPLOYEES

At the end of 2008 the Company employed 325 employees under permanent employment contracts, two employees were employed additionally under fixed term contracts and 18 under (seasonal) works contracts.

The average age of permanent staff was 45.7 years and the average number of years of employment by the Company amounted to 12.9.

Senior and middle managers include 13 women.

## EMPLOYEE TRAINING IN 2008

Participation in training courses - 3.1 training days per person.  
Training cost per person 3 050 kroons annually.

In addition to regular training programmes the development seminars were organised for all direct managers (60 in total) for implementing the new, performance based remuneration system.

## EMPLOYEE TURNOVER 2008

EMPLOYEE RECRUITMENT		LEAVING TURNOVER	
Internal recruitment	4	Retirement due to age	0
New employees	40	Resigned	12
		Other reasons	13
<b>TOTAL</b>	<b>44</b>	<b>TOTAL</b>	<b>25</b>

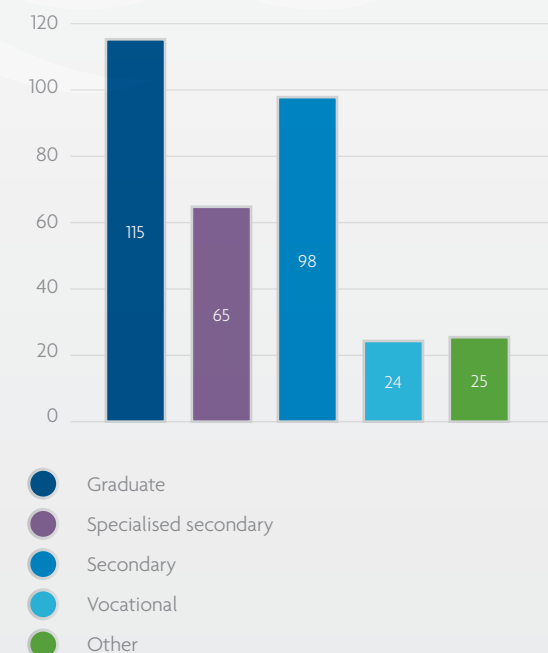
### Employees by position

2008



### Employees by level of education

2008



## EMPLOYEES BY GENDER 2008

MEN	223
WOMEN	104

# OCCUPATIONAL HEALTH AND SAFETY

## CERTIFIED OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM

The Company's activities related to work environment are in compliance with the requirements of both the legislation and the international occupational health and safety management system standard OHSAS 18001.

The work environment managements system is based on evaluations of work environment risks and the execution of activities aimed at preventing or reducing these risks. Work environment is under constant internal monitoring and internal audits of the management system are also carried out (please also see page 31).

The level of occupational safety in the Company is monitored by a number of different authorities. In 2008 the Company was visited twice by the inspectors of the Labour Inspectorate regarding the management of biological agents, a regular control visit by the Rescue Board regarding explosive objects took place and the European region risk engineer from insurance company AIG visited the wastewater treatment plant. No shortcomings were detected as a result of the inspections.

In 2008 there was one work accident, when due to human error an employee fell while riding a bicycle at the Company's territory. As corrective action the work environment risk analysis has been improved and a safety instruction for riding a bicycle has been prepared.

## OCCUPATIONAL HEALTH & SAFETY TRAINING COURSES

The performance and results of work environment related actions are largely influenced by employee awareness, thus a lot of attention is paid to work environment related training.

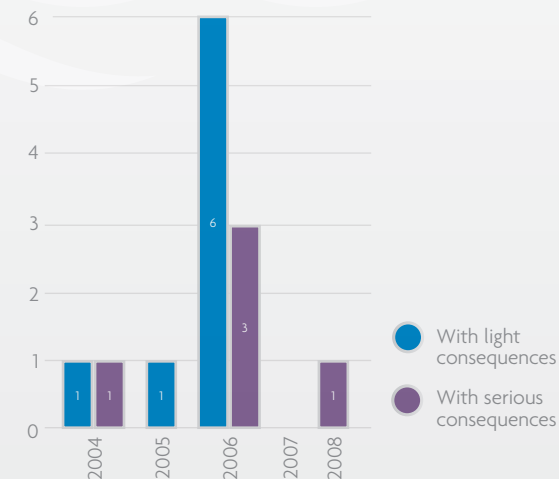
In 2008 the Company continued to carry out the in-house training course series "Change your mindset in safety issues", adapted from similar courses conducted in the Company's parent company United Utilities. This training was also attended by representatives of contractors by the Company's invitation.

In the field of occupational safety regular fire, electricity, chemicals, lifting equipment, pressure equipment and gas works safety training courses, as well as trainings on construction safety and safe driving in the dark and on a slippery road were conducted.

In the field of health, trainings in Russian and Estonian were organised on the ergonomics of office workstations, first aid, occupational hygiene, osteoporosis and HIV awareness.

### Work accidents

2004 – 2008, No. of accidents



# OCCUPATIONAL HEALTH AND SAFETY

## RAISING THE LEVEL OF OCCUPATIONAL SAFETY

Several actions were carried out in 2008 at treatment plants, water and wastewater networks as well as workshops and offices for increasing occupational safety.

Ventilation, noise, vibration, lighting and microclimate were measured in various buildings of the Company. Based on the results the ventilation systems were balanced and renovated, lighting was relocated and replaced. In several departments the ergonomics of computer workstations were improved.

In order to reduce the risk of skidding, the replacement of ladders in sewerage collector shafts with non-slip ladders was continued and at the water treatment plant the slippery treads on staircases and stair platforms were replaced with non-slip ones.

Special attention was paid to the safety of pedestrians and other road users in the area of excavation works in 2008. 147 occupational safety and work environment inspections were carried out by the Health & Safety Department at water and wastewater network field sites, over 90% of the sites received a satisfactory assessment.

## PROMOTING OCCUPATIONAL HEALTH

For the fourth year already the company successfully participated in the “Health Promoting Working Places” project that is aimed at developing a healthy work environment, primarily by changing mindsets and by increasing the involvement of both the employers and the employees.

Employees take regular health checks, as foreseen by law, which provide the basis for making work conditions more suitable where needed. In addition to the procedures foreseen by legislation, the Company provides influenza vaccinations and prophylactic massage. Employees also have the opportunity to visit an occupational health doctor twice per month at the Company's medical room.

The Company supports a healthy lifestyle, for more information please refer to page 82.



**LIIA KUMM**  
Communications Specialist



# EMPLOYEE INVOLVEMENT

Management of the Company has been organised in accordance with the Company's organisational structure, which is described on page 62. The main responsibility for achieving the Company's objectives and ensuring the functioning of work organisation lies with senior management and the heads of structural units. Based on the business planning process the unit managers also involve employees in setting and fulfilling the Company's objectives and tasks. Assessment of the employees' performance is linked to the Company's performance related pay system.

Various matters related to the Company's activities are solved in cooperation with the employees, including issues related to quality, the environment as well as the work environment. The main work formats are meetings on different managerial levels, working groups and project groups, involving appropriate specialists and people responsible for different areas. In addition to acquiring new knowledge, a number of issues related to everyday work are also discussed at training courses and seminars. Employees from different units and managerial levels are also involved in the of management system as internal auditors, an activity that increases employees' awareness about the functioning of the processes of the Company.



RATRACE 2008

The functioning of internal communication and the passing of information to employees is ensured via the monthly internal newspaper INFOTILK, as well as through the Company's intranet and by e-mail. The Company's intranet was thoroughly updated in 2008 with the aim of making it the primary everyday tool for employees. Several options for providing feedback were also added by creating questionnaires and commenting opportunities.

Regular cooperation with the Trade Union and the Work Environment Council helps the Company to better take into account employee's wishes.

The most important aim of employee events is to develop cooperation and communication among the staff through joint activities. Once every year an annual conference intended for all employees takes place, the topic of which is chosen in connection with the Company's objectives. The motto for the 2008 conference was "Me – the Director of My Life!" and the one-day conference focused on explaining the strategic directions of the Company. The organising team of the conference consisted of employees, who were responsible for the entire organisation of the event as volunteers.

In 2008 Tallinna Vesi joined a national cleaning campaign, involving Company's employees in cleaning the surroundings of Soodla reservoir. The Company organised transport, tools and food and nearly one third of the Company's employees (ca 85 people) voluntarily cleaned the surroundings of Soodla and Raudoja water reservoirs.



BALTIC WATERGAMES

In 2008 we continued to gather employees' proposals for better organisation of work, developing of an environmentally friendly mindset or improvement of the work environment into the "Bank of Ideas". The best ideas will be implemented and the people behind them will be recognised by Company senior management. The photographs used for illustrating this annual report are a collection from the Company's photography competition, which was also initiated by our employees.

Specialists responsible for different business areas are involved in the preparation of this annual report and environmental report. The verified report will be available to all employees and employee representatives. In case of any questions the Head of Communications or the Head of Quality and Environmental Systems are prepared to provide information.



# EMPLOYEE COMMITMENT

Since 2006 the employee commitment and satisfaction has been monitored regularly and research company AS TNS Emor has carried survey out each year. The objective of the survey is to determine the commitment of the Company's employees to their work as well as to measure satisfaction with the important factors influencing work motivation.

The survey helps the Company find opportunities to increase employee commitment and thus reach better work results. 65% of all employees, which is a slightly lower participation rate than in 2007, took part in the survey in 2008.

Employee commitment is assessed on a scale of 100, on the basis of a TRI\*M commitment index developed by the company, which also allows comparison with other companies in Estonia and in Europe. The commitment of the Company's employees has increased significantly over the past year, exceeding Estonia's average in 2008 considerably.



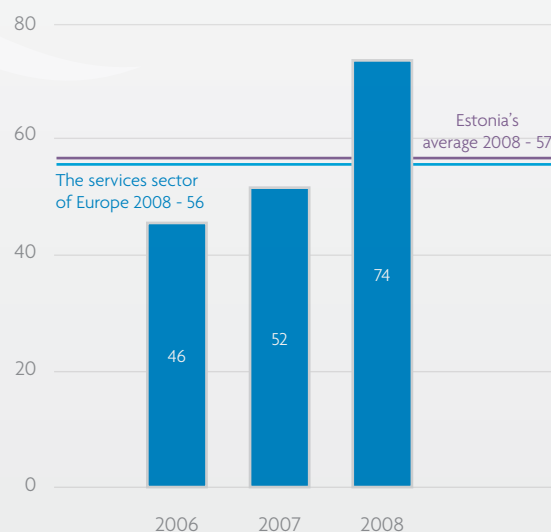
**OLEG TŠAIKIN**  
Specialist in Leakages and Water Quality

## EMPLOYEE SATISFACTION ACROSS DIFFERENT AREAS 2006-2008, ON A SCALE OF 6

AREAS	2006	2007	2008	
In general I am satisfied with development opportunities in the Company	4.1	4.2	4.7	↑
Information on the activities and plans of other units is easily accessible	3.4	3.7	4.3	↑
In general I am satisfied with the Company's management	4.1	4.2	4.7	↑
I receive a fair pay, corresponding to my contribution	3.3	3.8	4.4	↑
My salary is competitive compared to what I could earn elsewhere	2.9	3.5	4.1	↑
Decisions made in managing the Company are reasoned and understandable	4.0	4.2	4.7	↑
Company provides stable and secure employment	4.4	4.7	5.2	↑

### Employee commitment

2004 – 2008, TRI\*M index



Different aspects influencing employee commitment, such as work content and work organisation, development opportunities, management of the unit and the Company as a whole, cooperation, remuneration and fringe benefits, Company values and the employer's reputation, were addressed in the survey. The scores given by employees increased for all these aspects.

The commitment of employees is fostered first of all by the overall satisfaction with the job and the rejoining intention. Recommendation communication and the organisation's success are also relatively highly valued and more so than a year ago. The majority of employees have perceived positive changes during last year. This is in particular associated with the remuneration corresponding to contribution and with the credibility of the senior management.



## EVERY GOOD DEED IS REWARDED!

THE COMPANY'S LONG-TERM EFFORTS WERE REWARDED TWICE LAST YEAR, MAKING US VERY PROUD OF THESE ACHIEVEMENTS. DEMONSTRATING THE COMPANY'S COMMITMENT, AS TALLINNA VESI WON TWO IMPORTANT AWARDS - AS THE MOST RESPONSIBLE COMPANY IN TALLINN AT THE EUROPEAN ENTREPRENEURSHIP DAY AND AS THE BEST ESTONIAN LISTED COMPANY FOR INVESTOR RELATIONS BY INTERNATIONAL INVESTOR RELATIONS' MAGAZINE IR MAGAZINE.

AN INDEPENDENT JURY GAVE BOTH OF THESE AWARDS AND THIS EMPHASISES THE VALUE OF THIS RECOGNITION, GIVING US EVEN GREATER INCENTIVE TO IMPROVE OUR ACTIVITIES FURTHER.





TIIT LAUR, Project Manager and his daughter Marian

# CORPORATE SOCIAL RESPONSIBILITY



Tallinna Vesi has a very close connection with almost a third of Estonia's population, thus the Company perceives the responsibility very clearly and is aware of the impact Company's activities have on the health and quality of life of customers and the entire population.

The Company has taken a serious approach to implementing the principles of socially responsible business. In 2008 the Company continued with integrating this respective way of thinking into the Company's everyday activities and management.

In order to better understand the expectations of various stakeholders of the Company – customers, partners, suppliers, employees, authorities, NGOs – the Responsible Business Forum organised, at the Company's request, a respective study. As a result of the study the vital observations, the Company's strengths, weaknesses, opportunities and risks in the field of corporate social responsibility set forth by the stakeholders were mapped.

## Estonian Responsible Business Index results across areas in comparison with the average of other companies

2007 – 2008, percentages of maximum



As a result of the study the principles of corporate social responsibility (please also see page 9) in the Company were drawn up and activities were planned for the coming years.

At the European Entrepreneurship Day AS Tallinna Vesi was recognised as the most responsible company in Tallinn in 2008.

As in 2007, the Company also participated in 2008 in the formation of the Estonian Responsible Business Index with the purpose of assessing the economic, social and environmental impact of its activities and passing the respective information to its stakeholders and other interested parties.

Experts from the business daily Äripäev, the ESB Ethics Centre and the Responsible Forum Foundation were among the members of the evaluation committee.

In 2008, 49 Estonian companies participated in responsible business index assessment process. The total score of the companies participating in the responsible business index amounted to 60% of the 100% reflecting the ideal situation. The total score of AS Tallinna Vesi amounted to 93% of the possible 100%.

The total score was based on a four-part questionnaire: Company strategy, integration of principles, management of different areas as market place, environment, work environment and community and results assessment, reporting and communication. The Company's area-by-area results considerably exceeded the average indicators of Estonian companies.

# ENSURING CONTINUOUS SUPPLY

## SIGNIFICANT ENVIRONMENTAL ASPECTS

- Suspension of treatment process
- Chlorine leakage
- Polluted surface water in lake Ülemiste
- Too high level of water of Ülemiste
- Breakdown of water catchment facilities
- Polluted ground and drinking water at customer's premises
- Long-term water interruptions
- Large-scale floods
- Interruption in wastewater treatment process
- Insufficient crisis communication

## IMPACTS

- Deterioration of life quality, danger to population's health, risk of environmental pollution
- Danger to population's health, damaging the biota
- Great danger to life quality, water supply to residents interrupted or cut off. Environmental pollution
- Floods in the adjacent areas, bank erosion, decline in life quality
- Floods in the adjacent areas, damage to water biota, decline in life quality
- Danger to population's health
- Danger to population's health, decline in life quality
- Pollution of the ground and the damage to the assets of the population, environmental pollution
- Danger to population's health, environmental pollution
- Preventing the resolution of the emergency, increase in negative environmental impact

## 2008 OBJECTIVES AND TASKS

- To avoid emergencies which cause significant damage to the population and nature ✓
- To offer continuous water supply to customers, the duration of water interruptions less than 4 hours ✓
- No water interruption of over 12 hours at water mains ✓
- To improve management and monitoring systems of pumping stations and the reliability thereof ✓
- To improve crisis management action plans, to improve customer notification systems ✓
- To implement the updated risk management process ✓

## FOCUS IN 2009

- To avoid emergencies which cause significant damage to the population and nature
- To offer continuous water supply to customers, the duration of water interruptions less than 4 hours
- No water interruption of over 12 hours at water mains
- To improve customer notification system
- To improve the crisis management skills of key specialists
- To improve the reliability of water pumping stations

# ENSURING CONTINUOUS SUPPLY

The Company's ability to provide a 24/7 service without long-term interruptions is of critical importance in ensuring the quality of life and health of the population.

## WATER INTERRUPTIONS

To ensure the constant availability of drinking water the Company must carry out network maintenance and construction works, which may, in certain cases, also lead to planned water supply interruptions.

Customers are notified five working days in advance of planned water supply interruptions. Where possible, the water supply interruptions necessary for construction and maintenance works are planned for night time in order to disrupt the customers' daily life as little as possible.

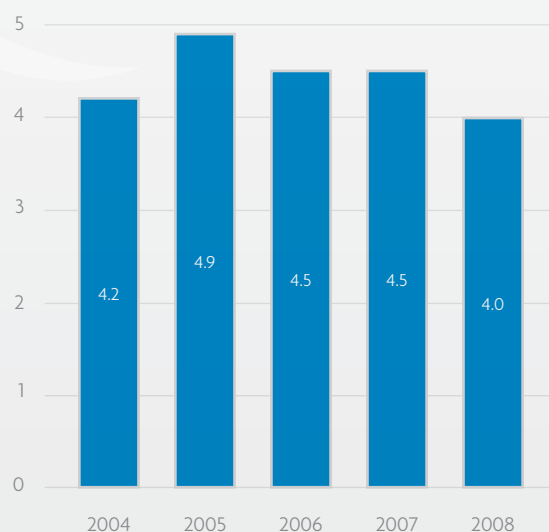
In the case of water emergencies, i.e. unplanned interruptions, the Company must ensure the quick liquidation of the water emergencies, within 12 hours at the latest, in order not to cause a decline in the quality of life or a danger to public health.

In the case of every water supply interruption exceeding five hours, which is caused by emergency, repair or maintenance works on the public water supply network, the Company guarantees alternative water supply by a water tank lorry or trailers. Should the need for a water supply interruption exceeding 12 hours become apparent upon planning repair works, a temporary on the ground water supply is constructed for the customer if possible. The possibilities for constructing a temporary water supply depend on the weather conditions and the technical indicators of the mains, thus it has happened that instead of constructing a temporary water supply the repair works are sped up.

The duration of an average water interruption was 4.0 hours in 2008 and there were no water interruptions exceeding 12 hours.

## Average length of water interruption

2004 – 2008, hours



A water interruption noteworthy from the consumers' perspective took place on 24 December, when a failure in the central server programme of the remote control system caused the stopping of some of the pumping stations in Nõmme and Saue area. Although the water cut only lasted for three hours, the event deserved notice due to the fact that it was a public holiday and pressure problems occurred in some areas also after the interruption. During the subsequent analysis the reasons for the failure were identified by the automation company and the remote control system was improved in order to prevent similar situations occurring in the future.

## CRISIS PREVENTION

The Company uses doubling of core activity and process management systems, regular maintenance and renewal of equipment, meeting of safety requirements, security of territories and assets, as well as training for employees as the main measures of crisis prevention. Cooperation with different stakeholders in the interest of ensuring the long-term development of the public water supply, sewerage and storm water system and the employment of new and safer technologies are also important.

## UPDATING RISK ANALYSES

A new risk assessment procedure was implemented in the Company, which forms the basis for uniform assessment of work environment, environmental and business risks.

The Company's experts participated in drafting the City of Tallinn's risks assessment, risks mapping and evaluation. The experts took part in drawing up the City of Tallinn's program for the prevention of possible emergencies in Tallinn's water supply, listing various measures for preventing emergencies and for keeping the water supply system operational in case of an emergency.

