



Dear reader,

This annual report gives an overview of AS Tallinna Vesi's 2009 results and highlights. For more information and a more in-depth glance at the Company, please turn to the electronic annual report on the CD attached to the book or visit our website at www.tallinnavesi.ee, where you'll find more useful information about the Company and its activities. On the CD you will additionally find exciting nature photos taken by AS Tallinna Vesi staff members, an educational and fun water game and tips for water efficiency in the household and in the garden.

Enjoy!

*The text was composed by: AS Tallinna Vesi
Design: Ecwador Advertising Agency
Book is printed on environmentally friendly paper!*

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Mission

We create a better life with pure water!

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.

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.

The Company in brief



General facts

- AS Tallinna Vesi is the largest water utility company in Estonia, providing drinking water and wastewater disposal services to approximately 1/3 of Estonia's population.
- The Company provides water and wastewater disposal services to over 21,000 customers and 430,000 end-consumers in Tallinn and its surrounding areas.
- The Company has the exclusive right to provide water and sewerage services in the Tallinn service area until the year 2020.
- A services agreement with 97 quality 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).
- Water has been treated at Ülemiste since 1927. A new water treatment plant was built in 1979.
- The water treatment plant produces an average of 60,000 m³ of water per day.
- Almost 88% of drinking water is produced from surface water at Ülemiste, 12% of the consumers use regional ground water.

- Average water consumption in 2009 was 95 litres per inhabitant (98 litres in 2008).
- Paljassaare WWTP started operating in 1980.
- The wastewater treatment plant treats on an average 120,000 m³/day.
- The Company has an accredited water laboratory and an accredited wastewater laboratory, which together conducted over 123,000 analyses in 2009.
- The public water supply system comprises almost 925 km of water networks, 16 water pumping stations and 64 ground water borehole pumping stations with 93 boreholes.
- The public sewerage system comprises almost 860 km of wastewater networks, over 400 km of storm water networks and over 121 sewerage-pumping stations across the service area.
- On an average, the Company employed 327 people in 2009.
- The Company shares are listed on the main list of Tallinn Stock Exchange.

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.

Highlights 2009

- The Company achieved the best ever drinking water quality compliance result in 2009 – 99,31% of the samples taken at the customers' taps were compliant with all requirements
- The Company's leakages level was 17,5% of the total volume of water produced. Compared to the 32,4% leakages rate in 2001, the Company has succeeded in reducing the daily loss of water in an amount comparable to Estonia's second largest city Tartu's daily water production.
- The Company invested over 250 million kroons in 2009, of which over 200 million kroons were invested into the networks, 17.4 million kroons in the Paljassaare wastewater treatment plant, 6.4 million kroons into drinking water quality and 19.1 millions kroons into other investments.
- In order to ensure the continued compliance of wastewater treatment, the Company invested in the Paljassaare wastewater treatment plant and achieved 100% compliance for effluent discharging. the Company continues investing into wastewater treatment to constantly improve the treatment of wastewater and protect the Baltic Sea.
- The Company built 43 kilometres of new sewerage pipes in 2009, thus giving over 1,400 families the opportunity to join the public sewerage network – among them 200 families, who were given the opportunity to access the network a year earlier than planned, thanks to additional pipe laid.
- The Company's customers have benefited from a much more secure supply of water, the number of interruptions to supply has reduced from 761 per annum to 732 per annum and the average length of interruptions has reduced to 3 and a half hours per interruption.
- The Company started operating the assets of Maardu water company on July 1st, providing water, sewerage, maintenance and operations services. The construction of pipes between Tallinn and Maardu will give the residents of Maardu the opportunity

to access Tallinn's fully EU compliant water and sewerage network. The Maardu contract is the first of its kind and shows the willingness of other cities and municipalities to engage in partnership with the Company for the benefit of their communities

- The Company achieved the occupational safety and environment objective – there were no occupational accidents due to the employer's fault that resulted in absence from work in 2009.

- The Company launched several development and training programs to support the professional development of its employees

- The Company's responsibility, competitiveness and transparency were recognized with awards from a number of high profile organizations. The Company was tied with Swedbank for the 1st and 2nd place in the corporate social responsibility index, compiled by the CSR Forum. Enterprise Estonia and the Estonian Chamber of Commerce and Industry recognized the Company as the most competitive service enterprise in Estonia in 2009. The Company was recognized by NASDAQ OMX stock exchange with awards for the best annual report in the Baltics and the best investor relations in Estonia, the latter was also recognized by international investor relations magazine IR Magazine.

- The Company launched a water portal www.jookraanivett.eu in 2009 and distributed flyers with tips on how to save water

- According to the Customer Satisfaction Survey conducted in the beginning of 2010, about 65% of the Company's customers drink tap water.
- Nearly 3,000 people visited the water treatment plant in Ülemiste and the wastewater treatment plant in Paljassaare as part of guided tours during 2009. The Paljassaare Open Door Day in May attracted nearly 350 people and the Ülemiste Open Door Day in August attracted well over 700 people.



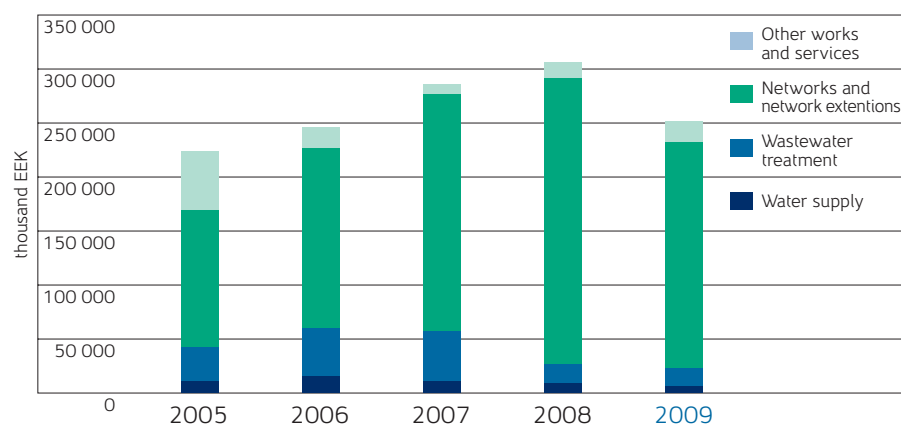
Key performance indicators

The Company's operating indicators were very good in 2009 and the Company has consistently exceeded the product and service quality standards it committed to in 2001. The Company achieved its all time highest water quality compliance level and witnessed improvements across the full range of performance indicators.