In 2008 the risk analysis of the City of Tallinn was updated and the results were published on the website of the City of Tallinn. According to the analysis long-term interruptions in water supply have assigned a low probability and a chlorine leakage at Ülemiste Water Treatment Plant a very low probability, but with serious consequences. The assessment demonstrates the efficiency of Company's preventive activities.



# ENSURING CONTINUOUS SUPPLY

In 2008 The Company commissioned a Lake Ülemiste catchment area water protection programme in order to identify the measures necessary for achieving a sustainable ecological condition of the water bodies in the Lake Ülemiste and Pirita river catchment areas. It was confirmed that the main measures for achieving a good status of water bodies depend above all on the development plans of municipalities and the public water supply and sewerage system development plans. The actions planned therein are aimed at reducing water pollution and are in compliance with the Water Framework Directive objectives for ensuring a good condition of water bodies by 2015. The development of additional water protection requirements before the implementation of the core measures established by law is not considered practicable.

Work on the programme also identified possible measures for reducing the environmental impacts of car transport in the vicinity of Lake Ülemiste. It was deemed necessary to establish buffer zones at the level crossings of motorways with the ditches flowing to Lake Ülemiste and the Pirita-Ülemiste canal. These zones would prevent emergency pollution from getting into water bodies as well as would reduce the impact of diffuse pollution from the roads



SVEN MILLER  
Catchment Area Technical Specialist

## ENSURING CRISIS PREPAREDNESS

### POTENTIAL CRISIS SITUATIONS

Thanks to preventive actions the probability of a crisis occurring is low. The Company has nevertheless defined possible crisis situations and the principles for solving them. The Company's definition of a crisis is an extraordinary situation with a significant negative impact on public health, quality of life, natural environment, business activity or reputation.

- In the course of technical failures or chlorine transport a chlorine emergency may occur at the Water Treatment Plant, resulting in chlorine (please also refer to page 46) entering the external environment and endangering an area with a radius of ca -2.3km around the Water Treatment Plant. The size and location of the endangered area depends on the amount of chlorine that has leaked as well as the direction and speed of the wind.
- Due to extraordinary weather conditions the level of water in Lake Ülemiste may increase dangerously, causing the risk of a flooding of the shore areas and the city streets.
- In the case of long-term and extensive technological breakdowns, a chlorine emergency, pollution of water in Lake Ülemiste (a plane crash, chemicals emergencies, etc.), a fire, a long-term electrical power cut or other undesirable events not dependent on the Company, the operation of the Water

Treatment Plant may stop, causing a longer term interruption of water supply. This may lead to no water supply for a part of or the majority of the consumers living in the service area of the Company.

- Stopping of the main sewerage pumping stations as well as major downpours or sudden thaw may lead to extensive flooding and environmental pollution.
- Long-term and extensive technical failures, accidents involving hazardous chemicals (methanol), a fire, a long term electrical power cut, extraordinary weather conditions (downpours over a longer period) or other events not dependent on the Company may stop the operation of the Wastewater Treatment Plant, leading to an inability to receive or treat wastewater. This may cause extensive pollution of the sea or a flooding of the streets.
- Failure to follow safety instructions may cause extensive fires, work accidents resulting in death or multiple injuries.
- A pandemic or other external unfavourable conditions may lead to a shortage of key personnel, which, depending on its scope, may in turn trigger other crisis events.

None of the above-mentioned crisis situations occurred in 2008. On earlier occasions the emergency on the major water main in 2007, the extensive floods of 2004 and the critical water level of Lake Ülemiste in August 2004 and January 2005, caused by strong downpours, have been treated as crisis situations.

# ENSURING CONTINUOUS SUPPLY

## CRISIS MANAGEMENT AND COMMUNICATION PLANS

The Company has developed crisis management principles and prepared crisis action plans for solving emergency situations as well as for organising crisis communication.

Based on the analyses carried out in the Company the rules on notifying customers and the organisation of internal and external communication were improved in 2008.

Based on feedback from the general public it was decided in 2008 to establish more specific instructions for employees for acting in case of emergency, e.g. in the case of a large scale emergency or flooding. Specific guidelines now establish in greater detail the circumstances of a large scale emergency or a flooding on water and sewerage networks as well as how internal and external communication takes place.

In 2008 the Company initiated the implementation of an automatic SMS-notification system, which enables operational employees to quickly transmit information on extraordinary or emergency situations to technical specialists as well as to the persons responsible for customer communication. The notification system has been tested and the preliminary results demonstrate that responsiveness has improved both in terms of finding technical solutions to situations as well as in terms of notifying customers.



URMAS MUINASMAA  
Head of Laboratories

The implementation of the SMS-notification system has significantly improved the notification of customers and the general public about extraordinary situations via the Company's website. This applies particularly to weekends and time outside the office hours, as communication specialists receive the preliminary information about the incident much sooner than previously and can post the information to the website regardless of their whereabouts, provided they have a computer and a functioning Internet connection.

## TESTING AND TRAINING

Crisis plans are tested through practical training sessions where possible.

Together with the Rescue Centre the Company organises annual chlorine drills. Programmes for both theoretical and practical trainings were prepared in 2008 and will be implemented at the beginning of 2009.

In 2008 the Company carried out full-scale tests of the information system recovery plan foreseen for cases where a crisis situation would lead to an interruption in the functioning of information systems. Amendments were made to the recovery plan as a result of the tests and regular tests will also be conducted at least once per year in the future.

Regular fire alarm tests and evacuation drills are organised to ensure better preparedness. In addition to the regular occupational safety training (please refer to page 64), the Company organised an intra-Company evacuation training on the Ådala 10 site territory.

Crisis management training was organised in cooperation with communication company Hill & Knowlton to improve crisis management skills. The aim of the training was to identify connections between technical issues and crisis communication.

# ENSURING CONTINUOUS SUPPLY

## IMPROVING TECHNICAL PREPAREDNESS

Development of the separate sewer system continued with the purpose of improving the storm water systems, following the Tallinn Public Water Supply and Sewerage System Development Plan and the Tallinn Storm Water Disposal Action Plan commissioned by Tallinn Municipal Engineering Services Department. In 2008 the environmental impact assessment of various solutions of the Suur-Sõjamäe storm water system located in the immediate vicinity of Lake Ülemiste was initiated along with identifying the best alternative for the environment.

The remote surveillance project was also continued in 2008, in order to improve the management and monitoring systems of water and wastewater pumping stations and metering units. Project completion is planned for the first half of 2009.

Various projects were initiated in 2008 for ensuring the provision of service in case of power failures. For example, power generators were purchased for the Ädala 10 server and for water and wastewater networks and UPS devices were purchased for the main booster pumping stations.

## INSURANCE

Due to the chlorine used for ensuring the quality of drinking water the Company is classified as an enterprise liable to be affected by major accident and must conclude a liability insurance pursuant to the risk factors and the environmental risk. The Company has concluded an insurance cover of 20 million euros against major emergencies.



**MARGUS MARIPUU**  
Water Treatment Process Manager

# EXPANDING NETWORK AND THE SERVICE AREA

## NEW CONNECTIONS TO PUBLIC WATER SUPPLY AND SEWERAGE SYSTEM

In 2008 the Company constructed a total of 34km of waste-water pipeline, 14km of storm water pipeline and 3km of water pipeline in its existing service area. Large-scale network construction will enable 86 properties to connect to the public water supply system and 1 204 properties to the public sewerage system.

The Company had set an objective to conclude at least 90% of all possible connection contracts within one year after the street pipeline usage permit is obtained. Before 2008, the compensation mechanism ensured 100% compensation of the connection fee when the property was connected during the 12 months following the usage permit. As of 2008, the connection time is no longer decisive as regards compensation and thus the compensation mechanism has lost its motivating effect. Therefore in 2008, due to amendments to the connection compensation principles, the percentage of connection contracts concluded was only 56%; out 137 properties out of 237 connected.



# EXPANDING NETWORK AND THE SERVICE AREA

Several changes were introduced in 2008 to make the connection process more efficient, and these will also be used in the coming years. Customers were constantly contacted by phone, the services of VEEMEES were offered for constructing the pipelines inside the properties, customer booklets on subsidised connection give a simple overview of the connection process and help to ensure compliance with all necessary requirements.

Investments made into the development of a new customer management system and reorganisations within the Company have made the connection process simpler and quicker for the customers. Both customers and the Company have a complete overview of the progress in each stage of the connection project, leading to significant improvements in the quality of communication and saving time for the customer.

## NETWORK EXTENSION PROGRAMME

To date ca 99% of the Company's service area in Tallinn is covered with the water distribution network and ca 98% with the public sewerage network.

In cooperation with the City of Tallinn the Company is planning to cover the whole city with the public sewerage network by the end of March 2011. For that purpose the representatives of the Company and the City of Tallinn signed the Amendments

to the Services Agreement in 2007, which make it possible to significantly accelerate the construction of Tallinn's water supply and sewerage system and ensure the construction of the sewerage system within the framework of the Tallinn Public Water Supply and Sewerage Network Development Plan approved by Tallinn City Government. The investments made are above all necessary for minimising possible risks associated with cesspools and for improving the citizens' living environment.

Upon constructing the sewerage network the Company shall follow the Network Extension Programme prepared for 2008-2010 and approved by Tallinn City Government.

In 2008 the Company delivered the network extension programme in the agreed volume.

## PLANNED CONSTRUCTION OF SEWERAGE NETWORKS 2008 – 2010, km

2008	2009	2010
34	38.6	36.3



**OLGA CHISLOVA**  
Chemist in Water Laboratory

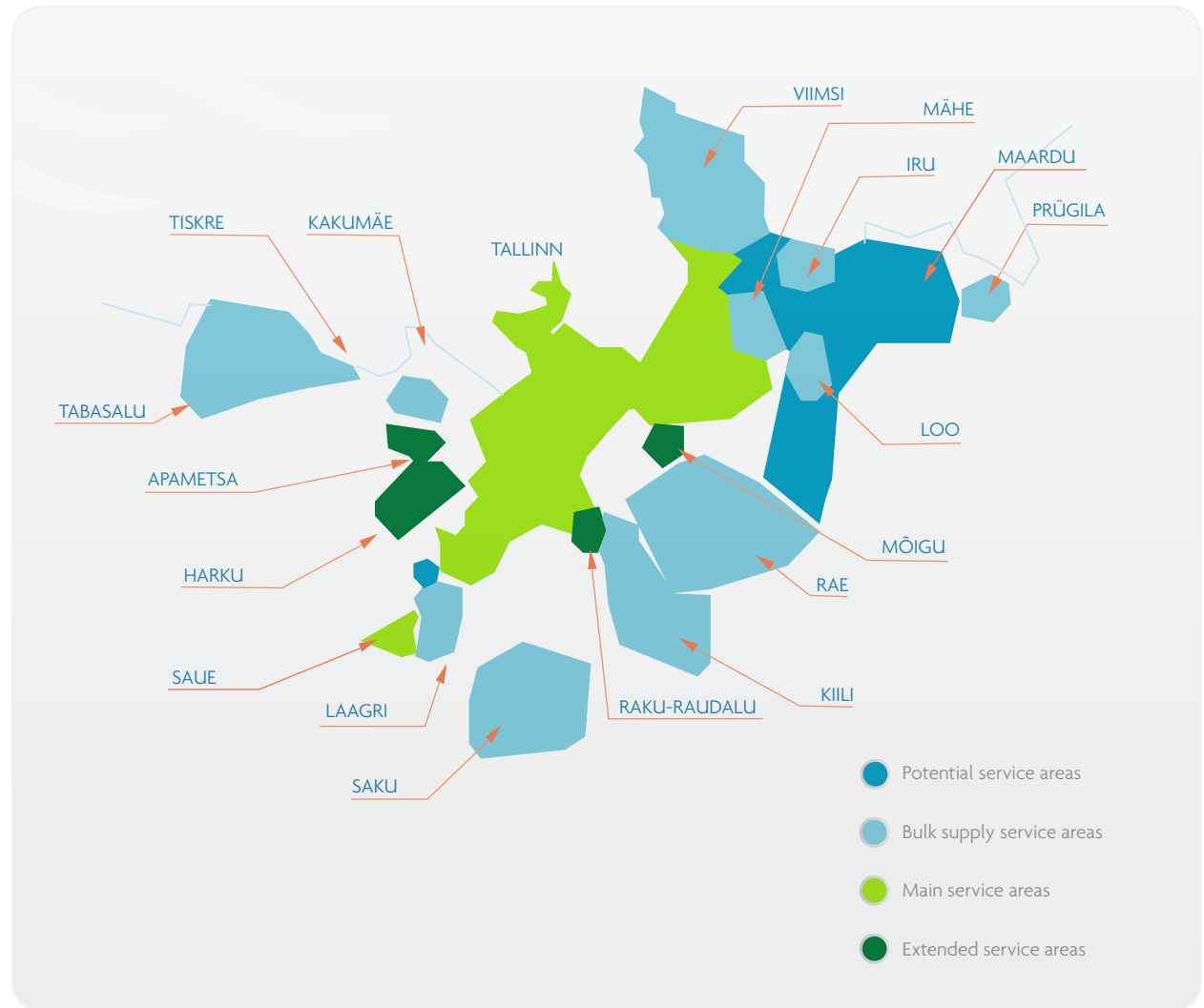
# EXPANDING NETWORK AND THE SERVICE AREA

## NEW SERVICE AREAS

One of the strategic objectives of the Company is to grow its activities and offer water and wastewater services to surrounding municipalities. Company's treatment plants have enough capacity to treat higher volumes and offer services to a higher number of customers. To provide a better service, physical connection points have been constructed to strategic locations at the border with the City, which have enabled the local municipalities to receive water from the Ülemiste Water Treatment plant and have their wastewater treated at the Paljassaare Wastewater Treatment Plant.

Over recent years AS Tallinna Vesi has concluded several contracts with local municipalities for the provision of either water supply and/or sewerage services in the areas surrounding Tallinn. As of the end of 2008 the wastewater from practically all municipalities surrounding Tallinn was led to Paljassaare Wastewater Treatment Plant. The Company has also been appointed as a water company in Harku and Saue municipalities.

The Company is constantly monitoring the growing tendency of industry relocating from Tallinn to its surrounding municipalities and has planned its investments into the main public water supply and sewerage network accordingly. This has enabled the Company to sign several agreements with the industrial areas outside the main service area and to grow sales into the surrounding areas of Tallinn significantly.





# EXPANDING NETWORK AND THE SERVICE AREA

## COOPERATION WITH THE CITY OF MAARDU

In 2008 the Company concluded a contract with AS Maardu Vesi for operating the infrastructure of the public water supply and sewerage system in the City of Maardu.

Pursuant to the operating contract concluded, AS Tallinna Vesi shall help AS Maardu Vesi to finance the self-financing part required for the European Union subsidy project during 2009-2012. Cooperation between the companies and the funding from the European Union will help to solve the problems regarding water quality in Maardu over the coming years and Maardu shall, in the course of the coming years, be supplied with drinking water from Ülemiste Water Treatment Plant.

Managing the infrastructure of AS Maardu Vesi enables the Company to increase its customer portfolio and to increase turnover. In addition to the required self-financing the Company shall provide the customers of AS Maardu Vesi with a modern service of operating the assets together with a high-quality customer service.



**JANE LIBE**  
Customer Administrator

# INCREASING ENVIRONMENTAL AWARENESS



By valuing open dialogue, cooperation and education the Company shapes an environmentally conscious way of thinking in the society. The Company aims at being a good neighbour in the community, by supporting water-related activities that promote environmental sustainability and a healthy lifestyle.

The Company's employees set an example in promoting an environmentally conscious way of thinking and share their good knowledge with various stakeholders by cooperating with various non-governmental organisations, state and local government institutions.

## ENVIRONMENTAL EVENTS

Besides their core function, Ülemiste Water Treatment Plant and Paljassaare Wastewater Treatment Plant also play the role of educational establishments. 55 field trips with close to 1000 people in total took place in 2008 at Ülemiste Water Treatment Plant. 54 visits to Paljassaare Wastewater Treatment Plant took place with close to 1000 people learning about wastewater treatment.

Over half of those interested are pupils and university students. Each year the Company also introduces municipal or national public servants as well as specialists and cooperation partners both from Estonia as well as from abroad to the water and wastewater treatment technology and processes.

Talliners have the opportunity to see the operation of the treatment plants during Open Days. In May 2008 an Open Day took place in Paljassaare, followed by an already traditional Paljassaare RockFest intended for the fans of heavier music.

Open Days at the Water Treatment Plant, where all those interested were able to learn about the operation of the plant and water treatment process, were held in August in parallel with the Lake Ülemiste cross country run.

# INCREASING ENVIRONMENTAL AWARENESS

## WATER GAME FOR CHILDREN

In cooperation with teachers and partners the Company employees developed an interactive educational environment related water game "Traveller Drop". The game helps both teachers and parents in making everything related to water and environment friendliness more life-like, better illustrated and more playful. In addition to enriching classes at school, "Traveller Drop" is also intended for use at home. The Ministry of Education recommends the game as additional learning material for the I and II level in basic school.

At the beginning of 2008 water games were sent free of charge to more than 750 general education school, kindergartens and establishments providing nature education all over Estonia. In addition, in cooperation with non-profit organisation Ökokratt, training was organised for approximately 400 teachers for introducing the game and the possibilities of the using the game in class.



WATER GAME FOR CHILDREN

## YOUTH TO SCHOOL

The Company supports and actively participates in the Youth to School ("Noored kooli") programme. The objective of the programme, initiated by the Good Deed Foundation, is to bring a greater number of active and talented young teachers to Estonian schools over the coming years.

The programme offers novice teachers innovative teacher training, a leadership training programme and mentoring, as well as a support network over two years. AS Tallinna Vesi supports the programme financially and the Company's specialists also participate actively in the substantial activities of the programme by advising the university students in the programme via the leadership training programme and mentoring.



YOUTH TO SCHOOL

## CLEANING UP 2008

On 3 May 2008 a national cleaning up campaign led by citizens' initiative Cleaning Up 2008 took place and more than 50 000 people all over Estonia started to clear the country of illegally dumped or littered waste.

About one third or ca 85 employees of the Company joined the cleaning up, cleaning the surroundings of Soodla reservoir.

The Company supported the participation of its employees in the national initiative and organised transport, tools and food. The Company's organising team was recognised by the management of the Company with the title of the best team of the year.



CLEANING UP 2008

# OPPORTUNITIES FOR PRACTICING A HEALTHY LIFESTYLE



## FOCUS IN 2009

- Tap water campaign
- To organise Open Door Days in the plants

## ÜLEMISTE RUN

The Company attaches value to a healthy lifestyle both inside the Company as well as on a wider basis. The cross-country run around the city's main water reservoir, i.e. Lake Ülemiste, has become a tradition which the Company intends to keep alive also in the coming years. The event is popular among talliners, not least due to the fact that under usual circumstances the naturally picturesque territory surrounding the lake is closed to the public as a sanitary protection zone.

## SUPPORTING SPORTS

In the Company, employees can use two gyms, a squash and ball games hall as well as regularly participate in joint sports events free of charge.

At several sports and environment related events the Company introduces the habit of drinking high quality tap water and offers free clean drinking water to participants.



ÜLEMISTE RUN 2008

## RECREATIONAL OPPORTUNITIES ON THE CATCHMENT AREA

The construction of water reservoirs has created an additional opportunity for local governments to create recreational areas and develop tourism, particularly in the vicinity of Soodla and Paunküla water reservoirs. Free movement on shore areas is only restricted on water catchment facilities within the sanitary protection zones, such as dams and water regulating facilities. The Company supports organised activities which on the one hand would offer leisure and exercising opportunities for people and on the other hand would keep the surroundings of the water reservoirs protected.

# COMMUNICATION WITH STAKEHOLDERS



The Company wishes to be a reliable partner for its customers, investors, employees and the community by regularly publishing information on its activities, financial standing and results. The Company considers it important to be open to proposals, feedback and constructive criticism, as this is the only way to understand the expectations of different stakeholders.