Operation Performance

	2001	2008	2009
Water			
Water compliance at customers premises %	63,3	98,02	99,31
Total number of customer interruptions (unplanned)	1733	761	732
Loss of water in distribution system %	32,4	17,25	17,51
Wastewater			
Number of sewer blockings	2080	1336	1089
Number of sewer collapses	144	118	117
Wastewater treatment compliance %	N/A	100	100
Share of recycled sludge %	64	100	100
Network Extension Program			
Network Extension Program completion per annual plan %	N/A	100	130
Number of properties given access to public sewerage network	N/A	1236	1423

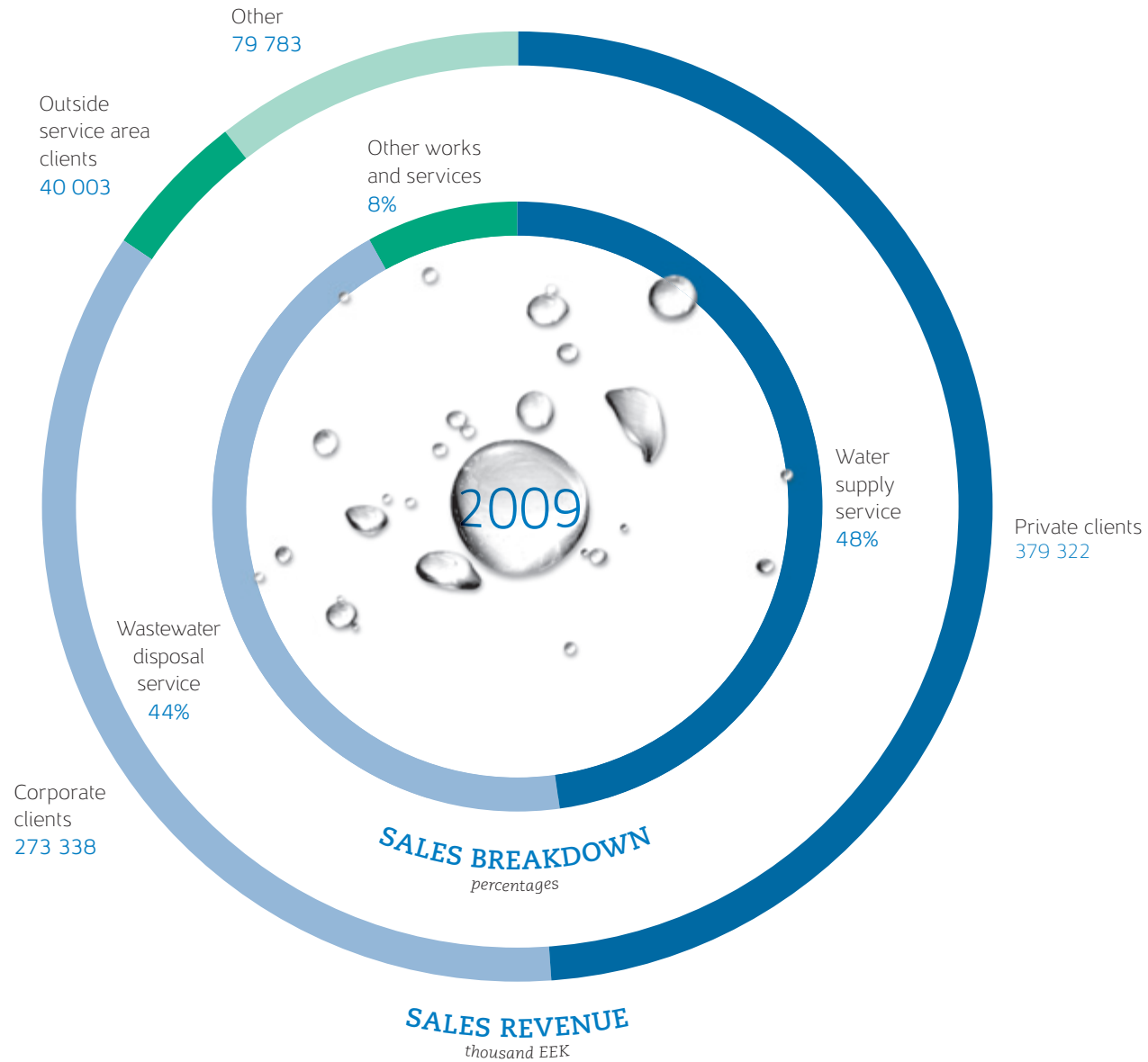
Investments in different fields



Financial Results

Million EEK	2005	2006	2007	2008	2009
Sales	549.9	589.2	648.3	719.9	772.4
Gross profit	347.9	368.6	431.7	447.2	488.4
Operating profit	282.6	337.9	377.4	405.4	461.9
Profit before taxes	209.7	294.9	333.1	362.2	401.1
Net profit	174.4	248.0	277.8	296.0	339.9
Percentages					
Gross profit margin %	63,3	62,6	66,6	62,1	63,2
Operating profit margin %	47,7	48,7	58,2	56,3	59,2
Profit before taxes margin %	35,4	42,5	51,4	50,3	51,9
ROA %	7,3	10,0	10,9	11,6	12,7
ROE %	16,4	21,5	22,5	23,1	24,4

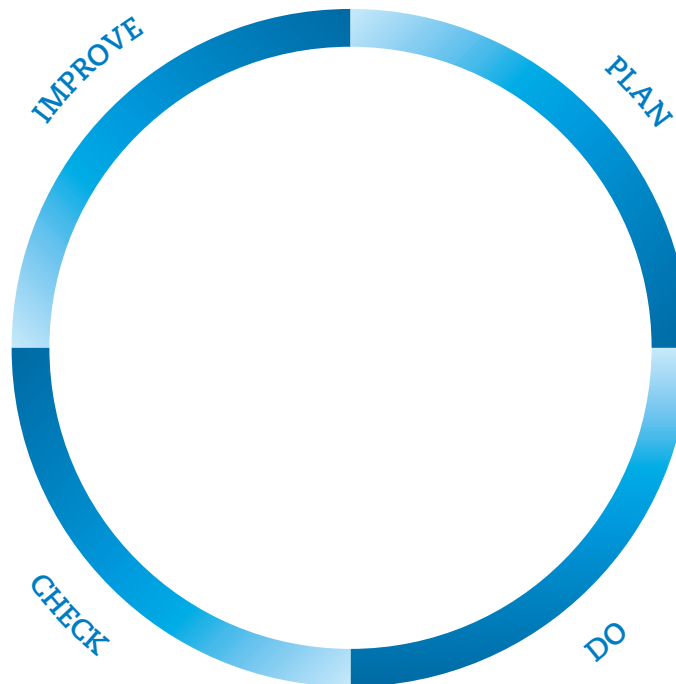
Key performance indicators



Management system

- Improving plans and activities
- Preventing problems
- Solving problems

- Monitoring and measuring of activities
- Carrying out internal audits



- Identifying requirements of significant stakeholders
- Identifying significant risks
- Setting objectives and tasks

- Achieving the objectives
- Organising daily work
- Ensuring the compliance with regulatory and other requirements
- Employee development
- Ensuring communication
- Administration of documentation

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



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

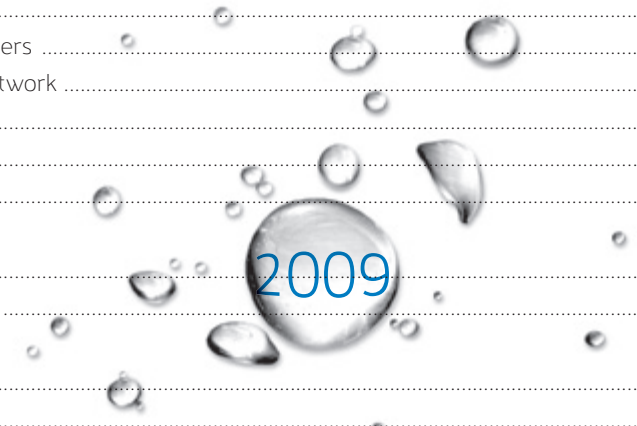
2007 - OHSAS 18001 OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM

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

Delivery of company objectives in 2009

Goal

Evaluation base



<input type="radio"/> To deliver customer service excellence.....	CSS index in TOP 10 of European infrastructure utilities
<input type="radio"/> To improve the speed of responding to enquiries.....	CSS rating for problem solving over 3 on a five point scale
<input type="radio"/> To improve customer communication processes.....	CSS shows 5% improvement for customer communication channels
<input checked="" type="checkbox"/> To improve customer information systems (incl meter reading, billing and payment channels).....	CSS shows 5% improvement for meter reading, billing and payments
<input checked="" type="checkbox"/> To increase consumer awareness about our products and services.....	Proportion drinking tap water, Customers over 55% and end users over 38%
<input type="radio"/> To deliver operational excellence.....	All requirements and standards met or exceeded
<input checked="" type="checkbox"/> To ensure regulatory and contractual compliance.....	All regulatory and contractual requirements fulfilled
<input checked="" type="checkbox"/> To improve the quality of water provided to our customers	Water quality over 98% compliant with the regulation
<input checked="" type="checkbox"/> To improve the reliability and operation of the water network	Leakages level below 18%
<input checked="" type="checkbox"/> To improve wastewater and storm water collection	Number of blockages less than 1300
<input type="radio"/> To improve wastewater treatment	Full compliance
<input checked="" type="checkbox"/> To complete the 2009 Network Extension program.....	2009 programme completed. Connection opportunity provided for all plots agreed with the City
<input type="radio"/> To grow the activity of the Company	Company's service area expanded
<input type="radio"/> To expand further into the neighbouring municipalities	To sign 2 new O&M contracts by end of 2009
<input checked="" type="checkbox"/> To develop business plans to understand our growth prospects	Business case and Plan approved by Supervisory Council
<input type="radio"/> To deliver shareholder value.....	Share price outperforms Tallinn Stock Exchange index
<input type="radio"/> To achieve operating profit on budgeted level.....	PBT = budget
<input checked="" type="checkbox"/> To secure long term financing	No gap in funding
<input checked="" type="checkbox"/> To improve our standing with investors	IR score to or over 92 points (5% improvement)
<input checked="" type="checkbox"/> To improve our reputation in the community	CSR index among top 3 companies in Estonia
<input checked="" type="checkbox"/> People - committed, customer focused and creative teamworkers	Overall TR*M index 10 points higher than Estonia average
<input checked="" type="checkbox"/> To train and develop the staff to realize their potential	EOS score for sufficient training 5,0 or higher. EOS scores concerning feedback to managers are 5,0 or higher
<input type="radio"/> To reduce employment risks through effective HR planning.....	Succession planning for all key positions developed and implemented as part of the HR strategy.
<input checked="" type="checkbox"/> To improve the health, safety and well being of employees	Respective EOS scores are 5,0 or higher on a six point scale
<input type="radio"/> To improve inter-departmental cooperation.....	Respective EOS scores are 5,0 or higher on a six point scale
<input checked="" type="checkbox"/> To improve the communication of Executive Team	Respective EOS scores are 5,0 or higher on a six point scale
<input checked="" type="checkbox"/> Our employees consider the performance based remuneration to be fair	Respective EOS scores are 5,0 or higher on a six point scale

CSS – Customer Satisfaction Survey, EOS – Employee Opinion Survey
O&M – Operating and Maintenance
PBT – Profit-before-tax

IR – Investor Relations
CSR – Corporate Social Responsibility
HR – Human Resources

Company objectives in 2010

- Improved customer satisfaction with the service based on the results of both the monthly feedback and external surveys;
- Reduced number of written customer complaints compared to 2009 Q4;
- 80% of customer letters get answered within 2 workdays and the rest of 20% within 8 workdays at the latest.

CUSTOMER SERVICE

OPERATIONAL PERFORMANCE

- Water quality is 99.31% compliant with the requirements;
- Reduced number of customer contacts related to water quality reduced from 429 to 399;
- Number of interruptions to water supply reduced from 732 to 699;
- Reduced number of floodings/blockages on customer's property caused by the public sewerage system compared to 2009;
- We ensure full annual compliance.