## CUSTOMER COMMUNICATION

The Company has established a number of communication channels for the customers to send in their enquiries, complaints and also to provide information updates and proposals. In addition to the opportunity to seek information from the website, send e-mails and visit the Customer Delivery Office, the Company has its own Call Centre available to customers 24/7.

The highest number of contacts is made via phone, a channel followed by e-mails and letters, including written complaints.

Among active information channels customers prefer the web-based environment and the web-based self-service and in 2008 the use of these channels increased significantly. In 2008 the Company started to update its website with the aim of improving the availability of information for both customers and various other stakeholders. The new website was available for users on 1 January 2009.

In total, 58 665 customer contacts were managed in 2008, compared to 64 677 contacts in 2007. The main areas of customer enquires were related to billing, water interruptions and water pressure and the sewerage system. The number of written complaints decreased compared to the previous year. Customers submitted 186 written complaints in 2008 (compared to 259 complaints in 2007), which were solved.



# COMMUNICATION WITH STAKEHOLDERS

## COMMUNICATION WITH MUNICIPALITIES

One of the Company's key stakeholders is the City of Tallinn. Information exchange with the City of Tallinn and its different departments is carried out by regular reporting, correspondence and meetings at which different aspects of the Company's development are discussed. Important points of cooperation are matters related to the Services Agreement and crisis prevention and preparedness. Also, the Company cooperates closely with the City of Tallinn in informing the residents about issues related to water economy. For example, all operational information related to water and wastewater networks is immediately available from City helpline 1345 and website.

In addition to the City of Tallinn the Company also cooperates with other municipalities bordering on the service area. In 2008, for instance, attention was on matters related to the cooperation contracts concluded with the City of Maardu and AS Maardu Vesi, as well as communication related to extending the service area (please also see page 79.)



GINGERBREAD PARTY IN  
"ÕUNAKE" KINDERGARTEN

## COMMUNICATION WITH THE PUBLIC

The Company informs the public of important topics through proactive communication on a continuous basis. In 2008, different activities of the Company were covered by media more than 1100 times. News about the Company's daily work and overviews of water treatment, networks extension plan construction works, wastewater treatment and community projects were published by different media channels like Eesti Päevaleht, Postimees, Linnaleht and TV channels.

In order to provide relevant information to customers and other interested stakeholders the Company has a homepage, [www.tallinnavesi.ee](http://www.tallinnavesi.ee), containing the more important information and contact details in three languages. The Company's employees regularly share information at various meetings with members of administrative councils of city districts, apartment associations, the Home Owners' Association and participate as lecturers at trainings and seminars related to the topic of water.

## COOPERATION WITH PARTNERS

To improve cooperation with suppliers, the Company regularly organises information days for construction subcontractors, where overviews are given of future works and Company requirements. Approximately 30 representatives of construction works suppliers participated in the 2008 information day.

Regular cooperation with the trade union and the work environment council helps the Company to better take into account the wishes of its employees. Cooperation with Tallinn Technical University and Kopli Vocational School helps to ensure continuity of human resources. The Company also offers financial support to the pensioners' association, which unites former employees of the Company, who have worked for us for at least 20 years in the past. Even now almost 10% of these senior citizens maintain a link with the activities of the Company.

The Company is a member of several professional organizations. As a member of the board of the Estonian Water Companies Association (EVEL) the Company organises various water and wastewater related seminars and training courses for the members. In addition, cooperation with EVEL enables the Company to be involved in the process of changing legislation applicable to the water industry. Being a member of the Estonian Environmental Management Association (EKJA) and participation in the board of this organisation helps to promote cooperation with other environmentally aware businesses.

## HELPING THE ONES IN NEED

The Company is obliged to help the ones who need help most. For years, As Tallinna Vesi has supported kindergarten "Õunake", which is intended for children with special needs. For several years already the Company sends Christmas greetings on cards drawn by the children of "Õunake" kindergarten. This year the Company sent an electronic card and supported the kindergarten on account of printing the cards. In addition the Company supports the summer camp of Ristiku schools and help to fund the non-profit organisation "Ohvriabi" ("Victim Help").



# COMMUNICATION WITH STAKEHOLDERS

## INVESTOR RELATIONS

As a listed company, the Company treats all market participants equally and publishes information of significant influence first and foremost via the information systems of Tallinn Stock Exchange. The Company endeavours to be transparent in its ways of working, corporate disclosures and relations with shareholders.

In 2008, the International investor relations' magazine IR Magazine, which based its decision on the assessments of more than 500 analysts and fund managers, nominated the Company the best listed company in the Baltic countries and, the NASDAQ OMX Tallinn Stock Exchange ranked the Company in second place in the field of investor relations in 2008 of companies listed on the Tallinn Stock Exchange.



**EVELIN MCQUAY**  
Customer Delivery Manager

## THE INVESTOR CALENDAR OF AS TALLINNA VESI IN 2009

EVENT	TIME
Preliminary Annual Report 2008	30.01.09
Audited Annual Report 2008	27.03.09
1st quarter financial results for 2009	30.04.09
2nd quarter financial results for 2009	17.07.09
3rd quarter financial results for 2009	23.10.09

Annual General Meeting of shareholders will take place on 19 May 2009.

## KEEPING YOU IN THE PICTURE

The quickest way to find more information about Tallinna Vesi is from the Company's website [www.tallinnavesi.ee](http://www.tallinnavesi.ee).

In addition to the annual report and interim reports, key company announcements, all stock exchange releases, environmental reports and company presentations are also published on the web site. Also, it is possible to observe the share's trading information through the website.

Investors can also join the regular investor mailing list by contacting the Head of Communications, Chief Financial Officer or by filling in the form on the website.



## EMAS VERIFICATION

DNV Certification Oy/Ab has as an accredited verifier (FI-V-002) examined the environmental management system and the information given in the 2008 environmental report of Tallinna Vesi. The environmental report constitutes the part of the annual report, pages 1 – 85.

It has been verified on April, 16, 2009 that both the environmental management system and the environmental report fulfil the requirements of EU Council Regulation 761/2001 of Eco Management and Audit Scheme EMAS.

The environmental report is available on the website at [www.tallinnavesi.ee](http://www.tallinnavesi.ee)

Next report will be published before the end of August 2010.

## FOR ADDITIONAL INFORMATION PLEASE CONTACT:

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## WE LOOK FURTHER!

WE WORK HAND IN HAND AND SHOULDER TO SHOULDER. IDEAS WITH GREAT POTENTIAL ARE BORN IN GOOD TEAMS AND COOPERATION MAY LEAD TO UNEXPECTED INNOVATIONS. THE EXPANSION OF AS TALLINNA VESI INTO MAARDU ALSO GREW OUT OF A SIMILAR IDEA. TODAY THIS IDEA HAS BECOME REALITY AND SOON THE RESIDENTS OF MAARDU WILL BE SUPPLIED WITH PURE AND HIGH QUALITY DRINKING WATER. PROVIDING SERVICES TO MAARDU - ONE OF THE 10 LARGEST CITIES IN ESTONIA - IS A GREAT RESPONSIBILITY AND REQUIRES EXCELLENT ORGANISING SKILLS, VERY GOOD FACILITIES AND EQUIPMENT.

WE FACE THIS CHALLENGE WITH OUR HEADS UP HIGH, BECAUSE OUR COMPANY HAS EU COMPLIANT DRINKING WATER FLOWING IN ITS VEINS.

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# RESULTS OF OPERATIONS - FOR THE YEAR 2008

## MAIN ECONOMIC INDICATORS

MILLION EEK	2008	2007	2006*	2005*	2004*
Sales	719.9	648.3	589.2	549.9	478.8
Gross profit	447.2	431.7	368.6	347.9	281.6
Gross profit margin %	62.1	66.6	62.6	63.3	58.8
Operating profit	405.4	377.4	337.9	282.6	254.9
Operating profit margin %	56.3	58.2	48.7	47.7	46.5
Profit before taxes	362.2	333.1	294.9	209.7	199.2
Profit before taxes margin %	50.3	51.4	42.5	35.4	36.3
Net profit	296.0	277.8	248.0	174.4	173.0
Net profit margin %	41.1	42.9	42.1	31.7	36.1
ROA %	11.6	10.9	10.0	7.3	7.8
Debt to total capital employed	49.9	51.8	53.4	55.3	55.1
ROE %	23.1	22.5	21.5	16.4	17.3
Current ratio	1.8	1.9	2.2	1.9	0.9
Number of employees	327	312	318	334	351
Share capital	200	200	200	200	200

\* Sales and Gross profits of 2004, 2005 and 2006 are adjusted retrospectively to fit the reclassification (see Note. 2).

**Gross profit margin** – Gross profit / Net sales

**Operating profit margin** – Operating profit / Net sales

**Profit before taxes margin** – Profit before taxes / Net sales

**Net profit margin** – Net profit / Net sales

**ROA** – Net profit / Total assets

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

**ROE** – Net profit / Shareholders' equity

**Current ratio** – Current assets / Current liabilities

# RESULTS OF OPERATIONS - FOR THE YEAR 2008

## INCOME STATEMENT

### SALES

In 2008 the Company's total sales increased, year on year, by 11.0% to 719.9 mln EEK. Sales in the main operating activity principally comprise of sales of water and treatment of wastewater to domestic and commercial customers within (Tallinn) and outside of the service area, supplemented mainly by fees received for operating and maintaining the storm water system. There is no considerable seasonality in the Company's operation.

Sales of water and wastewater services were 658.3 mln EEK, a 9.8% increase compared to 2007, resulting from the 11.7% increase in tariffs from 1 January 2008 for the Company's residential and commercial customers combined with the factors described below.

Included within this amount were the following increases by sector: within the service area sales to domestic customers increased by 8.7% to 346.8 mln EEK. Sales to commercial customers increased by 7.4% to 271.2 mln EEK. Sales to customers outside of the service area, primarily bulk volumes of wastewater treatment services provided to the surrounding municipalities, increased by 49.4% reaching 3.8 mln m<sup>3</sup> or 26.4 mln EEK. Overpollution fees received were 13.8 mln EEK, 34.1% increase compared to 2007.



**MARGUS MARIPUU**  
Water Treatment Process Manager

In 2008, the volumes sold to residential customers dropped 2.7%. We believe that this is mainly related to the fact that people have moved to the surrounding areas of Tallinn.

The volumes sold to commercial customers inside the service area decreased by 4.1% compared to the relevant period in 2007 due to several factors combined. Part of the reduction in sales volumes in Tallinn is due to companies moving to the surrounding municipalities, supplemented by companies implementing different efficiency measures or reducing their production.

The real estate market has changed considerably compared to last year. Although the number of new apartments and business buildings being constructed in Tallinn in 2008 remained high, a large share of new buildings still remain vacant as commercial customers as well as people in need of space were moving to surrounding areas due to more affordable real estate prices.

This trend is also reflected in the Company's sales to surrounding areas, which has increased by 49.4% in 2008 compared to the last year. This reflects the success of the Company's strategy to re-capture customers leaving Tallinn. The Company is actively looking for the further expansion opportunities into the neighboring municipalities.

The sales from the operation and maintenance of the storm water and fire-hydrant system increased by 22.8% to 48.8 mln EEK in 2008 compared to 2007. 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.



# RESULTS OF OPERATIONS - FOR THE YEAR 2008

## COST OF GOODS SOLD AND GROSS MARGIN

The cost of goods sold for the main operating activity was 272.8 mln EEK in 2008, an increase of 56.1 mln EEK or 25.9% from the equivalent period in 2007.

Pollution tax payable for 2008 was 17.0 mln EEK compared to 6.2 mln EEK positive cost effect in 2007, resulting from release of the 13.3 mln EEK pollution tax provision in the first quarter of 2007. In 2008 the Company did not achieve the 0.5 coefficient for pollution tax in 2nd and 4th quarters, that meant 9 million kroons extra costs to the Company. The rest of the increase in pollution tax is due to the increase in tax rates year on year by 20%, supplemented by increased volume and pollution impact. Despite the fact that the pollution level of the incoming wastewater varies and the Company does not have a full control over storm water outlets regarding the pollution, we are working hard to use the optimum level of chemicals to achieve the 0.5 coefficient in the following quarters.

The chemical costs were 22.8 mln EEK, representing an 8.9% increase compared to the corresponding period in 2007. This result is the combination of wastewater volumes treated, and chemicals dosed, also affected by the increase in chemicals' prices.

Electricity costs increased by 3.4 mln EEK or 12.8% in 2008 compared to 2007 due to higher electricity prices combined with wastewater volumes treated.

Salary expenses increased in 2008, year on year, by 11.9 mln EEK or 23.1% due to a number of factors. Firstly, increased headcount from the new services launched. Secondly, a highly competitive labour market has led to a significant salary inflation. Finally in the 1st quarter of 2008 the Company restructured and combined departments to increase the efficiencies and to improve the service processes, which resulted in transferring cost from one line to another.

Depreciation charges increased in 2008 by 9.3 mln EEK or 12.7% year on year due to some constructions commissioned in the end of 2007. Also in the beginning of 2008 the depreciation rates were revised to correspond with the useful life of assets.

Other costs of goods sold in the main operating activity increased by 6.2 mln EEK, or 15.3% year on year. This was due to higher costs on a number of support services and maintenance and repair contracts, reflecting the increase in labour and services costs, but also the tightening of warranty requirements regarding the emergency repair works in Tallinn.

The cost pressure sets the challenge to the Company to identify further efficiency opportunities through review of processes, procedures and procurements.

As a result of the above the Company's gross profit for 2008 was 447.2 mln EEK, which is an increase of 15.5 mln EEK, or 3.6%, compared to the gross profit of 431.7 mln EEK for 2007.



ELMO KORTTEL  
Automatician

## OPERATING COSTS AND OPERATING MARGIN

Marketing expenses decreased by 1.2 mln EEK to 12.3 mln EEK during 2008 compared to the corresponding period in 2007. This is partly the result of the structural changes, balanced by an increase in depreciation charges.

Mainly as a consequence of structural changes the General administration expenses decreased by 2.3 mln EEK to 54.5 mln EEK in 2008 year on year.

# RESULTS OF OPERATIONS - FOR THE YEAR 2008

## OTHER NET INCOME/EXPENSES

In order to more appropriately reflect different types of compensations received, the accounting policy for constructions was changed in 2008. In accordance with the new policy, any compensation received from the local governments are treated as government grants in accordance with IAS 20 and are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate. Accordingly, such compensations are deducted from the carrying amount of the pipeline assets constructed; any excess of the compensation receivable compared to the related construction cost that the compensation is intended to compensate is recognized in income once the construction is completed. The net effect of these transactions can be seen from other income/expenses and the change in the accounting policy is accounted retrospectively.

Until 2007 and also during the first 3 quarters of 2008, the Company accounted for any compensations received from customers and local governments for constructing new pipelines as income once the construction was completed and receipt of the compensation was probable. Compensations were presented in the income statement as "Revenues from other operating activities" and the related construction costs were presented as "Costs of goods sold (other operating activities)".

Income/expenses from constructions totaled a net income of 27.9 mln EEK in 2008 compared to a net income of 14.3 mln EEK in 2007. The rest of the other income/expenses totaled an expense of 2.9 mln EEK in 2008 compared to an income of 1.9 mln EEK in 2007.

As a result of all of the above the Company's operating profit for 2008 was 405.4 mln EEK, an increase of 28.0 mln EEK compared to an operating profit of 377.4 mln EEK achieved in 2007. Compared to the operating profit in 2007, the operating profit has increased 7.4%.



**MARGUS MARIPUU**  
Water Treatment Process Manager

## FINANCIAL EXPENSES

Net Financial expenses were 43.2 mln EEK in 2008, which is a decrease of 1.0 mln EEK or 2.3% compared to 2007. The Company's interest costs have increased by 6.9% compared to 2007. This is due to the fact that some loans of the Company are bound to the 6 month Euribor rate. The increase in interest expenses is partially offset by an increase in financial income earned during 2008, as a result of a more favourable cash position and increasing interest rates.

## PROFIT BEFORE TAX

The Company's profit before taxes for 2008 was 362.2 mln EEK, which is 29.1 mln EEK higher than the profit before taxes of 333.1 mln EEK for 2007. The results for the twelve months of 2007 were impacted by the fact that the Ministry of Environment gave final approval to the success of the nitrogen project, which resulted in the release of a provision worth 13.3 mln EEK for environmental taxes. Looking at the underlying profit before taxes for the twelve months of 2007, it shows a 42.4 mln EEK or 13.2% increase in 2008 for the same period.

## BALANCE SHEET

During the twelve months of 2008 the Company invested 306.3 mln EEK into fixed assets. Non-current assets were 2.212 mln EEK at 31 December 2008. Current assets decreased by 26.2 mln EEK to 347.4 mln EEK in the twelve months of the year, customer receivables increased by 3.7 mln EEK. During the twelve months of 2008 cash at bank increased by 51.4 mln EEK.

Current liabilities decreased by 7.0 mln EEK to 192.2 mln EEK in the twelve months of the year. This was mainly due to increases in Current portion of long-term borrowings by 41.5 mln EEK, as result of the reclassification of the loan based on repayment schedule and decrease in Trade payables.

The Company continues to maintain its leverage level within its target range of 50% with total liabilities to total capital employed of 49.9% as of 31 December 2008. Long-term liabilities stood at 1,085.5 mln EEK at the end of December 2008, consisting almost entirely of the outstanding balance on the two long-term bank loans.

## CASH FLOW

During the twelve months of 2008, the Company generated 393.1 mln EEK of cash flows from operating activities, an increase of 59.5 mln EEK compared to the corresponding period in 2007. Underlying operating profit continues to be the main driver for growth, supplemented by excellent debt collection in twelve months of 2008.

# RESULTS OF OPERATIONS - FOR THE YEAR 2008

In the twelve months of 2008 net cash outflows from investing activities were 26.8 mln EEK, which is 126.1 mln EEK less than in 2007. This was mainly due to the change in constructions compensation mechanism as result of the 30 November 2007 agreement with the local municipality. In the 1st quarter 2008 the Company received the compensation for 2007 constructions. In 2008 the Company invested 306.3 mln EEK – 265.1 mln EEK on networks (including 189.7 mln EEK on extension and developments), 17.5 mln EEK at Paljassaare wastewater treatment plant and sludge treatment, 9.9 mln EEK on water quality (Ülemiste water treatment plant and raw water) and 13.7 mln EEK for other investments (IT, capital maintenance, meters, etc).

The cash outflows from financing activities were 314.9 mln EEK during the twelve months of 2008 compared to cash outflow of 251.8 mln EEK during the same twelve months of 2007, representing the payouts of the dividend and the income tax on dividends of respective years. The Company made its first scheduled repayment to EBRD. Considering the extensive network extension program and related investment outflows until 2011, the Company does not intend to reduce the loan capital and therefore the repayment amount was replaced with a new loan drawdown from Nordea. The Company signed the new loan agreement with Nordea in November 2008. The total loan facility is 37.5 mln EUR and the interest margin applicable to the 6 month Euribor is 1.15 %.

As a result of all of the above factors, the total cash inflow in the twelve months of 2008 was 51.4 mln EEK compared to a cash outflow of 71.0 mln EEK in the twelve months of 2007. Cash and cash equivalents stood at 229.9 mln EEK as at 31 December 2008.

## EMPLOYEES AND SALARIES

At the end of 2008, the number of employees was 327, compared to 312 at the end of 2007. The average full time employment equivalent of 2008 was 317, an increase by 14 positions compared to the 2007 as result of the launch of new services and the increased project supervision need related to extensive network extension program. The total salary cost was 88.4 mln EEK, including 2.8 mln EEK paid to the Management and Supervisory Council members. The off balance sheet potential salary liability would be up to 0.5 mln EEK if the Council would want to replace the Management Board member.



**OLGA CHISLOVA**  
Chemist in Water Laboratory

## DIVIDENDS AND SHARE PERFORMANCE

Based on the results of the 2007 financial year, the Company paid 249 010 000 EEK of dividends. Of this 10 000 EEK was paid to the owner of the B-share and 249 000 000 EEK, i.e. 12.45 EEK per share to the owners of the A-shares. The dividends were paid out on 13 June 2008, based on the list of shareholders, which was fixed on 30 May 2008.

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

As of 31 December 2008 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

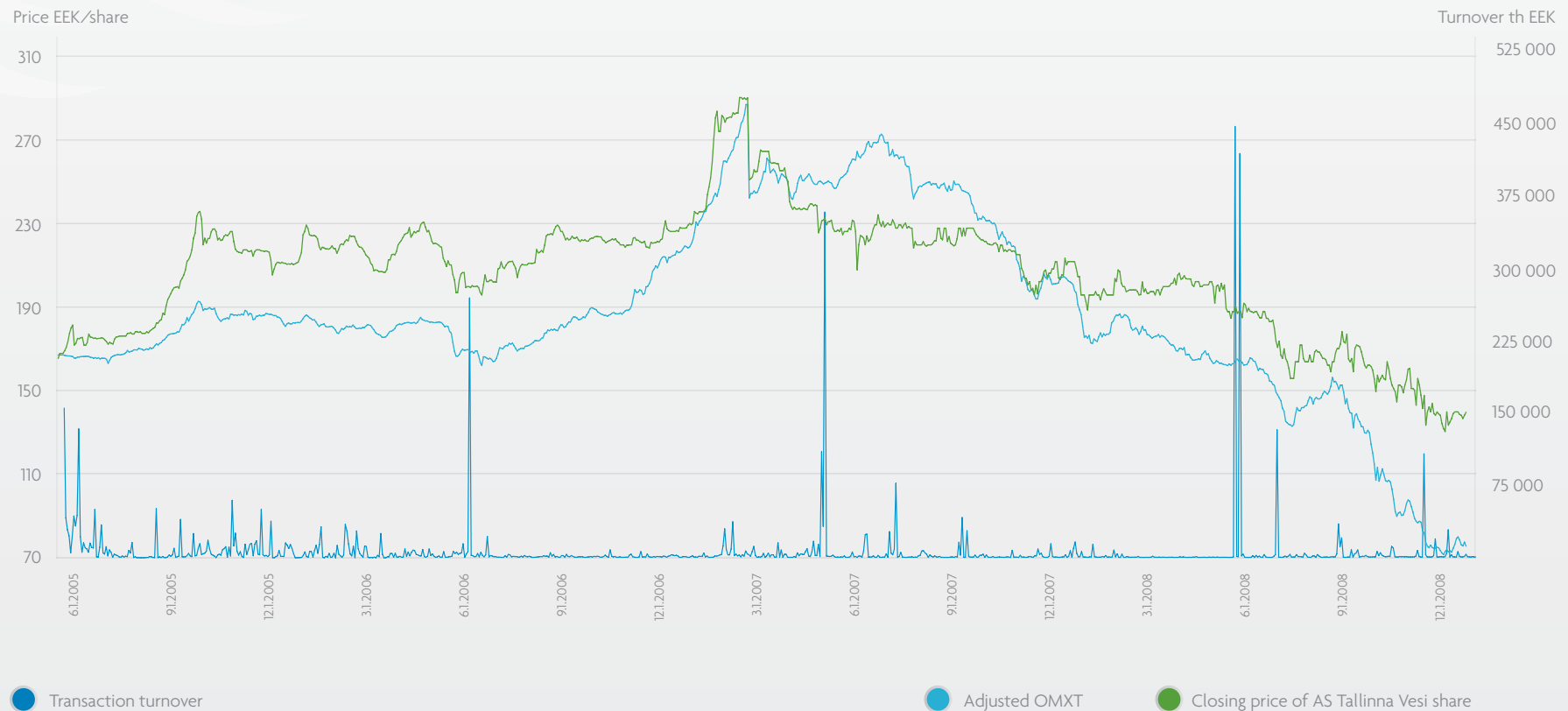
United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%
Credit Suisse Securities (Europe) Ltd Prime Brokerage A/C Prime Brokerage Clients	5.76%
HSBC Bank Plc Re Parvus European Absolute Opportunities Master Fund	5.46%

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 year, 31 December 2008, the closing price of the AS Tallinna Vesi share was 140.66 EEK (8.99 EUR), which is a 30.6% decrease compared to the closing price of 202.78 EEK (12.96 EUR) at the beginning of the year, this is still outperforming the market as the OMX Tallinn index dropped by 63.0% during the year.

# RESULTS OF OPERATIONS - FOR THE YEAR 2008

## CLOSING PRICE & ADJUSTED OMXT VS TRANSACTION TURNOVER



# RESULTS OF OPERATIONS - FOR THE YEAR 2008

## SHARE PRICE STATISTICS AFTER LISTING

EEK	2008	2007	2006	2005	2004	2003
Share price, open	207.32	234.70	211.23	155.53	n/a	n/a
Share price, at the end of the year	140.66	202.78	234.86	210.92	n/a	n/a
Share price, low	131.59	195.58	195.11	155.53	n/a	n/a
Share price, high	212.79	290.87	234.86	235.48	n/a	n/a
Share price, average	178.09	232.20	217.49	197.46	n/a	n/a
Traded volume	7 958 820	5 462 916	4 274 094	7 993 844	n/a	n/a
Turnover, million	1 453.07	1 259.94	913.22	1 509.88	n/a	n/a
Capitalisation, million	2 813	4 056	4 697	4 218	n/a	n/a
Earnings per share	14.80	13.89	12.40	8.72	8.65	5.23
Dividend per share	n/a	12.45	9.80	7.85	5.60	3.75
Dividend / net profit	n/a	90%	79%	90%	65%	72%
P/E	9.50	14.60	18.94	24.19	n/a	n/a
P/BV	2.2	3.3	4.1	4.0	n/a	n/a

P/E = share price at the end of the year / earnings per share

P/BV = share price at the end of the year / book value per share

In 2005 the listing price was 144.70 EEK, equal to the 9.25 EUR

## DISTRIBUTION OF SHARE CAPITAL BY SIZE OF SHARE OWNERSHIP

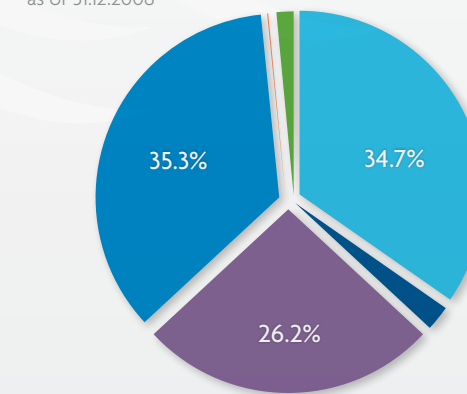
AS OF 31.12.2008

	Shareholders	Shareholders %	No. of shares	% of share capital
1-100	552	31.2%	26 598	0.1%
101-200	470	28.1%	70 222	0.4%
201-300	178	10.6%	46 139	0.2%
301-500	169	10.1%	70 279	0.4%
501-1 000	156	9.3%	121 176	0.6%
1 001-5 000	136	8.1%	290 411	1.5%
5 001-10 000	12	0.7%	81 222	0.4%
10 001-50 000	12	0.7%	305 717	1.5%
50 000+	19	1.1%	18 988 236	94.9%
TOTAL	1 674	100%	20 000 000	100%

More detailed information about the structure of the equity and the preference share, giving the special control rights, is disclosed in note 16.

## Shareholders by type

as of 31.12.2008



- Tallinn City
- Local retail investors
- Foreign institutional investors
- United Utilities
- Foreign retail investors
- Local institutional investors



**URMAS MUINASMAA**  
Head of Laboratories



# CORPORATE GOVERNANCE

Corporate governance constitutes a system for the management and controls of the company. Generally this system is regulated by law, the Articles of Association and the internal rules of the company. Since 01.01.2006 the companies listed on the Estonian stock exchanges are recommended to follow the "Corporate Governance Recommendations" issued by the Financial Supervision Authority. Throughout 2008 the management of the Company was organized according to these regulations and principles. An Annual General Meeting of Shareholders was convened to approve the annual report, distribution of dividend, appointment of auditors and recalling/election of Supervisory Board members. Changes in the Articles of Association and management of the Company (incl. the election and recall of the members of the management board) are made according to Part VII of the Commercial Code.



**SVEN MILLER**  
Catchment Area Technical Specialist

AS Tallinna Vesi is committed to high standards of corporate governance for which the Management Board and Supervisory Board are accountable to shareholders. The Company endeavours to be transparent in its ways of working, corporate disclosures and relations with shareholders. The Company has been recognized for this - in 2008 the IR Magazine named the Company the best listed company in the Baltic countries and, the NASDAQ OMX Tallinn Stock Exchange ranked the Company in second place in the field of investor relations in 2008 of companies listed on the Tallinn Stock Exchange.

The Company has regular dialogue with major shareholders with general presentations made at least bi-annually - a list of meetings and the presentations are available on the Company's website. The Company Annual General Meeting keeps the shareholders informed and there is an opportunity for individual shareholders to ask questions of the Management Board and Supervisory Board within the meeting.

The Company is a public limited company, the management bodies of which are the General Meeting of shareholders, the Supervisory Board and the Management Board. The General Meeting of shareholders is the highest directing body.

## THE SUPERVISORY BOARD AND AUDIT

The Supervisory Board plans the activities of the Company, organises its management and supervises the activities of the Management Board. Pursuant to the Articles of Association, the Supervisory Council consists of nine members the term of whose authority is two years. In 2008 six Supervisory Board meetings were held. The Supervisory Board approved the 2007 annual report presented at the Annual General Meeting, and approved the 2008 budget.

The members of the Company's Supervisory Board during the composition of this report were as follows: Robert John Gallienne – Chairman of the Supervisory Board, Kevin Starling, Steven Richard Fraser, Matti Hyyrynen, Mart Mägi, Valdur Laid, Elmar Sepp, Rein Ratas, Deniss Borodits.

At each meeting, an internal audit report was presented to the Board. The internal auditor of the Company reports directly to Robert John Gallienne, Supervisory Board Member responsible for auditing function.

Regular internal audits are conducted in the company in the field of compliance, performance, and finance etc. in order to check that:

- 1.1 the risks have been identified, assessed and managed in the required way;
- 1.2 the relevant financial, managerial and operating information



**SVEN MILLER**  
Catchment Area Technical Specialist

is accurate, reliable and available for prompt usage;

- 1.3 the employees' activities are compliant with the organizational policy, internal regulations, and applicable acts and regulations;
- 1.4 the resources required for operation are acquired cost-effectively, applied efficiently and adequately protected by required means;
- 1.5 the organizational programmes, plans and objectives are achieved;
- 1.6 the internal control system within the organization provides the requisite level of protection and supports the continuous improvement of quality;
- 1.7 reporting is reliable and presented in due time;
- 1.8 protection and preservation of organizational assets is guaranteed.

In 2008 David Kilgour and Ian Plenderleith held the position of Supervisory Board Member responsible for the audit function.

Pursuant to the Articles of Association of the Company, an external auditor shall be elected by the General Meeting of shareholders for conducting the annual audit. Remuneration of the auditor shall proceed pursuant to the contract, the Management Board has the right of conclusion thereof.



# CORPORATE GOVERNANCE

## THE MANAGEMENT BOARD

The Management Board is a management body that represents and manages the day-to-day activities of the Company according to law and the Articles of Association. The Management Board is obliged to act in the most economically efficient manner. The Management Board is composed of three members, two of them seconded by United Utilities International Ltd, all of them appointed by the Supervisory Board.

The duties of the Chairman of the Management Board Ian Plenderleith were, amongst other duties, to fulfill the everyday obligations of the Chief Executive Officer of the Company by leading and representing the company, organizing the activities of the Management Board, preparing the strategies and ensuring their implementation.



**MEELIS PLAADO**  
Wastewater Treatment System Specialist

The duties of the member of the Management Board David Hetherington were, amongst other duties, to fulfill the everyday obligations of the Chief Operating Officer of the Company by managing and being responsible for the operating activities, including the customer service function of the Company.

The duties of the member of the Management Board Siiri Lahe were, amongst other duties, to fulfill the everyday obligations of the Chief Financial Officer of the Company by managing and

being responsible for the accounting and financial activities of the Company.

According to the Company's statute the Chairman of the Management Board can represent the Company single-handedly, other Management Board members can represent the company only with the joint approval of the other. In order to make daily decisions the Management Board has validated a framework of principles, according to which certain management team members are authorized to conclude transactions for small amounts.

## CONFORMITY TO TALLINN STOCK EXCHANGE CORPORATE GOVERNANCE RECOMMENDATIONS

Starting from January 1, 2006 the companies whose shares have been admitted to trading on the regulated market operating in Estonia shall describe, in accordance with the 'Comply or Explain' principle, their management practices in a Corporate Governance report and confirm their compliance or not with the Corporate Governance recommendations. If the issuer does not comply with the Corporate Governance Recommendations, it shall explain in the report the reasons for its non-compliance.

## DECLARATION OF CONFORMITY BY AS TALLINNA VESI

AS Tallinna Vesi complies with the vast majority of the non-mandatory Corporate Governance recommendations. However it does not comply with some regulations, which are listed below, together with the reasons for current non-compliance:

*'2.2.3. The basis for Management Board remuneration shall be clear and transparent. The Supervisory Board shall discuss and review regularly the basis for Management Board remuneration. Upon determination of the Management Board remuneration, the Supervisory Board shall be guided by evaluation of the work of the Management Board members. Upon evaluation of the work the Management*

*Board members, the Supervisory Board shall above all take into consideration the duties of each member of the Management Board, their activities, the activities of the entire Management Board, the economic condition of the Issuer, the actual state and future prediction and direction of the business in comparison with the same indicators of companies in the same economic sector.'*

The arrangements concluded in connection with the privatisation of the Company in 2001 provided that, in return for certain fees, United Utilities International Ltd would provide the Company with certain technical and asset management services and would make certain of its personnel available to the Company in connection with its operation and management.

According to the agreement, the working hours, rates of compensation, manner of performance, and all other matters relating to the employment of the individuals appointed by United Utilities International Ltd are to be determined solely by United Utilities International Ltd, the Supervisory Board does not regularly review the principles of those Management Board members remuneration.

*'2.2.7. Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure. The Chairman of the Supervisory Board shall present the essential aspects of the management board remuneration and changes in it to the General Meeting. If the remuneration of some of the Management Board members has occurred on a different base, then the General Meeting shall be presented the differences together with the reasons therefore.'*

# CORPORATE GOVERNANCE

The Company does disclose the overall management board remuneration in the report appendix 27, but considers that individual remuneration is sensitive and private information and disclosing it would bring no benefit to the shareholders.

*'3.2.2. At least half of the members of the Supervisory Board of the Issuer shall be independent. If the Supervisory Board has an odd number of members, then there may be one independent member less than the number of dependent members.'*

Pursuant to the Articles of Association, the Supervisory Board consists of nine members. Under the Shareholders' Agreement, United Utilities (Tallinn) B.V. (hereinafter UUTBV) and the City of Tallinn have agreed that the division of seats in the Supervisory Board shall be such that UUTBV shall have four seats, the City of Tallinn shall have three seats and two seats shall be for independent members of the Supervisory Board as described by the Tallinn Stock Exchange.

## INFORMATION DISCLOSURE

*'2.2.2. The member of the Management Board shall not be at the same time a member of more than two management boards of an Issuer and shall not be the Chairman of the Supervisory Board of another Issuer. A member of the Management Board can be the Chairman of the Supervisory Board in company belonging to same group as the Issuer.'*

Ian Plenderleith, CEO, is a member of the Supervisory Board of the following companies belonging to United Utilities group: United Utilities Pacific Holdings BV, United Utilities Australia Holdings BV, United Utilities BV, United Utilities (Moray) Limited, United Utilities (Tay) Limited, Birchpoint No 1, Haclyn District Mines Drainage Company Limited, United Utilities International Limited, United Utilities (Overseas Holdings) Limited, United Utilities (Highland) Limited, United Utilities (Europe) Limited, United Utilities International Holdings Limited, United Utilities (Sofia) Limited, United Utilities (Sofia) BV, United Utilities (Tallinn)

BV, United Utilities Europe Holdings BV, United Utilities (Poland) BV, Aqua Spolka Akcyjna, United Utilities (Luxembourg) S.A.R.L., United Utilities (Luxembourg) No.2 S.A.R.L., United Utilities Investments BV. Siiri Lahe, CFO, and David Hetherington, COO, are not in the Supervisory Boards of other companies.

*'3.2.5. The amount of remuneration of a member of the Supervisory Board shall be published in the Corporate Governance Recommendations Report, indicating separately basic and additional payment (incl. compensation for termination of contract and other payable benefits).'*



**RUUTA LIIVE**  
Taxes and Statistics Manager

According to the decision of the General Meeting of shareholders the payments for Supervisory Board members is set at 100,000 kroons per year. The fee is subject to deduction and payment of taxes set out by laws and would be payable monthly. The Supervisory Board members are not paid any additional benefits.

*'3.2.6. If a member of the Supervisory Board has attended less than half of the meeting of the Supervisory Board, this shall be indicated separately in the Corporate Governance Recommendations Report.'*

In 2008 six Supervisory Board meetings were held (29 January 2008, 11 March 2008, 22. April 2008, 15 July 2008, 1 September 2008 and 21 October 2008).

Chairman of the Supervisory Board (Robert John Gallienne) and most of the members of the Supervisory Board (Henry Russell, Mart Mägi, Valdur Laid, Elmar Sepp, Rein Ratas, Deniss Borodits) have attended more than 50% of the meetings during the time held office.

As members of the Supervisory Board have changed during the year the following Supervisory Board members have attended less than half of the meetings held during the year.

- David Leonard Fuller attended all the Supervisory Board meetings (3), until being recalled from Board on 04.07.2008. He attended on 29.01.2008, 11.03.2008 and 22.04.2008 respectively.
- Steven Richard Fraser attended all the Supervisory Board meetings (3) since his nomination on 04.07.2008. He attended on 15.07.2008, 01.09.2008 and 21.10.2008 respectively.
- David John Kilgour attended one Supervisory Board meeting until being recalled from Board on 10.03.2008.
- Kevin Starling did not attend any of the Supervisory Board meetings since his nomination on 11.09.2008.
- Matti Hyrynen did not attend any of the Supervisory Board meetings as no Supervisory Board meetings were held after his nomination on 16.12.2008.

The previous sections, Chairman's statement, Results of operations – for the year 2008, Corporate Governance and Corporate Governance Recommendations Report form the Management Report, which is an integral part of the annual report of AS Tallinna Vesi for the financial year ended 31 December 2008. The Management Report gives a true and fair view of the trends and results of operations, main risks and doubts of the Company.

# DECLARATION OF MANAGEMENT

## FOR THE FINANCIAL STATEMENTS




The Management Board of AS Tallinna Vesi hereby declares its responsibility for the preparation of the financial statements for the financial year ended 31 December 2008 on pages 99 to 133.

The financial statements have been prepared according to International Financial Reporting Standards as adopted by the EU, and give a true and fair view of the financial position, results of operations and cash flows of AS Tallinna Vesi.

The preparation of the financial statements according to International Financial Reporting Standards involves estimates made by the Management Board of the Company's assets and liabilities as at 31 December 2008, and of income and expenses during the financial year. These estimates are based on current information about the Company and consider all plans and risks as at 31 December 2008. The actual results of these business transactions recorded may differ from such estimates.

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the financial statements on 25 February 2009 have been considered in preparing the financial statements.

The Management Board considers AS Tallinna Vesi to be a going concern entity.