FINANCIAL PERFORMANCE

- Employee commitment and satisfaction with the Company is significantly higher than Estonian average (TR*M index 10 points higher);
- Improvement of inter-departmental cooperation compared to 2009 (EOS);
- Employee feedback to management is better than in 2009;
- 0 work accidents that the employer is liable for and reduced number of short-term sickness days compared to 2009

PEOPLE

- Revenue from non-core activities has increased by 3 m'EEK compared to 2009;
- Fixed costs have reduced by 11 m'EEK compared to the budget;

The total of the above performance amounts to 14 m'EEK, which equals 2% of the sale of water supply and sewerage services.

Chairman's statement

This has been a year of extraordinary volatility for the Estonian economy. This has challenged our business, as well as many of our customers, to adapt to these unprecedented levels of economic uncertainty.

Despite this, I am pleased to report that AS Tallinna Vesi has performed well. We have kept a strong focus on our main business priority, to deliver a high quality service to our customers, and this is reflected in the improvement of many of our key performance indicators.

Furthermore, we have continued to be recognized as one of the leading companies in Estonia and the Baltic's, winning awards from Responsible Business Forum for our CSR performance, Enterprise Estonia for our competitiveness and from the NASDAQ OMX Baltic Stock Exchange for the quality of our investor relations and the transparency of our reporting.

Operations & Customer Service – Delivering Excellence to our customers

As a company we have always focused on meeting or exceeding the services contract we have with the City of Tallinn. This services contract requires us to maintain a high standard of service to our customers across a range of over 90 levels of service, ensuring that we deliver a service to our customers that is second to none. We entered 2009 having fully complied with all these levels of service and throughout the year we have endeavored to continue to improve on last year's performance.

We invested over 250 m EEK in 2009, in our networks, treatment plants and catchment area to help deliver an improved service for the people of Tallinn. It gives me



great pleasure to report that in 2009, in almost all indicators, we have improved our operational performance. The highlights being: drinking water quality compliance at the customer's tap has improved to over 99%, which is well above the EU standard and close to the highest standards in Western Europe. The targeted investments we made into our networks and working practices have helped deliver an excellent performance for our two key performance indicators for our below ground assets.

Firstly, leakage level is 17,5%, which is well below our contractual target and reflects our commitment to ensure the water resource is used as sustainably as possible. Since privatisation we have halved our leakage levels which equates to an annual saving equivalent to the annual water production in Estonia's second largest city Tartu. Secondly, our customers have benefited from a much more secure supply of water, we have reduced the number of interruptions to supply from 761 per annum to 732 per annum and the average length of interruptions has reduced to 3.5 hours per interruption.

I was disappointed to see that our customer satisfaction rating declined once again in 2009. On the positive side our customers were pleased with the quality of our products and services but we will need to substantially improve our performance when our customers contact us or have a reason to complain.

Our annual customer satisfaction survey clearly demonstrates this; if our customers have not needed to contact us our rating is as high as ever, over 75 (TR*M index), however when they have had to communicate with the Company our rating falls to less than 50. This is where we need to improve and where we will focus our efforts in 2010.

Access to our sewerage system

In November 2007 we agreed a partnership with the City of Tallinn to finance and deliver almost 4,000 new sewerage connections and to date we have delivered over 2650 connection points. To deliver this project on time required us to raise additional long term finance. During late 2008 and early 2009 the macroeconomic environment was extremely uncertain and access to debt finance on competitive terms was extremely challenging. However thanks to the quality and the transparency of our financial reporting and our company structure we were able to secure the necessary finance from the market. If we had not been able to achieve this refinancing this extremely important environmental project would have been in doubt.

Financial performance

Our financial performance continues to be robust. Our turnover from our main business activity, sales of water and wastewater increased by 7,5% to 707,4 m EEK and our operating profit from these activities increased by 9,8% to 414,4 m EEK. However, whilst we have increased main business profits this year the uncertainties in the economy mean future growth cannot be guaranteed. The impact of the worldwide financial crisis has had a significant impact on our sales volumes to both domestic and commercial customers. In 2009 we have been able to offset these reductions with cost savings but in the future we will need to be more flexible in how we work and find new revenue streams to mitigate this ongoing risk.

Growth

Our excellent operational performance leaves us well placed to expand our service offering across the Baltic's. We already provide a very high quality service and we should be able to utilize this strength to increase revenues from activities outside of the City of Tallinn. Although 2009 was a quiet year for new growth opportunities we did commence a 30-year operations and maintenance contract in the City of Maardu from 1 July 2009. This is a landmark contract and is a business model we feel we can use to expand across Estonia. In 2010 we will give additional focus to our growth agenda as we recognize this is a key component of our long term strategy to increase returns for our investors.

People

Achieving our long term goals will not be possible without motivating and engaging with our people. We believe clearly communicated objectives, reward systems and good leadership are fundamental in helping to achieve this. These messages were delivered to the management as a result of our annual employee opinion survey and in 2009 we have focused on improving our performance in these areas, and will continue to do so in 2010.

Furthermore the current working environment is extremely challenging and demands that we are more flexible in our ways of working and our thinking. In addition the age profile of our people means we will have to implement structured succession and development plans if we are to continue to be successful in the medium and long term. Therefore in 2010 we will continue with our leadership and project manager training programmes, and will introduce two new development programmes, one aimed at developing our operational staff and the other aimed at developing our future technical and business managers.

Outlook

We recognise that the continuing economic uncertainty demands that we emphasise improvements in the efficiency and flexibility of our operations, especially if we are to continue to improve our performance. Additionally, with cash and access to capital being scarce for ourselves and our customers we will need to be even more focused on maximising value for our customers from the delivery of our capital programme.

Finally, I would like to thank my colleagues in Tallinna Vesi, and all our suppliers and business partners for all their energy, commitment, and support in serving our customers in this challenging and uncertain year. Their efforts have ensured we remain in a strong position, and are able to look to the future with confidence.



Ian John Alexander Plenderleith
Chairman of the Management Board

Our services • Drinking water

2009 objectives

- ✓ To improve the quality of water provided to our customers: water quality over 98% compliant with the regulation
- ✓ To improve the reliability and operation of the water network: leakages level below 18%

Objectives in 2010

- Water quality complies with 99.31 % of regulations;
- Number of customer contacts related to water quality reduced from 429 to 399;
- Number of interruptions to water supply reduced from 732 to 699;

Quality of drinking water at the customer's tap

In 2009, the quality of drinking water supplied to our customers was better than ever before. 99.3% of water samples taken at the taps of the customers of the Company complied with the quality requirements for drinking water, which is 1.3% higher than in 2008.