NAME	POSITION	SIGNATURE	DATE
Ian John Alexander Plenderleith	Chairman of the Management Board		25/2/09
David Nigel Hetherington	Member of the Management Board		25-2-09
Siiri Lahe	Member of the Management Board		25.02.09

# BALANCE SHEETS

AS AT 31 DECEMBER 2008 AND 2007

ASSETS	NOTE	2008	2007
<b>CURRENT ASSETS</b>			
Cash and equivalents	6	229 860	178 420
Customer receivables, accrued income and prepaid expenses	7, 8	112 638	190 402
Inventories		3 760	3 645
Non-current assets held for sale		1 140	1 120
<b>TOTAL CURRENT ASSETS</b>		<b>347 398</b>	<b>373 587</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	2 169 121	2 134 583
Intangible assets	9	42 532	51 022
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2 211 653</b>	<b>2 185 605</b>
<b>TOTAL ASSETS</b>		<b>2 559 051</b>	<b>2 559 192</b>

(THOUSAND EEK)

LIABILITIES AND EQUITY	NOTE	2008	2007
<b>CURRENT LIABILITIES</b>			
Current portion of long-term borrowings	10	82 843	41 486
Trade and other payables	11, 12	87 270	113 452
Short-term provisions		2 486	2 231
Prepayments and deferred income	15	19 797	42 099
<b>TOTAL CURRENT LIABILITIES</b>		<b>192 396</b>	<b>199 268</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	10	1 084 642	1 125 491
Other payables	11	735	113
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1 085 377</b>	<b>1 125 604</b>
<b>TOTAL LIABILITIES</b>		<b>1 277 773</b>	<b>1 324 872</b>
<b>EQUITY</b>			
Share capital	16	200 001	200 001
Share premium		387 000	387 000
Statutory legal reserve		20 000	20 000
Retained earnings		674 277	627 319
<b>TOTAL EQUITY</b>		<b>1 281 278</b>	<b>1 234 320</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2 559 051</b>	<b>2 559 192</b>

Notes to the financial statements on pages 104 to 133 form an integral part of the financial statements.

# INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

(THOUSAND EEK)

	NOTE	2008	2007
Revenue	2, 17	719 923	648 335
Cost of goods sold	2, 19	-272 752	-216 677
<b>GROSS PROFIT</b>		<b>447 171</b>	<b>431 658</b>
Marketing expenses	19	-12 310	-13 547
General administration expenses	19	-54 546	-56 849
Other income/ expenses (-)	2, 20	25 045	16 100
<b>OPERATING PROFIT</b>		<b>405 360</b>	<b>377 362</b>
Financial income	21	15 606	10 861
Financial expenses	21	-58 805	-55 098
<b>PROFIT BEFORE TAXES</b>		<b>362 161</b>	<b>333 125</b>
Income tax on dividends	22	-66 193	-55 285
<b>NET PROFIT FOR THE PERIOD</b>		<b>295 968</b>	<b>277 840</b>
Attributable to:			
Equity holders of A-shares		295 958	277 830
B-share holder		10	10
Earnings per A share (in kroons)	23	14.80	13.89
Earnings per B share (in kroons)	23	10 000	10 000

\*Other revenues and costs related to the main operating activities included in the revenues and costs of goods sold from other operating activities, and other income/ expenses of 2007 have been reclassified, please see the change in the accounting policy, Note 2.

Notes to the financial statements on pages 104 to 133 form an integral part of the financial statements.

# CASH FLOW STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

(thousand EEK)

	NOTE	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating profit		405 360	377 362
Adjustment for depreciation/amortisation	9, 19	89 669	79 241
Adjustment for profit from government grants and connection fees	20	-27 921	-14 250
Other finance expenses	21	-1 614	-1 585
Profit from sale of property, plant and equipment, and intangible assets		-455	-2 422
Expensed property, plant and equipment		-19	476
Change in current assets involved in operating activities	24B	22 781	-32 062
Change in liabilities involved in operating activities	24B	906	-327
Interest paid		-57 569	-52 986
<b>TOTAL CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>431 138</b>	<b>353 447</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment and intangible assets	24C	-332 407	-285 715
Compensations received for construction of pipelines	24A	250 190	101 840
Proceeds from sale of property, plant and equipment and intangible assets		480	390
Proceeds from sale of non-current assets held for sale	24B	0	242
Interest received		16 906	10 571
<b>TOTAL CASH FLOW USED IN INVESTING ACTIVITIES</b>		<b>-64 831</b>	<b>-172 672</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Received long-term loans	10	42 246	0
Repayment of long-term loans	10	-41 910	0
Finance lease payments	10	0	-473
Dividends paid	22	-249 010	-196 010
Income tax on dividends	22	-66 193	-55 285
<b>TOTAL CASH FLOW USED IN FINANCING ACTIVITIES</b>		<b>-314 867</b>	<b>-251 768</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>51 440</b>	<b>-70 993</b>
<b>CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>		<b>178 420</b>	<b>249 413</b>
<b>CASH AND EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>6</b>	<b>229 860</b>	<b>178 420</b>

Notes to the financial statements on pages 104 to 133 form an integral part of the financial statements.



# STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

(thousand EEK)

	SHARE CAPITAL	SHARE PREMIUM	STATUTORY LEGAL RESERVE	RETAINED EARNINGS	TOTAL EQUITY
31 DECEMBER 2006	200 001	387 000	20 000	545 489	1 152 490
Dividends (Note 22)	0	0	0	-196 010	-196 010
Net profit of the financial year (Note 23)	0	0	0	277 840	277 840
31 DECEMBER 2007	200 001	387 000	20 000	627 319	1 234 320
Dividends (Note 22)	0	0	0	-249 010	-249 010
Net profit of the financial year (Note 23)	0	0	0	295 968	295 968
31 DECEMBER 2008	200 001	387 000	20 000	674 277	1 281 278

Information about share capital is disclosed in note 16

Notes to the financial statements on pages 104 to 133 form an integral part of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

## NOTE 1. GENERAL INFORMATION

AS Tallinna Vesi (hereinafter referred to as 'the Company') is the largest water utility in Estonia providing drinking water and wastewater disposal services to over 400 000 people in Tallinn and in several neighbouring municipalities of Tallinn. The Company has the exclusive right to provide water and sewerage services in Tallinn's main service area until the year 2020.

The Company's shareholders having a significant influence are, United Utilities Tallinn B.V. with 35.3% and the City of Tallinn with 34.7%, the balance of 30% of shares is free floating on the Tallinn Stock Exchange, in which the Company listed on 1 June 2005.

### COMPANY'S CONTACTS:

Commercial register number	10257326
VAT identification number	EE100060979
Address	Ädala 10, 10614 Tallinn
Telephone	62 62 200
Fax	62 62 300
E-mail	tvesi@tvesi.ee



**SVEN MILLER**  
Catchment Area Technical Specialist

## NOTE 2. ACCOUNTING POLICIES

The significant accounting policies applied when preparing the financial statements (hereinafter referred to as 'financial statements') of the Company have been pointed out below. The accounts have been prepared on the basis of the principle of sustainability and comparability; the nature of changes in methodology and their impact have been described in respective annexes. In case the presentation of the entries of the accounts or the method of classification has been amended, then the comparable figures of the previous period have also been adjusted. Accounting principles have been applied consistently for all the periods presented in the accounts.

### PRINCIPAL ACCOUNTING POLICIES

The Company has prepared the financial statements for year 2008 according to International Financial Reporting Standards (hereinafter IFRS) as adopted by the European Union (EU).

The financial statements have been prepared on a historical cost accounting basis, unless specified otherwise. Initial acquisition cost includes all costs directly related to the acquisition of the asset or liability.

The financial statements do not include the segment reporting as there are no geographical segments and no clearly distinguished business segments related to the activities of the Company.

Preparing the accounts in compliance with IFRS requires the use of certain critical accounting estimates. Also the management board must make decisions in the process of implementing the accounting principles of the Company. The Company provides estimates and makes assumptions regarding the future. Accounting estimates do not often match with the subsequent actual events. Estimates and decisions are constantly reviewed and based on previous experiences and other factors, including expectations regarding future events that are considered justified while taking into consideration the known circumstances.

## CHANGE IN ACCOUNTING POLICY

Up to 2007 the Company recorded compensations received from customers and local governments for the construction of new pipelines (also connection fees) as revenue as soon as the construction works were completed and receipt of payment was confirmed. These compensations were recorded on the income statement entry "Other revenue related to the main operating activities" and the construction costs related thereto on the entry "Other costs related to the main operating activities". In order to reflect the nature of various received compensations more precisely the accounting principles were amended in 2008.

In compliance with the new principles the compensations received from local governments are treated as government grants pursuant to standard IAS 20 and are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate. Pursuant to the principles of IAS 20 compensations received for the construction of water and wastewater pipelines are deducted from the book value of the constructed pipeline and any amounts exceeding the construction cost of the pipeline shall be recognised as income upon the completion of construction works.

Compensations received from customers are recognised in compliance with standard IAS 18 as income over the period of the duration of customer contract.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

The change in the accounting policy is accounted for retrospectively and the comparatives have been changed as follows:

## INCOME STATEMENT 2007

	OPENING BALANCE	RECLASSIFICATION	REVISED BALANCE
Revenues from other operating activities	172 437	-172 437	0
<b>REVENUE</b>	<b>820 772</b>	<b>-172 437</b>	<b>648 335</b>
Costs of goods sold (other operating activities)	-158 187	158 187	0
<b>GROSS PROFIT</b>	<b>445 908</b>	<b>-14 250</b>	<b>431 658</b>
Other income/ expenses (-)	1 850	14 250	16 100

In addition, the presentation of 2007 Cashflow Statement was amended, where the entry of adjusting business profit "Capitalization of operating expenses" was transferred to the entry of investment cashflow "Acquisition of property, plant and equipment and intangible assets" in the amount of 19 764 thousand kroons.



**MARGUS MARIPUU**  
Water Treatment Process Manager

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

Standards, amendments to published standards and interpretations mandatory for the Group's accounting periods beginning on or after 1 January 2008.

**IFRIC 11, IFRS 2 - Group and Treasury Share Transactions** (effective for annual periods beginning on or after 1 March 2007). The interpretation contains guidelines on the following issues: applying IFRS 2 "Share-based Payment" for transactions of payment with shares which are entered into by two or more related entities; and adopting an accounting approach in the following instances: an entity grants its employees rights to its equity instruments that may or must be repurchased from a third party in order to settle obligations towards the employees; or an entity or its owner grants the entity's employees rights to the entity's equity instruments, and the provider of those instruments is the owner of the entity. This interpretation does not have an impact on the Company's financial statements.

**Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition.** The amendments allow entities the options (a) to reclassify a financial asset out of the held to trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The Company has not elected to make any of the optional reclassifications during the period; as such, this amendment has no impact on the Company's financial statements.

New standards, amendments to standards and interpretations that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted.

**IFRS 8, Operating Segments** (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The Company is currently assessing what impact the standard will have on segment disclosures in the financial statements.



**SVEN MILLER**  
Catchment Area Technical Specialist

**Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment** (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The Company does not expect the amendment to affect its financial statements.

**IAS 23, Borrowing Costs** (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Company does not expect the amendment to the standard to have a material effect on its financial statements. Implementing the IAS 23 sooner would have brought along 5 to 10 mln kroons decrease in net financial costs and respective increase in profit.

**IAS 1, Presentation of Financial Statements** (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Company expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

**IAS 27, Consolidated and Separate Financial Statements** (revised January 2008; effective for annual periods beginning on or after 1 July 2009; the revised standard has not been adopted by the EU). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Company does not expect the amended standard to affect on its financial statements.

**Vesting Conditions and Cancellations — Amendment to IFRS 2, Share-based Payment** (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Company does not expect the amendment to affect on its financial statements.

**IFRS 3, Business Combinations** (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009; the revised standard has not been adopted by the EU). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree’s identifiable net assets) or at fair value. The revised IFRS 3 is

more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. IFRS 3 is not relevant to the Company as it does not expect a business combination to occur.



**MARGUS MARIPUU**  
Water Treatment Process Manager

**IFRIC 12, Service Concession Arrangements** (effective for annual periods beginning on or after 1 January 2008; the interpretation has not been adopted by the EU). The interpretation contains guidelines on applying the existing standards by entities being parties to service concessions between the public and the private sector. IFRIC 12 pertains to arrangements where the ordering party controls what services are provided by the operator using the infrastructure, to whom it provides the services and at what price. The Company does not expect the interpretation to affect its financial statements.

**IFRIC 13, Customer Loyalty Programmes** (effective for annual periods beginning on or after 1 July 2008; according to the EU’s adoption the interpretation is effective for annual periods beginning after 31 December 2008, early adoption permitted). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Company’s operations because Company has not any loyalty programmes.

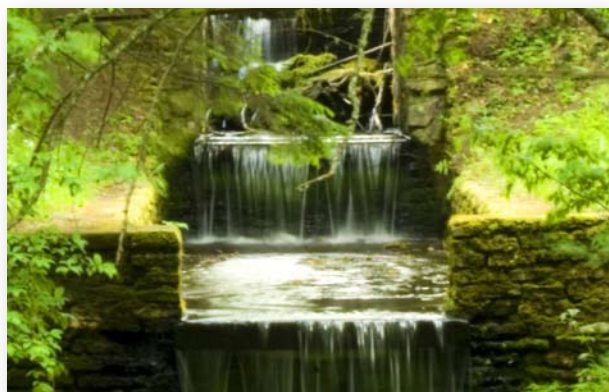
**IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** (effective for annual periods beginning on or after 1 January 2008; the interpretation as adopted by the EU is effective for annual periods beginning after 31 December 2008, early adoption permitted). The Interpretation contains general guidance on how to assess the limit of the surplus of fair value of a defined benefit plan over the present value of its liabilities which can be recognised as an asset, in accordance with IAS 19. In addition, IFRIC 14 explains how the statutory or contractual requirements of the minimum funding may affect the values of assets and liabilities of a defined benefit plan. The Company does not expect the interpretation to affect its financial statements.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

**IFRIC 15, Agreements for the Construction of Real Estate** (effective for annual periods beginning on or after 1 January 2009; the interpretation has not been adopted by the EU). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 is not relevant to the Company's operations because it does not have any agreements for the construction of real estate.



**EVELIN MCQUAY**  
Customer Delivery Manager

**IFRIC 16, Hedges of a Net Investment in a Foreign Operation** (effective for annual periods beginning on or after 1 October 2008; the interpretation has not been adopted by the EU). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that

itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have any impact on these financial statements as the Company does not apply hedge accounting.

**Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment** (issued in May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have any impact on the Company's financial statements.

**Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement** (effective with retrospective application for annual periods beginning on or after 1 July 2009; the amendment has not been adopted by the EU). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Company's financial statements as the Company does not apply hedge accounting.

**Improvements to International Financial Reporting Standards** (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology

in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Company does not expect the amendments to have any material effect on its financial statements.

**IFRIC 17, Distribution of Non-Cash Assets to Owners** (effective for annual periods beginning on or after 1 July 2009; the interpretation has not been adopted by the EU). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Company's operations because it does not distribute non-cash assets to owners.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

**IFRS 1, First-time Adoption of International Financial Reporting Standards** (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; the amended standard has not been adopted by the EU). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Company concluded that the revised standard does not have any effect on its financial statements.

**IFRIC 18, Transfers of Assets from Customers** (effective for annual periods beginning on or after 1 July 2009; the interpretation has not been adopted by the EU). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Company's financial statements.

The new standards and interpretations are not expected to significantly affect the Group's financial statements.

## FUNCTIONAL CURRENCY

The functional currency of the Company is Estonian kroon. Estonian kroon is pegged to the Euro at the fixed exchange rate of 15.6466 kroons per 1 Euro.

## PRESENTATION CURRENCY

For the convenience of the users, these financial statements have been presented in Estonian kroons, rounded to the nearest thousand, unless stated otherwise.

## FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are recorded on the basis of the foreign currency exchange rates of the Bank of Estonia at the date of the transaction. Monetary assets and liabilities recorded in foreign currencies in the financial statements have been converted into Estonian kroons based on foreign currency exchange rates valid at the Balance Sheet date. Gains and losses due to exchange rate changes are aggregated and shown in the Income Statement as Other Income (-Expense) on net basis.

Foreign currency transactions are translated into Estonian kroons using the official exchange rates of the Bank of Estonia prevailing at the transaction date. Monetary assets and liabilities, and non-monetary assets and liabilities that are measured at fair value denominated in foreign currencies that are accounted for in fair value are translated using the official exchange rate of the Bank of Estonia prevailing at the balance sheet date. Profits and losses from foreign currency transactions and assets and liabilities denominated in foreign currency are reported in the income statement as gains or losses of that period.



**MARGUS MARIPUU**  
Water Treatment Process Manager

## CURRENT AND NON-CURRENT DISTINCTION OF ASSETS AND LIABILITIES

Assets and liabilities are classified in the balance sheet as current or non-current. Assets expected to be disposed of in the next financial year or during the normal operating cycle of the Company are considered as current. Liabilities whose due date is in the next 12 months or that are expected to be settled in the next financial year or during the normal operating cycle of the Company are considered as current. All other assets and liabilities are classified as non-current.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the balance sheet and the cash flow statement comprise of cash on hand, cash in bank accounts and short-term, risk free, highly liquid bank deposits with original maturities of three months or less.

## FINANCIAL ASSETS

Financial assets are cash, trade receivables, accrued income, other current and long-term receivables including the derivatives with positive value. Financial assets are initially recognised at cost that is the fair value of the amount paid for that asset.

Financial assets are recorded in balance sheet at value date (i.e. on a day, the Company becomes the owner of the financial assets and will be removed from the balance sheet when the Company loses the ownership of the sold financial assets).

According to the aim of acquisition and management's plans the financial assets are divided into the following groups:

- Financial assets at fair value through profit or loss
- Receivables and loans
- Investments held-to-maturity
- Financial assets available-for-sale

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

As at 31 December 2008 and 2007 the Company did not have any investments held-to-maturity and financial assets available-for-sale.

Financial assets held for trading are classified as financial assets at fair value through profit or loss (asset is purchased for resale or for buyback in the near future). Financial assets at fair value through profit or loss are initially recorded at fair value, transaction costs are recorded in the income statement. Financial assets of this category are subsequently carried at fair value and gains/losses due to changes in fair value are recorded in income statement of the period. The quoted market price in balance date is their basis for establishing the fair value of financial assets at fair value through profit or loss.

Loans and receivables are initially be recorded at a fair value together with the transaction costs. Loans and receivables will further on be recorded at the corrected acquisition cost, using effective interest rate method (minus possible allowances due to decrease in value).

## RECEIVABLES

Trade receivables comprise of short term receivables generated in normal operations. Trade receivables are recorded using the amortised cost method (nominal value less repayments and necessary allowances).

Allowance for receivables is recorded if there are objective proofs that all receivable sums are not repaid according to the initial agreement. Impairment of individually material receivables (need for allowance) is evaluated separately for each customer, considering the present value of the sums likely to be received in future. For receivables which are not individually significant and for which we have no direct information that their value has been decreased, the allowance is evaluated as a complex considering the experience of previous years concerning unpaid receivables. Allowance sum of doubtful receivables is the

difference between their carrying amount and present value of future cash flows, using effective interest rate method. The carrying amount of receivables is reduced by the impairment loss and impairment loss is recorded in the income statement on the row „Other income/ expenses“. Receiving the doubtful receivables is recorded as a decrease of impairment loss.

Receivables, which cannot be collected or the collection is considered economically not justified, are evaluated as uncollectible by the decision of the Management Board based on individual reviews, and are thereby written-off from the balance sheet.

## INVENTORIES

Inventories are initially recorded at the cost including purchase costs, non-refundable taxes and transportation and other costs directly connected with the acquisition, less allowances and donations.

The weighted-average cost method has been used in calculating the acquisition cost of inventories. Inventories are evaluated in

the balance sheet depending on which is lower, the acquisition cost or net realizable value. Net realizable value is the net selling price less estimated costs necessary to make the sale.

## NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale are the property, plant and equipment items that are most probably sold within next 12 months and for which the management has begun sales activity and the assets are offered for sale a realistic price compared to their fair value.

Non-current assets held for sale are recorded in the balance sheet as current assets and depreciation thereof ends at the moment of reclassification. Depending on which is lower, the non-current assets held for sale are recorded in the balance sheet either at book value or at fair value less costs to sell.

## PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS

Property, plant and equipment are used in operating activities of the Company with an expected useful life of over one year. Property, plant and equipment are presented in the balance sheet at historical cost less any accumulated depreciation and any impairment losses.

Intangible assets are recognised in the balance sheet only if the following conditions are met:

- the asset is controlled by the Company;
- it is probable that the future economic benefits that are attributable to the asset will flow to the Company;
- the cost of the asset can be measured reliably.



**MARGUS MARIPUU**  
Water Treatment Process Manager

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

## DEVELOPMENT COSTS

Development costs are costs that are made at the implementation of research results for developing, forming or testing new specific products, services, processes or systems. Development costs are capitalized in case there are technical and financial possibilities and positive intention for the implementation of the project available, the Company is able to use or sell the assets to be established and the extent of the development costs and the economic benefit emerging from intangible assets in the future can be measured reliably.

## SOFTWARE

Purchased computer software that is not integral part of the related hardware is recorded as intangible assets. Development costs of computer software are recorded as intangible assets in case these are directly related to the development of such software objects that are distinguishable, controllable by the Company and the use thereof provides future economic benefit during a period of more than one year. Capitalizable development costs of computer software include staff costs and other expenses directly related to the development. Costs related to the day-to-day maintenance of computer software are recognised as expenses in the income statement. Costs of computer software shall be depreciated within an estimated useful lifetime, the duration of which is up to 5 years.

## OTHER INTANGIBLE ASSETS

Expenses for acquiring patents, trade marks, licences and certificates shall be capitalized in case it is possible to estimate the future economic benefits attributable to these assets. Other intangible assets are amortised on a linear basis over the estimated useful lifetime, the duration of which does not exceed 5 years.

The cost of purchased property, plant and equipment and intangible assets comprises the purchase price, transportation costs, installation, and other direct expenses (incl. internal labour costs) related to the acquisition or implementation.

Labour costs are capitalised with employee's hourly index according to working hours, which are needed for taking the asset to needed working condition and -place determined by Management. Hourly rate is calculated individually for each employee and includes in addition to salary costs also other direct expenses connected with the employee.

If an item of property, plant and equipment consists of components with different useful lives, these components are depreciated as separate items. Interest charges on loans are not capitalised in the cost of property, plant and equipment and intangible assets.



**MARGUS MARIPUU**  
Water Treatment Process Manager

Subsequent expenditures are added to the carrying amount of the item of property, plant and equipment or are recognised as a separate asset only when it is probable that future economic benefits related to the assets will flow to the Company and the cost of the asset can be measured reliably. A replaced component or proportion of the replaced item of property, plant and equipment is derecognised. Cost related to ongoing maintenance and repairs are charged to the income statement.

Land is not depreciated. Depreciation of other property, plant and equipment is calculated on a straight-line basis on cost over the estimated useful life of the asset.

Applicable depreciation/amortization rates:

- buildings 1.25-2.0 % per annum;
- facilities 1.0-8.33 % per annum;
- machinery and equipment 3.33-50 % per annum;
- instruments, facilities etc. 10-20 % per annum;
- intangible assets 10-33 % per annum.

In exceptional circumstances rates may differ from the above rates if it is evident that the estimated useful life of the asset varies materially from the rate assigned to the respective category.

The expected useful lives of items of property, plant and equipment are reviewed during the annual stocktaking, in recognising subsequent expenditures and in case of significant changes in development plans. When the estimated useful life of an asset differs significantly from the previous estimate, it is treated as a change in the accounting estimate, and the remaining useful life of the asset is changed as a result of which the depreciation charge of the following periods also changes. Assets are written down to their recoverable amount when the recoverable amount is less than the carrying amount. To determine profits and losses from the sale of property, plant and equipment, the book value of the sold assets is subtracted from the proceeds. The respective profits and losses are reported in the income statement items "Other income / expenses".

## IMPAIRMENT OF ASSETS

Assets that are subject to depreciation/amortisation and property, plant and equipment with unlimited useful lives (land) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable value of intangible assets in progress is tested annually, by comparing their recoverable amount with the book value.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

Assets are written down to their recoverable amount in case the latter is lower than the carrying amount. The recoverable amount of the assets is the higher of the 2 following:

- fair value less costs to sell;
- value in use.

In case it is not possible to determine the fair value of assets less costs to sell, the asset's value in use is considered to be its recoverable value. The value in use is calculated as the estimated present values to be generated by the assets in the future.

The impairment of assets may be assessed either for a single or a group of assets (cash-generating unit). The smallest separately identified group of assets, the cash flows generated from which are mostly forecasted independently from the cash flows generated by the rest of the assets, is considered as a cash-generating unit. The impairment loss is immediately recognised as a loss in the income statement. Every balance sheet day circumstances indicating the decrease or non-existence of impairment loss accounted for in previous periods are assessed.

If based on the results of the assessment it appears that the recoverable amount of an asset or a group of assets (cash-generating unit) has increased over the book value, the earlier impairment is reversed and the book value of the asset will be increased up to the amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. The reversal of impairment loss is recorded in the income statement of the period as a decrease in impairment loss.



EVELIN MCQUAY  
Customer Delivery Manager

## FINANCIAL LIABILITIES

Financial liabilities include trade payables, accrued expenses, loans payable and other short term and long term financial liabilities. Financial liabilities are initially registered in their acquisition cost, which is the fair value paid for the financial liability. Subsequently financial liabilities are carried using the amortised cost method.

Amortised cost of short term financial liabilities is usually equal to their nominal value, thus they are carried on balance sheet at the amount payable. For calculating the amortised cost of long-term financial liabilities these are initially recognized at fair value of amount received (less transaction costs), calculating interest expense from the liability using effective interest rate method during next periods.

On the balance sheet the liabilities, the due date of which is later than within 12 months after the balance date, are classified as long-term liabilities. Remaining financial liabilities are classified as short-term.

## TAXES

Because in Estonia profit is not object for taxation the principles of deferred income tax are not applicable to the Company.

## INCOME TAX ON DIVIDENDS IN ESTONIA

According to the Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to tax, as tax is charged only on dividend distributions. Pursuant to the Income Tax Act Section 50, effective since 1 January 2003, resident legal entities are liable to income tax on all dividends paid and other profit distributions irrespective of the recipient. Since 1 January 2008 the rate is 21/79 on the amount of the dividends payable (2007: 22/78).

The potential tax liability that may occur if all distributable retained earnings should be paid out as dividends is not reported on the Balance Sheet. The income tax due on dividend distribution is recorded as a liability and as tax cost within the Income Statement during the same period as the dividend is paid regardless of the actual payment date or the period for which dividends are declared. Tax payment liability arises on the 10th date of the month following the dividend payment.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

## EMPLOYEE BENEFITS

### EMPLOYEE SHORT-TERM BENEFITS

Employee short-term benefits include wages and salaries as well as social security taxes, benefits related to the temporary halting of the employment contract (holiday pay or other similar pay) when it is assumed that the temporary halting of the employment contract will occur during 12 months after the end of the period in which the employee worked, and other benefits payable within 12 months after the end of the period during which the employee worked.



**OLGA CHISLOVA**  
Chemist in Water Laboratory

### POST-EMPLOYMENT BENEFITS

Post-employment benefits are benefits which are payable after the Company decides to terminate the employment relationship with the employee before the normal retirement date or when the employee decides to leave voluntarily or when the employee and employer have an agreement, in exchange for the benefits outlined. The Company recognises post-employment benefits as liabilities and expenses only when the Company is obliged to offer postemployment benefits in order to encourage voluntary leaving.

## PROVISIONS AND CONTINGENT LIABILITIES

On balance sheet the commitments arising during accounting period or during previous accounting periods that have legal or contractual basis, which requires waiver of the asset in the future and the cost of which can be reliably determined, but the final cost or due date of which is not definitely fixed, but which exist as liability irrespective of the Company's further activities are recorded as provisions.

The sum of servitudes likely payable that henceforth must be paid to the owners of private land resulting from the restrictions related to land use in case the Company's pipes are located on their land, are recorded as provisions. On the balance sheet the liability is classified as short-term, because it can be realized in full extent within 12 months after the balance date. Provisions have been recognised on the basis of the best estimates of the Company's Management Board and the actual costs of these transactions can differ from the provided estimates.

Commitments, guarantees and other possible and existing liabilities, the realization of which is unlikely or the amount of accompanying costs cannot be assessed with sufficient reliability, however, which can become liabilities on certain terms in the future, are disclosed as contingent liabilities in the notes to the financial statements.

## SHARE CAPITAL

Shares are recorded within the equity capital. Pursuant to the Company's Articles of Association, the Company has two classes of shares: the A-Shares, with a nominal value of 10 kroons each and a single preference share B-Share, with a nominal value of 1 000 kroons.

## STATUTORY LEGAL RESERVE

Pursuant to the requirements of the Commercial Code the



**MEELIS ENOK**  
Controlroom Chief Specialist

statutory legal reserve is recorded in the accounts, which comprises of the allocations made from net profits. The annual allocation must be at least 5% of the approved net profit of the accounting year until the legal reserve is equal to 10% of paid-up share capital. As the Company's legal reserve has reached the required level, the legal reserve is no longer increased from net profit.

At the decision of the General Meeting of the Shareholders the legal reserve can be used for the covering of loss in case it is not possible to cover it from the Company's available shareholders' equity, also for increasing the Company's share capital. The legal reserve cannot be used for making the payments to the shareholders.

## LEASED ASSETS

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. Leases which transfer all significant risks and rewards incidental to ownership to the lessee are classified as finance leases. Other leases are classified as operating leases.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

## THE COMPANY AS THE LESSEE

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of minimum lease payments. Each lease payment is apportioned between the finance charge and the reduction of the outstanding liability. Finance charges are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The finance lease liability is reduced by principal payments. The finance charge is recognised as an interest expense in the income statement. The finance lease liability is recognised either as a short or long-term borrowing in the balance sheet. Payments made under operating leases are charged to the income statement over the lease term on a linear basis.

## GOVERNMENT GRANTS

Government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate. Government grants received for expenses incurred in previous periods or which do not include additional conditions for future compliance, are recognised as income in period when government grant was received. Government grants are not recognised as income before exists sufficient confidence that Company complies with the conditions attaching to government grants and the grants will be received. Government grants received as compensations for the construction of water pipelines shall be deducted from the book value of the pipeline constructed and any amounts exceeding the construction cost of pipeline shall be recognized as income upon completion of construction works as "Other income/expenses".



**LIIA KUMM**  
Communications Specialist

## REVENUE

Revenue is recorded on an accrual basis at the fair value received or receivable. Revenue comprises of the income received from goods and services sold net of sales discounts.

Sales of water, services of wastewater, stormwater firehydrants and other sales income is recorded in the period when the service has been provided, the proceeds from the provision of the service is probable and the revenue and the costs related to the provision of the service are reliably identified. Revenues received from the sale of assets shall be recognised when all the significant risks and benefits related to the possession of assets have been transferred to the purchaser, the receipt of the revenue receivable from the sale is probable and the cost related to the transaction can be reliably determined.

Compensations received from local governments for the construction of water pipeline shall be recognised as government grants. Compensations shall be deducted from the book value

of the constructed pipeline and any amounts exceeding the construction cost of pipeline shall be recognized as income upon the completion of construction works as "Other income/expenses". Connection fees and other compensations received from customers are recognized as income during the period of the duration of customer contract.

Interest income is recognised in case the receipt of income is likely and the amount of income can be determined reliably. Interest income is recognised using the asset's effective interest rate, except when the receipt of interests is uncertain. In this case interest income is calculated on cash basis.

## EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit of the accounting year with the weighted average number of issued shares of the period. When calculating diluted earnings per share, the earnings and the average number of shares are adjusted with potential shares that have a diluting effect on the earnings per share.



**MARGUS MARIPUU**  
Water Treatment Process Manager



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

## NOTE 3. FINANCIAL RISK MANAGEMENT

In its everyday business activities Company faces different financial risks: market risk (including currency risk, price risk and cash flow and fair value interest rate risk), credit risk, liquidity risk and equity risk.

Because of the Company's position on the market and characteristics of its business activities none of before mentioned risks has significant impact to Company.

FINANCIAL ASSETS	31.12.2008	31.12.2007
Receivables (incl cash and cash equivalents)	338 839	364 220
Financial assets at fair value through profit or loss	0	1 550
FINANCIAL LIABILITIES IN AMORTISED COST		
Financial liabilities at amortised cost	1 255 490	1 280 542

According to the Company's risk administration procedures, and instructions from the Management Board the financial risk management is carried out by the financial department.

## MARKET RISK

### CURRENCY RISK

Currency risk is the potential loss from currency exchange rates unfavourable movements against Estonian kroon. Sums that have received, paid or owned in euros are considered currency risk free because euro's exchange rate to Estonian kroon is fixed.

The Company's currency risk is mainly related to international purchases and sums owned in foreign currencies (excluding euro).

Because most of Company's international purchases are made in euros, the proportion of purchases in other currencies in 2008 was 1.1% (2007: 0.5%), the Company considered it unnecessary to undertake special activities to minimise this currency risk.

On 31. December 2008 the Company's bank account (including deposits) balances totalled 229 860 thousand kroons (2007: 178 420 thousand kroons) and 219 thousand kroons (2007: 7 thousand kroons) in other currencies.

Due to the above, the Management Board considers the Company's currency risk level to be low and to continue to minimise this risk plans to make most of business transactions in Estonian kroons or euros.

### PRICE RISK

The Company has no price risk regarding financial instruments because it has no investments into equity instruments.

### CASH FLOW AND FAIR VALUE INTEREST RATE RISK

Interest rate risk is the risk that the fair value of financial instruments or cash flows will fluctuate in the future due to changes in market interest rates. Interest rate risk of cash flows is the risk that financial expenses or financial liabilities with floating interest rate will increase when interest rates on the market increase. Fair value interest rate risk is the risk that the fair value of financial liabilities with a fixed interest rate will increase when interest rates on the market decrease.

In essence the Company's operating incomes and expenses are independent from interest rate changes on the market. Interest risk related to financial incomes arises from depositing finances to overnight and fixed term deposits. The Company does not use any other possibilities for depositing finances. The Company does not have fair value interest rate risk because it has no interest bearing instruments accounted for at fair value.

The Company's interest rate risk related to financial expenses is related to taken long term loans, which have fixed and floating interest rates. The Company faces cash flows interest rate risks with loans with a floating interest rate from Nordea bank. According to the Management Board's assessment this risk has a low possible impact and therefore no financial instruments have been used to reduce it. The loan with a fixed interest rate from the EBRD (European Bank for Reconstruction and Development) exposes the Company to fair value interest rate risk. According to the Management Board's assessment the fair value of the long term loan with a fixed interest rate does not differ significantly from its carrying amount. The EBRD loan's fixed interest rate is 4.67% (was the same in 2007) and Company's average loans' interest rate in 2008 was 4.88% (2007: 4.34%). More detailed information about the Company's loans can be seen in Note 10.

If the interest rates of the Company's loans with floating interest rates had been 50 basis points higher and all other variables were held constant, then the Company's profit before tax for the year ended 31 December 2008 would have decreased by 3 002 thousand kroons (2007: 2 974 thousand kroons). If these interest rates had been 50 basis points lower and all other variables were held constant, then the Company's profit before tax for the year ended 31 December 2007 would have increased by 3 002 thousand kroons (2007: 2 974 thousand kroons).

## CREDIT RISK

Credit risk expresses potential loss that could arise if a counterparty fails to fulfil its contractual obligations. Cash in bank deposits, held-to-maturity financial assets, trade and other receivables are exposed to credit risk.

According to the Company's risk management principles the Company's short term available resources can be deposited only in accounts and fixed term deposits opened in credit institutions. For depositing the counterparty must have at least a Moody's Aa3 rating. In 31.12.2008 60% of Company's cash and deposits was deposited in a counterparty with a Aa2 rating and

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(thousand EEK)

40% in a counterparty with a Aa3 Moody's rating (2007: 100% Moody's Aa3).

The Company has established procedures for co-operation with customers, to guarantee that selling of products and services is always in compliance with the Company's guiding principles. To reduce the credit risk related to accounts receivables the

customers payment discipline is consistently observed. In the case of clients overdue debts the Company's Credit group sends invoice remainders, makes contact by phone or uses a variety of other measures to collect the overdue debt. Depending on the negotiations with the customer it is possible to agree exceptional payment terms and plans to help customers pay their invoices. The Company has defined policies regarding the

commencement of court proceedings to recover overdue debt. On 31.12.2008 no receivable from any customer exceeded 5% of total receivables, except Tallinna Kommunaalamet whose total receivables at the end of the year amounted to 24 893 thousand kroons (31.12.2007: 104 000 thousand kroons).

TRADE RECEIVABLE 31.12.2008, IN THOUSAND KROONS			OVER DUE			
	Balance	Not due	until 3 months	4-6 months	7-12 months	over 12 months
Commercial entities	62 566	57 322	5 012	155	77	0
Private persons	45 638	43 502	1 886	143	108	0
<b>TOTAL</b>	<b>108 204</b>	<b>100 824</b>	<b>6 898</b>	<b>298</b>	<b>184</b>	<b>0</b>

OVER DUE						
	Balance	Not due	until 3 months	4-6 months	7-12 months	over 12 months
Commercial entities	100%	91.62%	8.01%	0.25%	0.12%	0.00%
Private persons	100%	95.32%	4.13%	0.31%	0.24%	0.00%
<b>TOTAL</b>	<b>100%</b>	<b>93.18%</b>	<b>6.37%</b>	<b>0.28%</b>	<b>0.17%</b>	<b>0.00%</b>

TRADE RECEIVABLE 31.12.2007, IN THOUSAND KROONS			OVER DUE			
	Balance	Not due	until 3 months	4-6 months	7-12 months	over 12 months
Commercial entities	135 965	125 004	10 431	390	141	0
Private persons	49 258	47 036	1 499	658	66	0
<b>TOTAL</b>	<b>185 223</b>	<b>172 040</b>	<b>11 929</b>	<b>1 048</b>	<b>207</b>	<b>0</b>

OVER DUE						
	Balance	Not due	until 3 months	4-6 months	7-12 months	over 12 months
Commercial entities	100%	91.94%	7.67%	0.29%	0.10%	0.00%
Private persons	100%	95.49%	3.04%	1.33%	0.13%	0.00%
<b>TOTAL</b>	<b>100%</b>	<b>92.88%</b>	<b>6.44%</b>	<b>0.57%</b>	<b>0.11%</b>	<b>0.00%</b>

The Company's maximum credit risk is equal to the carrying amount of the financial assets. Its level according to the assessment of the Management Board is low.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(thousand EEK)

## LIQUIDITY RISK

Liquidity risk is the risk that the Company is unable to fulfil its financial obligations due to insufficient cash inflows. This risk crystallizes when the Company doesn't have enough funds to serve its loans, to fulfil its working capital needs, to invest and/or to make declared dividend payments. Maturities of the financial assets and liabilities (undiscounted):

FINANCIAL LIABILITIES 31.12.2008	INTEREST RATE %	LESS THAN 1 MONTH	1 - 3 MONTHS	3 MONTHS - 1 YEAR	1 - 5 YEARS	OVER 5 YEARS	TOTAL
Non-interest bearing	-	85 422	1 006	842	614	121	88 005
With floating interest rate	6M Euribor + 0.69	-	-	32 626	1 202 864	120 753	1 356 243
With fixed interest rate	4.67	-	-	108 278	482 712	42 881	633 871
		85 422	1 006	141 746	1 686 190	163 755	2 078 119

FINANCIAL LIABILITIES 31.12.2007	INTEREST RATE %	LESS THAN 1 MONTH	1 - 3 MONTHS	3 MONTHS - 1 YEAR	1 - 5 YEARS	OVER 5 YEARS	TOTAL
Non-interest bearing	-	102 519	10 933	-	-	113	113 565
With floating interest rate	6M Euribor + 0.24	-	-	27 308	568 549	121 532	717 389
With fixed interest rate	4.67	-	-	69 387	502 311	131 587	703 285
		102 519	10 933	96 695	1 070 860	253 232	1 534 239

In liquidity risk management the Company has taken a prudent view, maintaining sufficient cash balance and availability of short-term marketable securities to fulfil its financial liabilities. Continuous cash flow forecasting and control are essential tools in the day-to-day liquidity risk management of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(thousand EEK)

## EQUITY RISK MANAGEMENT

The Management Board of the Company ensures the management of the capital structure of the Company according to the Business Plan approved by the Supervisory Board. The Loan agreement with Nordea bank limits the minimum ratio at 35% for the equity capital from the total assets.