Compliance of drinking water quality with the requirements of Regulation No. 82, 2005-2009

% of samples

2005	2006	2007	2008	2009
97,6	96,7	97,5	98,0	99,31

According to the Services Agreement with the City of Tallinn, at least 95 % of the drinking water samples are required to be compliant with the quality standards.

The Company has been implementing a detailed drinking water control programme since 2005, approved by the health protection authorities of Harju County and the City of Tallinn. The programme includes quality control requirements for surface water, the water treatment plant, groundwater system and the city water network. This programme also specifies the frequency of sampling and the parameters to be checked by the Company's laboratories.

The structure of the Company includes a laboratory unit, which has been accredited in 2001 by the Estonian Accreditation Centre. The current scope of accreditation includes 47 methods of analysis, with more than 80 parameters in total. In 2009, the laboratories received 37,000 samples and performed 123,000 tests in total. Two thirds of them were dealing with drinking water and one third with wastewater.

Availability of up-to-date technologies and professional specialists enable the laboratories to offer a wide variety of services to external customers as well. The volume of services provided to external customers has increased each year, with an increase of 20% registered in 2009. Most of the customers are building companies, other water undertakings, food establishments and private consumers.

The Company continued its investments in laboratory equipment in 2009 and purchased a gas chromatograph for the wastewater laboratory in the Paljassaare wastewater treatment plant. This new equipment enables to detect significantly lower levels of oil pollution than before, which is particularly important for the analysis of treated wastewater and storm water.

Surface water quality

The excellent water quality results have been achieved as a joint effort of different teams. Reconstruction works on the surface water catchment channels continued in 2009 to ensure the necessary flow rates. The Company takes great efforts to ensure and improve water quality from source to tap.

Lake Ülemiste is the main source of drinking water for the residents of Tallinn and, therefore, the lake is not a public water body. In July 2009, the Harju-Rapla-järva En-

vironmental Board approved the boundaries of the sanitary protection zone of Lake Ülemiste, which is an important development in protecting the drinking water source of the residents of Tallinn.

Improving the water treatment process

In 2009, several investments were made to refine the water treatment process. The first ozone pool was renovated to increase the efficiency of ozonation in the water treatment plant. The old distribution pipes and diffusers were replaced as well.

Significant investments were made in 2009 into borehole pumping stations. An iron and manganese separation filter was installed in the Läänekaare pumping station in Nõmme and the Tammetõru borehole pumping station in Saue was fully renovated to provide the residents of Saue with a significantly improved water supply.

Water networks maintenance and investments

Preventive works in the form of networks flushing and water supply network renovation are carried out to maintain and improve the quality of drinking water used in the homes of the customers. 232 km of water pipes were cleaned using the pressure washing method in 2009.

During this cleaning process, air is directed into the water pipes where it mixes with water, helping to remove sediments from the walls of the pipes, which is one of the main methods for improving the water quality in distribution pipes.

Cleaned water network, 2005-2009

km

2005	2006	2007	2008	2009
236	238	227	229	232

Investments in replacing old water pipes and network extensions have facilitated improvement in water quality and more efficient usage of water resources. 23.8 kilometres of water pipes were reconstructed and 5.5 km of new pipes were constructed in 2009, creating the opportunity of connection to the public water supply network for 80 immovable properties.

Water network reconstruction 2005-2009

km	2005	2006	2007	2008	2009
Reconstructions	15,8	6,4	6,9	16,7	23,8

Network extensions 2005-2009

	2005	2006	2007	2008	2009
Network extensions km	0,3	0,8	2,6	2,9	5,5
Number of new customers given access to water network	19	21	26	86	80

Leakages and water supply interruptions

Water losses from leakages and volumes of unmetered water have stabilised in Tallinn over the years. By the end of 2009, the Company achieved a leakage level of 17.51 % in its main operations area, while the operations area was extended by including the city of Maardu.

Leakages level, 2005-2009

in percentage terms

2005	2006	2007	2008	2009
17,95	19,65	19,58	17,25	17,51

The Company will continue work in 2010 to maintain and further reduce the level of leakages to keep leakages at an economic level.

The calculation of the economic leakages level for Tallinn indicates that an economically optimal level is 18 %.

It is important for customers to have 24-hour access to water with excellent quality indicators and right pressure. The possibility of water interruptions cannot be entirely excluded, but the number and duration of interruptions can be reduced. Both the number of emergency water interruptions and the duration of interruptions decreased in 2009. Water supply has become more reliable and the Company is able to solve any disturbances in water supply faster than before, reducing the total number of interruptions.

The number of emergency interruptions decreased in 2009 by four per cent in comparison to the previous year, while the number of immovable properties affected by water interruptions decreased by 17%. The total annual duration of interruptions decreased from over 40,000 hours to less than 30,000 hours.

Our services • Wastewater treatment

2009 objectives

- ✓ To improve wastewater and storm water collection:
number of blockages less than 1300
- To improve wastewater treatment:
full compliance

Objectives in 2010

- The number of floods/blockages caused by the public sewerage network on the immovable properties of customers decreases in comparison to 2009
- We ensure full annual compliance



Maintenance of the sewerage network

Collection and discharge of wastewater is secured primarily by preventive flushing of sewerage pipes, as well as by reconstruction and extension of sewerage and storm water networks. Additionally the concentration level of wastewater is regularly monitored to prevent any failures in the treatment process. The number of blockages is the main indicator of the condition of the sewerage network and this number has significantly decreased over the years. The number of blockages has been reduced significantly as the result of preventive flushing and reconstructing sewerage pipes. The Company uses annual preventive cleaning to prevent blockages and to increase the capacity of sewerage pipes. The total length of pipes flushed has increased each year and considerably more flushing was carried out in 2009, covering 180 kilometres of pipes.

In 2009, the Company registered and eliminated 1,089 blockages, representing a decrease of 18% from the level of 2008. Blockages are mainly caused by sediments settling in wastewater pipes, but also by decreased volumes and flow rates caused by lower water consumption. In addition, extension of the sewerage network should also be taken into account when assessing the total number of blockages.