EQUITY RATIO	31.12.2008	31.12.2007
Equity	1 281 278	1 234 320
Total assets	2 559 051	2 559 192
EQUITY RATIO	50%	48%



**SVEN MILLER**  
Catchment Area Technical Specialist

## FAIR VALUE

Fair values of cash and cash equivalents, accounts receivable, short term loans and accounts payable do not vary significantly from their carrying amount because their realisation will take place within 12 months from the date the balance sheet was composed. The fair value of EBRD's long-term loan does not vary significantly from its carrying amount because its fixed interest rate does not vary significantly from the market interest rate.

The risk margin, that influences the financing price, has recently significantly increased, however it has been compensated by the decrease in 6 month's EURIBOR. The fair value of Nordea's long-term loans is smaller than their carrying amount. Both Nordea's loans have a floating interest rate however, since signing both agreements the risk margins have significantly increased.

This means that if the Company would like to refinance these loans on today's market conditions it would bring higher total loan costs compared to the existing agreements.



**MARGUS MARIPUU**  
Water Treatment Process Manager

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(thousand EEK)

## NOTE 4. CRITICAL ACCOUNTING ESTIMATES

Management has made an assessment of the key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that may have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year. The most important areas of estimates contained in the financial statements are the following:

- Management has estimated the useful lifetime of property, plant and equipment and intangible assets. The results of the estimates are disclosed in note 2 the in section 'Property, plant and equipment, and intangible assets' and the information about the carrying amounts is disclosed in note 9.

As of 31 December 2008 Company owns property, plant and equipment, and intangible assets in book value 2.2 bn kroons (31.12.2007: 2.0 bn kroons) and annual depreciation was 89 mln kroons in 2008 (2007: 79 mln kroons). If the depreciation/amortization rates decreased / increased by 5 %, the depreciation/amortization expense would increase / decrease respectively 4.5 mln kroons (2007: 4.0 mln kroons).

- The Company has assumed an obligation to construct water and wastewater and stormwater pipelines with an estimated construction cost of up to 650 mln kroons in 2009-2011. The construction of water and wastewater pipelines is compensated by local governments with the grants receivable in 2008-2017. Compensations received from local governments are recognised



**MARGUS MARIPUU**  
Water Treatment Process Manager

as government grants - compensations received or receivable and are deducted from the book value of the constructed pipeline. Any amount exceeding the construction cost of the pipeline is recognized as income upon the completion of construction works. The part of the compensation that is received after the completion of the construction works is recognized in the balance sheet as a receivable from local government at its present value. Recognition of the above compensations is dependant on several uncertain circumstances and the estimates of the Management Board, in particular those regarding the total cost of the project and the fair value of the compensations receivable. As construction works continue until 2011 and the exact extent thereof can change, there is no certainty regarding the total cost of the construction of the pipelines and the profitability

of the project. In recording income from government grants in these financial statements the best knowledge and estimates of the Management Board of the profit rates of the project have served as the basis for calculation. If the actual construction costs differed from these estimates, a change of 5% in the profit rates of the project would have an impact to the profit of 2008 by 79 mln kroons (2007: 0.0 mln kroons).

As compensations for water pipelines will be received until 2017 and the exact extent thereof depends on water consumption, the fair value of compensations receivable is also based on estimates. The estimated compensations receivable in 2008-2017 that have been discounted using a rate of 7%. If the discount rate decreased/increased by 0.5%, the profit of the accounting period would increase/decrease up to 1 mln kroons (2007: 0.0 mln kroons).

- Accounts receivable - for the evaluation of doubtful debts the individual debts are grouped by age and, based on past experience, the following percentages are applied in the doubtful debt calculation:

61 to 90 days over due date	10%;
91 to 180 days over due date	30%;
181 to 360 days over due date	70%;
over 360 days over due date	100%.

Bigger discount rates could be applied in case of individual receivables if needed.

# NOTES TO THE FINANCIAL STATEMENTS

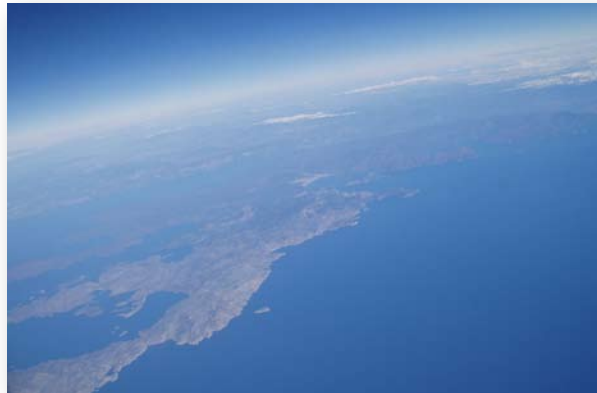
FOR THE YEAR ENDED 31 DECEMBER 2008

## NOTE 5. IMPACTS OF ECONOMIC CRISIS

### RECENT VOLATILITY IN GLOBAL (AND ESTONIAN) FINANCIAL MARKETS

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets.

The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.



JANE LIBE  
Customer Administrator

The volume of wholesale financing has significantly reduced since August 2007. This may affect the Company's results regarding securing its long term financing.

Debtors of the Company may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Management is unable to reliably estimate the effects on the Company's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Company's business in the current circumstances.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(thousand EEK)

## NOTE 6. CASH AND CASH EQUIVALENTS

	AS OF 31 DECEMBER	
	2008	2007
Cash in hand and in bank	1 551	37 838
Short-term deposits	228 309	140 582
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>229 860</b>	<b>178 420</b>

## NOTE 7. CUSTOMER RECEIVABLES

	AS OF 31 DECEMBER	
	2008	2007
Accounts receivable	111 681	107 957
Deferred income* (Note 27)	0	80 727
Allowance for doubtful receivables	-3 477	-3 461
<b>TOTAL TRADE RECEIVABLES</b>	<b>108 204</b>	<b>185 223</b>

\* Government grant receivable that is based on construction cost, the invoice was issued in the next financial year..

IMPAIRMENT LOSS OF RECEIVABLES:	FOR THE YEAR ENDED 31 DECEMBER	
	2008	2007
Write off of uncollectible receivables	-169	-472
Receipt of receivables previously written off as uncollectible	172	157
Change in allowance for doubtful receivables	-16	1 741

## NOTE 8. ACCRUED INCOME AND PREPAID EXPENSES

	AS OF 31 DECEMBER	
	2008	2007
Accrued interest	765	2 065
Prepaid expenses	3 669	3 114
<b>Total accrued income and prepaid expenses</b>	<b>4 434</b>	<b>5 179</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

## NOTE 9. PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS

Property, plant and equipment					
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress
AS OF 31 DECEMBER 2006					
Acquisition cost	345 074	2 016 934	534 627	17 532	89 989
Accumulated depreciation	-59 475	-641 049	-325 644	-10 894	0
Book value	285 599	1 375 885	208 983	6 638	89 989
Transactions in the period 01.01.2007 - 31.12.2007					
Acquisition in book value (Note 24C)	0	0	0	0	142 541
Write off and sale of property, plant and equipment, and intangible assets in book value	-1 507	0	-80	0	0
Compensated by government grants (Note 24A)	0	0	0	0	0
Reclassification	20 654	119 355	47 058	658	-186 381
Depreciation (Note 19)	-3 952	-33 642	-31 569	-1 102	0
Total transactions in the period 01.01.2007 - 31.12.2007	15 195	85 713	15 409	-444	-43 840
AS OF 31 DECEMBER 2007					
Acquisition cost	364 188	2 134 970	566 408	17 708	46 149
Accumulated depreciation	-63 393	-673 373	-342 016	-11 514	0
Book value	300 795	1 461 597	224 392	6 194	46 149
Transactions in the period 01.01.2008 - 31.12.2008					
Acquisition in book value (Note 24C)	0	0	0	0	113 524
Write off and sale of property, plant and equipment, and intangible assets in book value	283	12	-19	0	0
Compensated by government grants (Note 24A)	0	0	0	0	0
Reclassification	3 925	100 384	31 701	1 149	-136 695
Depreciation (Note 19)	-4 221	-38 023	-34 635	-1 218	0
Total transactions in the period 01.01.2008 - 31.12.2008	-13	62 373	-2 953	-69	-23 171
AS OF 31 DECEMBER 2008					
Acquisition cost	368 045	2 234 538	585 674	18 373	22 978
Accumulated depreciation	-67 263	-710 568	-364 236	-12 247	0
Book value	300 782	1 523 970	221 439	6 125	22 978

\* Please vide Note 4.

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 2008 and 2007 there were no contracts for financial lease.

Collateral of loans and pledged assets is described in note 26.

(thousand EEK)

Assets in progress			Intangible assets		Total property, plant and equipment and intangible assets
Construction in progress - unfinished pipelines*	Prepayment for fixed assets	Unfinished intangible assets	Development costs	Acquired licenses and other intangible assets	
117 162	2 795	1 687	17 543	63 731	3 207 074
0	0	0	-11 408	-17 271	-1 065 741
117 162	2 795	1 687	6 135	46 460	2 141 333
135 085	2 611	5 716	0	0	285 953
0	0	0	0	0	-1 587
-158 187	0	0	0	0	-158 187
-4 003	-7	-5 518	1 809	3 709	-2 666
0	0	0	-1 918	-7 058	-79 241
-27 105	2 604	198	-109	-3 349	44 272
90 057	5 399	1 885	19 006	66 817	3 312 587
0	0	0	-12 980	-23 706	-1 126 982
90 057	5 399	1 885	6 026	43 111	2 185 605
189 651	0	3 082	0	0	306 257
0	0	0	0	0	276
-186 282	0	0	0	0	-186 282
-1 452	-3 546	-3 137	5 873	-2 736	-4 534
0	0	0	-8 931	-2 641	-89 669
1 917	-3 546	-55	-3 058	-5 377	26 048
91 974	1 853	1 830	17 742	62 372	3 405 379
0	0	0	-14 774	-24 638	-1 193 726
91 974	1 853	1 830	2 968	37 734	2 211 653

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(thousand EEK)

## NOTE 10. SHORT-TERM AND LONG-TERM BORROWINGS

AS OF 31 DECEMBER 2008

BANK LOANS	Carrying amount 31 December 2008	Contractual interest rate %	Effective interest rate %	Maturity date
EBRD	539 266	4.67	4.95	05.2015
Nordea Bank I	586 550	6 month Euribor + 0.24	6 month Euribor + 0.255	11.2015
Nordea Bank II	41 669	6 month Euribor + 1.15	6 month Euribor + 1.28	11.2013
TOTAL BORROWINGS INCL	1 167 485			
Short-term portion	82 843			
Long-term portion	1 084 642			

AS OF 31 DECEMBER 2007

BANK LOANS	Carrying amount 31 December 2008	Contractual interest rate %	Effective interest rate %	Maturity date
EBRD	580 458	4.67	4.93	05.2015
Nordea Bank I	586 519	6 month Euribor + 0.24	6 month Euribor + 0.274	11.2015
TOTAL BORROWINGS INCL	1 166 977			
Short-term portion	41 486			
Long-term portion	1 125 491			

The collaterals of the loans are indicated in Note 26.

NAME	Repayments period
EBRD	Loan repayments started in November 2008. The repayments will be made twice a year in May and November in accordance with the repayment terms agreed in the loan agreement.
Nordea Bank I	Loan repayments start in May 2011. The repayments will be made twice a year in May and November in accordance with the repayment terms agreed in the loan agreement.
Nordea Bank II	The repayment will be made once in November 2013.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(thousand EEK)

## NOTE 11. TRADE AND OTHER PAYABLES

AS OF 31 DECEMBER

LIABILITIES	BALANCE AMOUNT 2008	BALANCE AMOUNT 2007	SHORT-TERM PORTION 2008	LONG-TERM PORTION 2008	MATURITY DATE
Trade payables - operating expenditures	13 966	13 019	13 966	0	
Trade payables - capital expenditures	26 805	53 063	26 805	0	
Factoring	107	0	107	0	
Payables to related parties (Note 27)	3 972	4 091	3 972	0	
Payables to employees*	11 658	11 492	11 658	614	12.2011
Interest payable	4 829	5 207	4 829	0	
Other accrued expenses	2 913	94	2 913	0	
Long-term guarantee deposit**	121	113	0	121	04.2102
<b>TOTAL TRADE AND OTHER PAYABLES</b>	<b>64 371</b>	<b>87 079</b>	<b>64 250</b>	<b>735</b>	

\* Long-term payable includes the performance related pay that will realise in 2011 in case of the successful delivery of the project.

\*\* Long-term deposit is presented at cost.

## NOTE 12. TAXES PAYABLE

AS OF 31 DECEMBER			
	2008	2007	TAX RATES
Income tax	1 916	1 948	21% (2007: 22%)
VAT	7 699	15 891	18%
Tax on special use of water	2 732	2 627	0.38 - 0.88 kr/m <sup>3</sup> (2007: 0.36 - 0.80 kr/m <sup>3</sup> )
Pollution taxes*	7 052	1 752	4 909 - 156 000 kr/t (2007: 4 091 - 130 200 kr/t)
Social security tax	3 890	3 853	33%
Other	345	415	0.3 - 21%
<b>TOTAL</b>	<b>23 634</b>	<b>26 486</b>	

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(thousand EEK)

## NOTE 13. GOVERNMENT GRANTS

### GOVERNMENT GRANTS FOR ASSETS

Government grants received as compensations for constructing pipelines taken into use in the financial year amounted to 159 310 thousand kroons (2007: 118 947 thousand kroons) (Note 27).

Property, plant and equipment have been reduced by the amount received as government grants of 135 820 thousand kroons (2007: 112 750 thousand kroons).

## NOTE 14. CONTINGENT LIABILITIES

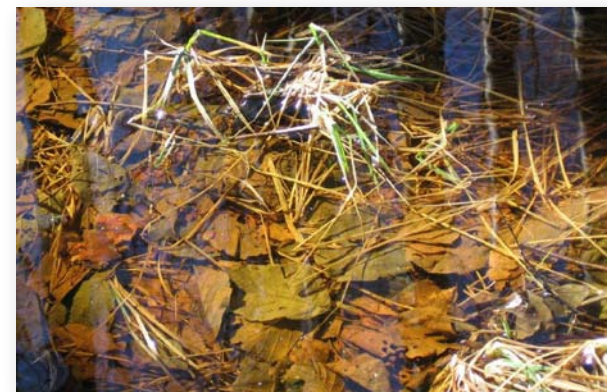
Tax authority is entitled to check the Company's tax accounting within 6 years after the term for the submission of tax declaration and when mistakes are detected to impose an additional amount of tax, interests and fines. According to the Company's management board there are no circumstances as a result of which tax authority could impose a significant additional amount of tax to the Company.

According to the management board none of the current litigations involve any expenses that should be included in the balance sheet or referred to as an off-balance-sheet contingent commitment.

The Company's distributable retained earnings as at 31 December 2008 amounted to 674 276 thousand kroons (2007: 627 319 thousand kroons). Consequently, the maximum possible tax liability which would become payable if retained earnings were fully distributed is 179 238 thousand kroons (2007: 166 756 thousand kroons).

## NOTE 15. PREPAYMENTS AND DEFERRED INCOME

	AS OF 31 DECEMBER	
	2008	2007
Prepayments of customer	1 073	1 095
Prepayments for pipelines (Note 24A and 24B)	18 724	41 004
TOTAL DEFERRED INCOME	19 797	42 099



**RUUTA LIIVE**  
Taxes and Statistics Manager



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(thousand EEK)

## NOTE 16. SHARE CAPITAL

At 31 December 2008 and 2007 the nominal value of the share capital was 200 001 000 (two hundred million one thousand) kroons, composed of 20 000 000 shares with nominal value of 10 kroons per share (A-share) and one preferred share with a nominal value of 1 000 kroons (B-share).

One B-share has been issued giving the right of veto to the shareholder when voting on the following issues: change in the Articles of Association, increase and decrease of share capital, issuance of replacement bonds, termination of the Company's activities, merging, sharing and rearrangements, acquisition of own shares and, on demand of the management or supervisory board, deciding other issues related to the activities of the Company that have not been placed in the sole competence of the General Meeting by law. The B-share grants the holder the preferential right to receive a dividend in an agreed sum of 10 thousand kroons.

General Meeting of Shareholders has the authority to decide the emission and buyback of the shares, following the principles established in the Articles of Association. Management board does not have any respective authorities.

Restrictions on the transfer of shares are disclosed in chapter 'Description of capital stock and corporate governance' of the IPO offering circular of AS Tallinna Vesi shares. The circular is available on the Company's website ([www.tallinnavesi.ee](http://www.tallinnavesi.ee)).



ELMO KORTELE  
Automatician

As of 31 December 2008 and 2007 United Utilities (Tallinn) B.V. owned 7 060 870 (35,3%) A- shares, the City of Tallinn owned 6 939 130 (34,7%) A- shares and one B-share, with 6 000 000 shares in free float.

As of 31 December 2008 Credit Suisse Securities (Europe) Ltd Prime Brokerage A/C customers 1 151 948 (5,76%) and HSBC Bank PLC RE Parvus European Absolute Opportunities Master Fund customers owned 1 091 109 (5,46%) shares.

As of 31 December 2007 Nordea Bank Finland PLC customers 1 542 491 (7,71%) and Morgan Stanley + Co International PLC customers owned 1 361 459 (6,81%) shares. Other direct shareholders owned less than 5% of the shares as of 31 December 2008 and 2007.

As of 31 December 2008 from Supervisory and Management Board members only Siiri Lahe owned 700 shares (2007: 180).

Dividends declared and paid are disclosed in note 22.