Number of blockages 2005-2009

2005	2006	2007	2008	2009
1404	1392	1435	1336	1089

Sewerage pipes cleaned 2005-2009

km

2005	2006	2007	2008	2009
85	85	99	165	180

Reconstruction and extension of the sewerage network

In 2009, the Company carried out renovations on the existing sewerage network and built new sewerage and storm water systems. The majority of sewerage network extensions occurred in the districts of Nõmme and Pirita and a total of 43 km of new sewerage pipes were installed, creating connection opportunities for 1,423 immovable properties. In addition, 6.4 km of existing sewerage pipes were renovated.

Sewerage and stormwater network extensions 2005-2009

	2005	2006	2007	2008	2009
Sewerage network extensions km	18,5	6,4	13	34.1	42,8
Storm water network extensions km	10,8	5,3	11,5	14.3	8,2
Number of new customers given access to wastewater network	221	310	618	1204	1423

Sewerage and storm water network reconstruction 2005-2009

km	2005	2006	2007	2008	2009
Reconstructions	5,3	5,6	5,2	5,9	5,5

Network extension programme

As of the end of 2009, ca 99.6 % of the Company's service area in Tallinn is covered with the water supply network and ca 98 % with the public sewerage network.

During the period from 2008 to 2010, the Company will build over 150 kilometres of new pipes, providing more than 3,000 immovable properties with the opportunity of connection to the public sewerage network. Investments in the extension of networks are essential to minimise the potential environmental risks associated with cesspits and to improve the living environment of the city residents.

In 2009, the Company built 5.5 kilometres of new water pipes instead of the planned 3.3 kilometres and 43 kilometres of new sewerage pipes instead of the planned 39 kilometres. In addition, 5.9 kilometres of the sewerage pipes planned for 2010 were constructed ahead of schedule. This has provided over 1,400 immovable properties and nearly 4,000 people with the opportunity of connection to a modern and environmental public sewerage network.

Planned construction of sewerage networks 2008-2010

km

2008	2009	2010
34	43	41,3

Wastewater treatment

Paljassaare wastewater treatment plant uses environmentally-friendly and modern technologies to treat the wastewater collected from Tallinn and the surrounding areas. In 2009, the Company fully complied with the legal requirements for wastewater treatment.

With each year, Paljassaare wastewater treatment plant is able to remove more pollution from the water to ensure compliance with environmental requirements and protect the Baltic Sea and the Tallinn Bay. The Company continues to invest in the assets of the wastewater treatment plant to increase the efficiency of nitrogen removal and improve quality of the treated effluent discharged to the Gulf of Finland. The Company also cooperates closely with all relevant environmental organizations and authorities to guarantee the cleanliness of Tallinn's beaches.

Sludge is a by-product of wastewater treatment and the Company invests annually to process the sludge into soil conditioner that is used in landscaping and horticulture.

More information about the Company's water and wastewater treatment is available in the 2009 electronic environmental report.



Our services • Business Development

2009 objectives

- To expand further into the neighbouring municipalities: sign at least two new operation and maintenance contracts by the end of 2009
- ✓ To develop business plans to understand our growth prospects: business case and Plan approved by Supervisory Council

Objectives in 2010

- Income from other ancillary services increases by 3 million EEK compared to 2009



One of the strategic objectives of the Company is to expand its business to offer water and sewerage services in other locations in Estonia and the Baltics. To achieve this, the Company has three key areas of focus.

Water and Wastewater Services

Expansion into the area surrounding Tallinn

Over recent years, the Company has concluded a number of contracts with local mu-

nicipalities for the provision of water supply and sewerage services in the areas surrounding Tallinn.

These are contracts where the Company delivers the water required, and/or treats the wastewater from the municipality and the only customer relationship is with the municipality. These contracts have been very successful and have allowed local municipalities to receive services that are fully compliant with all EU standards.

As we have sufficient production capacity and operational capability our aim is to increase the number of local municipalities who take these services from the Company.

Long term Operations and Maintenance Contract with the City of Maardu

In 2008 the Company concluded a 30 year Operations and Maintenance (O&M) contract with the City of Maardu and AS Maardu Vesi to operate the water and sewerage system on behalf of the City of Maardu and its ca 16,000 inhabitants. We commenced this contract on 1 July 2009.

This contract is the first of its kind and demonstrates the many benefits for local municipalities when partnering with the Company, such as:

- assistance with raising additional funds for EU projects;
- a long-term contract that enables the customers and the City of Maardu to have future visibility of tariffs and performance standards;
- immediate access to the benefits from the Company's operations, emergency, and customer service systems;
- from mid-2012 the City of Maardu will receive drinking water from Lake Ulemiste and their wastewater will be treated at Paljassaare enabling all its citizens to receive EU compliant services.

In 2010 and over the next business plan period the Company aims to utilise similar O&M contracts to expand our service offering across Estonia.

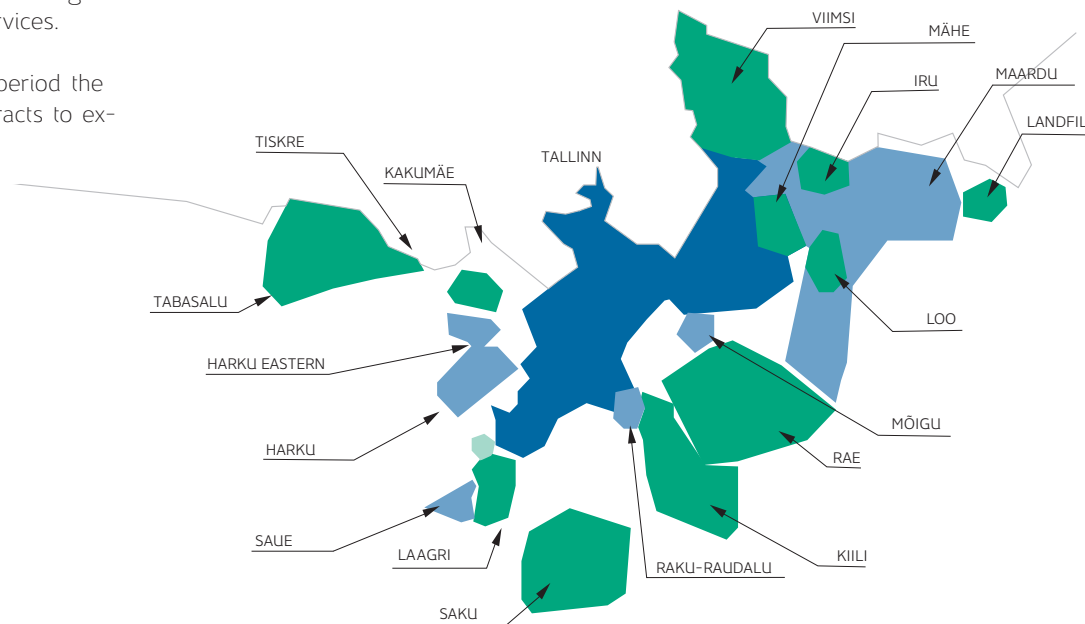
Other Services

Veemees

In 2007, the Company launched the new trademark 'Veemees' for the provision of maintenance, emergency and construction services associated with water supply and sewerage systems. This business unit supplies private house owners, apartment associations, apartment owners, real estate developers and building companies. Veemees enables the Company to provide these non-regulated services beyond the public water supply and sewerage system to inside the customer home. By extending services in this way the Company is able to offer the complete range of water and wastewater services to meet all the needs of its retail clients as well. In 2009, the unit operated business to business construction services and participated in the implementation of several European Union subsidy projects. From the spring of 2009, Veemees introduced the option of deferred payments, making it easier for the customers to pay for the necessary piping works. More information on the work of the unit is available at the web site www.veemees.ee.

New service areas

- Potential service areas
- Bulk supply service areas
- Main service areas
- Extended service areas



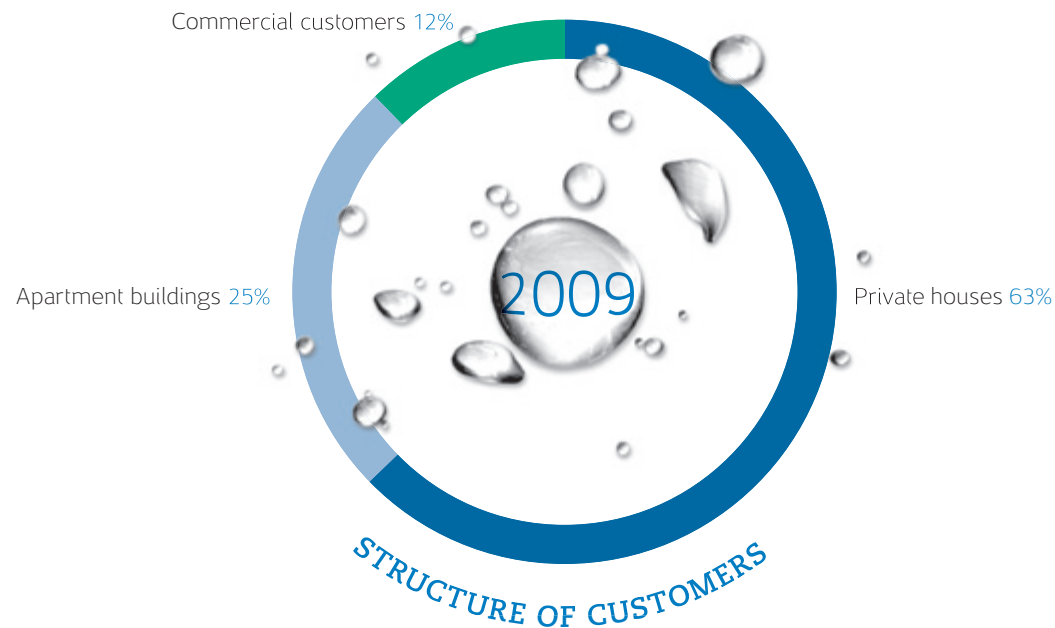
Our customers

2009 objectives

- To improve the speed of responding to enquiries
- To improve customer communication processes
- ✓ To upgrade customer information systems
- ✓ To increase consumer awareness about our products and services

Objectives in 2010

- Customer satisfaction with the service improves in the results of monthly polls and external surveys;
- The number of written customer complaints decreases from the level of Q4 2009;
- We respond to 80 % of written customer requests within two business days and to the remaining 20 % within eight business days.



In 2009, the Company provided water supply and sewerage services to more than 21,000 customers and 430,000 end users in Tallinn and its surrounding areas. The strategic objective of the Company is to achieve customer service excellence and to provide the best customer service of any utility company in the Baltic States.

Annual customer satisfaction survey

The Company undertook significant efforts in 2009 to further improve the quality of its drinking water and service reliability. Customer satisfaction survey results indicate that these improvements were recognized by the customers and were met with a positive reaction. Since the customers have indicated that there are still some gaps between actual interaction with the customers and their expectations, then the Company will be focussing on improving its customer service strategy in 2010.

Independent market research company TNS Emor carried out a customer satisfaction survey for the Company, conducting phone interviews with 900 customers and end users regarding their satisfaction with the customer service of the Company in 2009. Satisfaction was measured on the basis of the TRI*M method developed by the research company to characterise the strength of customer relationships and to allow comparison with other companies. This model focuses on three elements:

- TRI*M index, which measures the strength of customer relationships and comprises further four elements – general satisfaction, recommendation, repeated use and usefulness/necessity of services products;
- TRI*M typology of customer relationships, describing the satisfaction and loyalty of customers;
- TRI*M grid analysis to highlight the strengths and weaknesses of a company.

The Company scored 67 points among its customers and 74 points among its end users in the final TRI*M index of the customer satisfaction survey on a scale of 100. Customer satisfaction has decreased in both private and commercial customer segments in comparison to 2008. The satisfaction of end users has remained stable in the past three years.

Customer and end user satisfaction 2008-2009

TRI*M index	2008	2009
The Company's customers	70	67
The Company's end users	74	74
European public sector average	62	62
European production sector average	72	72
World utility services average	54	54

Compared to other utility companies in the world, the customer relationships of the Company can be considered to be good and the score of the Company in terms of satisfaction of customers and end users is within the upper third among similar companies.

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 price of the service, and reputation of the Company, as well as the handling of problems and customer communications.

Both private and commercial customers stated that the main strengths of the Company are the ability to ensure uninterrupted water supply, small number of emergencies and interruptions, and the accuracy and clarity of invoices. Additional strengths of the Company, according to commercial customers, include e-mail communications and timely submission of invoices. Private customers also emphasised fast, accurate and adequate response to emergencies and the possibility to submit meter readings through the readings interface or self-service.

Both private and commercial customers believe that the quality, taste, odour and clarity of drinking water require continued attention.