Contingent income tax on the dividend payments from retained earnings is described in note 14.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(thousand EEK)

## NOTE 17. REVENUE

	FOR THE YEAR ENDED 31 DECEMBER	
	2008	2007
REVENUES FROM MAIN OPERATING ACTIVITIES		
Total water supply and wastewater disposal service, incl:	658 305	599 612
Private clients, incl:	346 836	318 963
Water supply service	193 688	178 452
Wastewater disposal service	153 148	140 511
Corporate clients, incl:	271 231	252 658
Water supply service	150 669	138 693
Wastewater disposal service	120 562	113 965
Outside service area clients, incl:	26 401	17 676
Water supply service	2 160	1 541
Wastewater disposal service	24 241	16 135
Overpollution fee	13 837	10 315
Stormwater treatment and disposal service	46 158	37 426
Fire hydrants service	2 687	2 361
Other works and services	12 773	8 936
<b>TOTAL REVENUE</b>	<b>719 923</b>	<b>648 335</b>

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

## NOTE 18. STAFF COSTS

	FOR THE YEAR ENDED 31 DECEMBER	
	2008	2007
Salaries and wages	-66 330	-57 666
Social security and unemployment insurance taxation	-22 093	-19 203
<b>STAFF COSTS TOTAL (NOTE 19)</b>	<b>-88 423</b>	<b>-76 869</b>

NUMBER OF EMPLOYEES AT THE END OF REPORTING PERIOD	327	312
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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(thousand EEK)

## NOTE 19. COST OF GOODS SOLD, MARKETING AND GENERAL ADMINISTRATIONS EXPENSES

	FOR THE YEAR ENDED 31 DECEMBER	
	2008	2007
<b>COST OF GOODS SOLD</b>		
Tax on special use of water	-10 804	-10 493
Chemicals	-22 841	-20 979
Electricity	-29 759	-26 382
Pollution tax	-17 010	6 207
Staff costs (Note 18)	-63 516	-51 611
Development	-26	-99
Depreciation and amortization (Note 9)	-82 079	-72 806
Transportation	-19 693	-18 070
Other costs of goods sold	-27 024	-22 444
<b>TOTAL COST OF GOODS SOLD</b>	<b>-272 752</b>	<b>-216 677</b>
<b>MARKETING EXPENSES</b>		
Staff costs (Note 18)	-5 417	-6 107
Depreciation and amortization (Note 9)	-5 065	-3 553
Other marketing expenses	-1 828	-3 887
<b>TOTAL COST OF MARKETING EXPENSES</b>	<b>-12 310</b>	<b>-13 547</b>
<b>GENERAL ADMINISTRATION EXPENSES</b>		
Staff costs (Note 18)	-19 490	-19 151
Depreciation and amortization (Note 9)	-2 525	-2 882
Other general administration expenses	-32 531	-34 816
<b>TOTAL COST OF GENERAL ADMINISTRATION EXPENSES</b>	<b>-54 546</b>	<b>-56 849</b>

## NOTE 20. OTHER INCOME / EXPENSES

	FOR THE YEAR ENDED 31 DECEMBER	
	2008	2007
Profit from connection fees (Note 24A)	4 430	8 053
Profit from government grant (Note 24A)	23 491	6 197
Other income / expenses (-)	-2 876	1 850
<b>TOTAL OTHER INCOME / EXPENSES</b>	<b>25 045</b>	<b>16 100</b>

Please see the changes in the accounting policy from Note 2.



**ELMO KORTTEL**  
Automatician

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(thousand EEK)

## NOTE 21. FINANCE INCOME AND EXPENSES

	FOR THE YEAR ENDED 31 DECEMBER	
	2008	2007
Interest income	15 606	10 861
Interest expense	-57 191	-53 513
Other financial expenses	-1 614	-1 585
<b>TOTAL FINANE INCOME / EXPENSES</b>	<b>-43 199</b>	<b>-44 237</b>

## NOTE 22. DIVIDENDS

	FOR THE YEAR ENDED 31 DECEMBER	
	2008	2007
Dividends declared during the period	249 010	196 010
Dividends paid during the period	249 010	196 010
Income tax on dividends paid	-66 193	-55 285
<b>INCOME TAX ACCOUNTED FOR</b>	<b>-66 193</b>	<b>-55 285</b>

### PAID-UP DIVIDENDS PER SHARES:

Dividends per A-share (in kroons)	12.45	9.80
Dividends per B-share (in kroons)	10 000	10 000

The income tax rates were 21/79 and 22/78 respectively in 2008 and 2007.

## NOTE 23. EARNINGS PER SHARE

	FOR THE YEAR ENDED 31 DECEMBER	
EARNINGS PER SHARE:	2008	2007
Net profit for the period ended 31.12 minus B-share preference rights (in kroons)	295 958	277 830
Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces)	20 000 000	20 000 000
Earnings per A share (in kroons)	14.80	13.89
Earnings per B share (in kroons)	10 000	10 000

Diluted earnings per share for the periods ended 31 December 2008 and 2007 do not vary significantly from the earnings per share figures stated above.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(thousand EEK)

## NOTE 24. NOTES TO THE CASH FLOW STATEMENT

### NOTE 24A. COMPENSATIONS RECEIVED FOR CONSTRUCTION OF PIPELINES

	FOR THE YEAR ENDED 31 DECEMBER	
INCOME	2008	2007
Connection fees and government grants received for pipelines taken into use (Note 20)	214 203	172 437
Increase in prepayments for pipelines (Note 15 and 24B)	-22 280	9 218
Change in accounts receivable from pipelines (Note 24B)	58 267	-79 815
<b>PROCEEDS FROM CONNECTION FEES</b>	<b>250 190</b>	<b>101 840</b>
Acquisition cost of pipelines taken into use (Note 9 and 20)	-186 282	-158 187

The connection fees from and the acquisition costs of pipelines taken into use are eliminated from "Cash flows of operating activities" as these are recorded within "Cash flows from investing activities". In 2008 the net amount eliminated was -27 921 thousand kroons (2007: -14 250 thousand kroons) (Note 20).

### NOTE 24B. CHANGE IN CURRENT ASSETS AND LIABILITIES

In addition to the changes in the balance sheet current assets, and liabilities have been adjusted as follows:

CURRENT ASSETS	2008	2007
Change in balance sheet	26 189	-43 138
Adjustments:		
Change in cash and cash equivalents	51 440	-70 993
Movements between non-current and current assets	4 252	2 206
Sales of non-current assets held for sale	0	-242
Change in accrued interests	-833	290
Change in accounts receivable from pipelines (Note 24A)	-58 267	79 815
<b>TOTAL CHANGE IN CURRENT ASSETS</b>	<b>22 781</b>	<b>-32 062</b>

CURRENT LIABILITIES		
Change in balance sheet	-6 872	46 174
Adjustments:		
Change in non-current borrowings	-40 659	-40 659
Change in trade payables – capital expenditures (Note 24C)	26 150	-238
Change in prepayments for the sale of property, plant and equipment, and deposits	7	3 600
Change in prepayments for pipelines (Note 15 and 24A)	22 280	-9 204
<b>TOTAL CHANGE IN CURRENT LIABILITIES</b>	<b>906</b>	<b>-327</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(thousand EEK)

## NOTE 24C. ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS

	FOR THE YEAR ENDED 31 DECEMBER	
	2008	2007
Acquisition of property plant and equipment and intangible assets (Note 9)	-306 257	-285 953
Adjustments:		
Change in trade payables – capital expenditures (Note 24B)	-26 150	238
<b>TOTAL ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS</b>	<b>-332 407</b>	<b>-285 715</b>

## NOTE 25. OPERATING LEASE

	FOR THE YEAR ENDED 31 DECEMBER	
LEASED ASSETS	2008	2007
Total operating lease expenses for computers and vehicles	7 970	7 281
Following period operating lease payments from the non-cancellable contracts are as follows:	AS OF 31 DECEMBER	
Less than 1 year	7 342	6 946
1-5 years	8 010	9 053
<b>TOTAL MINIMUM LEASE PAYMENT</b>	<b>15 352</b>	<b>15 999</b>

The underlying currency of all lease contracts is Estonian kroon.  
Leased assets have not been subleased.

## NOTES 26. COLLATERAL OF LOANS AND PLEDGED ASSETS

In connection with the loan agreements concluded between the EBRD and the Company and between the Estonian affiliate of Nordea Bank Plc (hereinafter Nordea Bank) and the Company, the following guarantee contracts were concluded, concerning the assets of the Company:

- (a) Commercial Pledge Agreement on the Company's tangible fixed assets in favour of EBRD to the value of 1 877 592 thousand kroons; the book value of the current assets pledged is 113 878 thousand kroons (31.12. 2007: 192 055 thousand kroons) and the book value of the property, plant and equipment is 547 887 thousand kroons (31.12. 2007: 556 462 thousand kroons). The total book value of pledged assets is 661 765 thousand kroons (31.12.2007: 748 517 thousand kroons).
- (b) Separate Mortgage Agreements in favour of EBRD regarding the properties of Ülemiste water treatment plant and Paljassaare wastewater treatment plant, whereby both pledges are to the value of 293 374 thousand kroons, total 586 748 thousand kroons; the book value of the property, plant and equipment pledged is 468 790 thousand kroons (31.12.2007: 461 174 thousand kroons).
- (c) Combined Mortgage Agreement in favour of Nordea Bank regarding the properties of Ülemiste water treatment plant and Paljassaare wastewater treatment plant to the value of 586 748 thousand kroons the book value of the property, plant and equipment pledged is 468 790 thousand kroons (31.12. 2007: 461 174 thousand kroons).
- (d) The mortgages in favour of Nordea Bank and EBRD have the same ranking and were valid on the same basis as of 31.12.2007.
- (e) A Security Sharing Agreement is concluded between EBRD and Nordea Bank.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(thousand EEK)

## NOTE 27. 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.



**SVEN MILLER**  
Catchment Area Technical Specialist

## SHAREHOLDERS HAVING THE SIGNIFICANT INFLUENCE

	AS OF 31 DECEMBER	
BALANCES RECORDED IN WORKING CAPITAL ON THE BALANCE SHEET OF THE COMPANY	2008	2007
Accounts receivable	24 935	29 912
Accrued income (Note 7)	0	80 727
Accounts payable - short-term trade and other payables (Note 11)	3 972	4 091
	FOR THE YEAR ENDED 31 DECEMBER	
TRANSACTIONS WITH THE RELATED PARTIES	2008	2007
Sales services	48 845	39 787
Compensations received from the local governments for constructing new pipelines (Note 13)	159 310	118 947
Purchase of administrative and consulting services	20 585	22 387
	FOR THE YEAR ENDED 31 DECEMBER	
	2008	2007
MANAGEMENT BOARD FEES EXCLUDING SOCIAL TAX	2 295	2 118
SUPERVISORY BOARD FEES EXCLUDING SOCIAL TAX	500	578

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.

The information about AS Tallinna Vesi shares belonging to the related parties is disclosed in note 16. Paid-up dividends are described in note 22.



**AS PricewaterhouseCoopers**

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## **INDEPENDENT AUDITOR'S REPORT**

(Translation of the Estonian original)\*

To the Shareholders of AS Tallinna Vesi

We have audited the accompanying financial statements of AS Tallinna Vesi (the Company) which comprise the balance sheet as of 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

### **Management Board's Responsibility for the Financial Statements**

Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing.

Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

A handwritten signature in blue ink, appearing to read 'Raimla'.

Tiit Raimla  
AS PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Nahkor'.

Stan Nahkor  
Authorised Auditor

19 March 2009

*\*This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

# THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

The Management Board has prepared the management report and the financial statements of AS Tallinna Vesi on 25 February 2009.

The Supervisory Board of AS Tallinna Vesi has reviewed the annual report, prepared by the Management Board, consisting of Management Report and the financial statements, the Management Board's proposal for profit distribution and the independent auditors' report, and has approved the annual report for presentation on the Shareholders' General Meeting.

The annual report has signed by all the members of the Management Board and Supervisory Board.

	NAME	POSITION	SIGNATURE	DATE
	Ian John Alexander Plenderleith	Chairman of the Management Board		25/2/09
	David Nigel Hetherington	Member of the Management Board		25-2-09
	Siiri Lahe	Member of the Management Board		25.02.09
	Robert John Gallienne	Chairman of the Supervisory Board		26.3.2009
	Kevin Starling	Member of the Supervisory Board		26/3/09
	Matti Hyrynen	Member of the Supervisory Board		26.3.2009

# THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008



NAME

Steven Richard Fraser

POSITION

Member of the  
Supervisory Board

SIGNATURE

A handwritten signature in white ink, appearing to be 'SRF'.

DATE

26.3.2009



Mart Mägi

Member of the  
Supervisory Board

A handwritten signature in white ink, appearing to be 'M Mägi'.

26.03.09



Rein Ratass

Member of the  
Supervisory Board

A handwritten signature in white ink, appearing to be 'R Ratass'.

26.03.09



Elmar Sepp

Member of the  
Supervisory Board

A handwritten signature in white ink, appearing to be 'E Sepp'.

26.03.09



Deniss Borodits

Member of the  
Supervisory Board

A handwritten signature in white ink, appearing to be 'D Borodits'.

26.03.09



Valdur Laid

Member of the  
Supervisory Board

A handwritten signature in white ink, appearing to be 'V Laid'.

26.03.09

# AS TALLINNA VESI MANAGEMENT BOARD 2008

The Management Board represents the Company in its relations with third parties and manages the Company's daily activities and organises its accounting. The Management Board reports to and is instructed by the Supervisory Council. According to the Articles of Association the Management Board of AS Tallinna Vesi consists of two (2) to five (5) members who are elected for three (3) years.

## THE MEMBERS OF AS TALLINNA VESI MANAGEMENT BOARD ARE:

### IAN JOHN ALEXANDER PLENDERLEITH

Chairman of the Management Board,  
Chief Executive Officer (CEO)

Chief Executive Officer and the Chairman of the Management Board of the Company from 1 October 2008. He worked for AS Tallinna Vesi as Chief Commercial Officer from October 2004 until August 2007. Between September 2007 and September 2008 he worked as the Finance Partner for the Business Development and International Division of United Utilities. He has over 15 years experience in a variety of financial roles within the Utilities sector both in the UK and internationally.



**EVELIN MCQUAY**  
Customer Delivery Manager

He is a member of the Chartered Institute of Management Accountants.

Tallinna Vesi shares 31.12.2008: 0

### DAVID NIGEL HETHERINGTON

Member of the Management Board,  
Chief Operating Officer (COO)

David Hetherington, British, joined the company in May 2006 as Chief Operating Officer. He has extensive experience within the water business both in the UK and overseas with major experience in capital investment programme management, water and wastewater process engineering and operations. He has BSc in Environmental Science and MBA from Lancaser University.

Tallinna Vesi shares 31.12.2008: 0

### SIIRI LAHE

Member of the Management Board  
Chief Financial Officer (CFO)

Siiri Lahe, Estonian, joined the company in November 1994. She has more than 13 years of experience and extensive managerial skills in AS Tallinna Vesi at several levels within the finance department. She has also been a member of the Executive Team of the company for two years. From August 1st 2007 she is the Chief Financial Officer of the company and a member of the Management Board. She has a higher education Degree in Economy and a Master's Degree in Public Administration from Tallinn University of Technology.

Tallinna Vesi shares 31.12.2008: 700

## AS TALLINNA VESI

## SUPERVISORY COUNCIL

The Supervisory Council has the ultimate responsibility for the organisation of work of the Company, plans the activities of the Company and supervises the activities of the Management Board. The Council consists of nine (9) members whose term lasts two (2) years. Council members are elected and appointed in accordance with the following principles:

- Five (5) members of the Council are elected and removed by the shareholders' general meeting, whereas the person who receives the most of votes shall be considered elected. A Council member who is elected by the shareholders' general meeting may be removed before the end of his/her term, provided that at least 2/3 of the votes represented by the shares at the shareholders' general meeting vote in favour of the removal.
- Two (2) members of the Council are appointed and removed by the holder of the B-Share or by a shareholder whose shares represent at least 34% of the votes granted by the A-Shares, provided however that no single shareholder may appoint or remove more than two members of the Council.

Nominated by United Utilities Group, and elected at the AGM on May 23rd 2006. Has served as the CEO and Chairman of the Management Board of the Company between 1st April 2002 and 30th June 2006. Prior to this Mr. Gallienne held the position of Managing Director in Sofyiska Voda and Group Customer Services Director of Manila Water in the Philippines. He has over 26 years experience in senior management positions in the water industry both in England and overseas.

Tallinna Vesi shares 31.12.2008: 0



# AS TALLINNA VESI MANAGEMENT BOARD 2008

## THE MEMBERS OF AS TALLINNA VESI SUPERVISORY COUNCIL ARE:

### ROBERT JOHN GALLIENNE, THE CHAIRMAN OF THE SUPERVISORY COUNCIL

Nominated by United Utilities Group, and elected at the AGM on May 23rd 2006. Has served as the CEO and Chairman of the Management Board of the Company between 1st April 2002 and 30th June 2006. Prior to this Mr. Gallienne held the position of Managing Director in Sofyiska Voda and Group Customer Services Director of Manila Water in the Philippines. He has over 26 years experience in senior management positions in the water industry both in England and overseas.  
Tallinna Vesi shares 31.12.2008: 0

### STEVEN FRASER

Named as a new member on 4th of July 2008. Steven Fraser is Managing Director of the Energy & Contracting Services division of United Utilities. He has previously worked for D.J. Ryan & Sons Limited and Bethell Power Services before joining United Utilities in 2005 in an Operations Director's role. Steven holds a MSC in Engineering Project Management.  
Tallinna Vesi shares 31.12.2008: 0

### KEVIN STARLING

Named as a new member on 11th of September 2008. Kevin Starling has worked in the water industry for 18 years. He has extensive experience in the area of water distribution infrastructure, with a particular focus on customer service. He has been Executive Director of International Operations with Britain's Anglian Water, CEO of Sofyiska Voda AD in Bulgaria and currently he is the Managing Director of United Utilities Australia. Kevin was an AS Tallinna Vesi Supervisory Council member between 28.06.2006-19.01.2007.  
Tallinna Vesi shares 31.12.2008: 0

### MATTI HYYRYNEN

Finnish, nominated by the European Bank of Reconstruction and Development (EBRD) and elected at the EGM on 16.12.2008. Matti Hyyrynen has extensive banking experience from working in London and Finland. Senior management experience in major International Financial Institution. He has a Master's degree in Mathematics from Helsinki University.  
Tallinna Vesi shares 31.12.2008: 0

## TALLINN CITY REPRESENTATIVES:

### ELMAR SEPP

Nominated by the City of Tallinn, since 7 December 2005. Elmar Sepp is the Deputy Chairman of the Tallinn City Council, Chairman of the Tallinn City Council's Centre Party Faction since autumn 2005. During the periods of 2003-2005 and 1999-2002 he was a Member of Tallinn City Council. Mr. Sepp was also employed by AS Tallinna Soojus (Tallinn Heat Generating Company) as the Chairman of the Management Board for 1 year. Prior working in Tallinna Soojus, he was Tallinn City Centre District elder. Elmar Sepp has a law degree from the University of Tartu.  
Tallinna Vesi shares 31.12.2008: 0

### DENISS BORODITŠ

Nominated by the City of Tallinn on 19 September 2007. Deniss Boroditš received a Bachelor's Degree in Law Studies from International University Concordia in 2001. Starting from April 2007 he is working as a Deputy Mayor of Tallinn and his main fields of responsibility are municipal engineering services, infrastructure, road maintenance, heating, water, communication, environment protection, maintenance of parks and green areas, waste management, state defence, rescue and emergency services.  
Tallinna Vesi shares 31.12.2008: 0

### REIN RATAS

Rein Ratas was elected as the member of the Supervisory Council in 22 November 2005. Since 1999 Mr. Ratas has been employed by AS Tallmac as the Head of Environmental Department and an environmental expert. Simultaneously Rein Ratas has been teaching at the Estonian Agricultural University in Environmental Protection Institute. Prior to that Mr. Ratas was the Secretary General in the Environmental Ministry for 7 years. Rein Ratas has PhD in the field of biology from the University of Tartu.  
Tallinna Vesi shares 31.12.08: 0

## INDEPENDENT MEMBERS:

### MART MÄGI

Mart Mägi was elected as the independent member of the Supervisory Council on 23 November 2007. Since 2008 Mart Mägi has been working as the Managing Director of the Amserv Grupp AS. Mart Mägi has extensive knowledge and experience in finance and business. He has MBA degree in Insurance and Banking from Warsaw University, of Banking and Insurance and in Banking and Finance from University of Tartu.  
Tallinna Vesi shares 31.12.2008: 0

### VALDUR LAID

Valdur Laid was elected as the independent member of the Supervisory Council in 22 November 2005. Since February 2004 Valdur Laid holds the position of CEO in Elion, the largest telecom company in Estonia. He joined Elion in 2002 as the CFO and Member of the Management Board. Prior Elion, Valdur Laid was employed by the Bank of Estonia holding different managerial positions for 9 years. In 1999 – 2000 he served as an Executive Director and Member of the Management Board of the Bank of Estonia. Valdur Laid has MBA degree from International Institute of Management Development in Lausanne, Switzerland.  
Tallinna Vesi shares 31.12.2008: 0

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