Customer satisfaction with different aspects of services 2008-2009

on a scale of 5	Commercial		Private customers	
	2008	2009	2008	2009
Taste	3,4	3,7	3,7	3,7
Odour	3,5	3,9	3,9	3,9
Clarity	3,6	3,8	3,9	3,9
Consistent water pressure	3,7	4,0	3,7	3,9
Adequate service price-to-quality ratio	3,3	2,9	3,3	3,0
Submission of meter readings through web-based self-service	4,1	3,9	4,3	4,1
Timeliness of invoices	4,0	4,2	4,2	4,3
Accuracy and clarity of invoices	4,0	4,2	4,2	4,2

While private customers believe that fast, accurate and adequate response to emergencies is one of the strengths of the Company, commercial customers would like to see further improvement in this area. Private customers stated that the areas that needed improvement include ensuring a steady water pressure, actions to reduce leakages, contribution to environmental efforts and ensuring cleanness of the effluent discharged into the Baltic Sea.

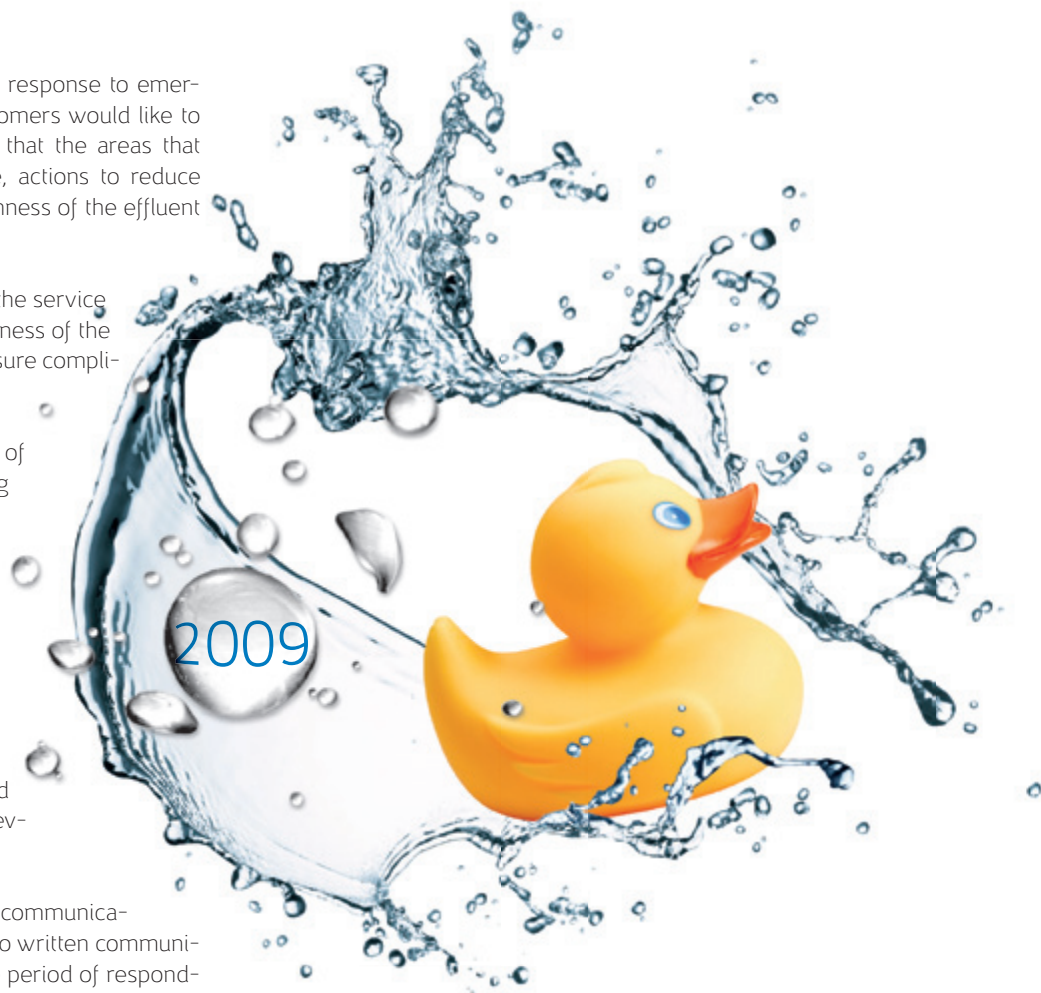
The main development priority for the Company is to ensure that the service price-to-quality ratio is adequate, i.e., to increase customer awareness of the investments to continuous improvement of water quality and to ensure compliance with European Union standards.

Compared to 2008, customer satisfaction with different aspects of the service has increased for the most part in 2009, but the pricing image of the services needs further improvement according to customers and end users.

Development of customer service

The Company considers it extremely important to solve the issues associated with the handling of problems. In particular, improvements are needed as regards to the speed of problem solving and flexibility of communication with customers. The feedback received from the customer satisfaction survey of 2008 was used to develop an improvement plan, which constituted the basis of several improvement actions to eliminate bottlenecks in 2009.

- According to internal Company standards, responses to phone communications should be given within two business days and responses to written communications within eight business days. In 2009, the actual average period of responding to letters was slightly over three business days.
- From January 2009, the Company is conducting monthly customer surveys where 100 customers who have been in contact with the Company during the last month are contacted by phone for feedback on the quality of problem handling and the standard of customer communications.
- To provide customers with better and faster overview of interruptions in the water supply and sewerage services on their properties, the Company started in 2009 to notify customers of supply interruptions by phone.
- An automatic notification system was implemented to provide customers with prompt information in the case of larger water interruptions and to reduce the possibility of jammed phone lines in case of major emergencies.
- From 2009, customers of the Company can choose between several solutions to submit their water meter readings, including answering machines and the readings interface on the web site. The new solutions have reduced the number of phone contacts, the workload of call centre operators during peak hours and have been noted positively in the customer surveys.



Our people

2009 objectives

- ✓ To train and develop the staff to realise their potential
- To reduce employment risks through effective human resource planning
- ✓ To improve the health, safety and well-being of employees
- To improve inter-department cooperation
- ✓ To improve the communication of Executive Team
- ✓ Our employees consider the performance based remuneration to be fair



At the end of 2009, the Company employed 320 employees under permanent employment contracts and 15 employees under contracts for services. In connection with the takeover of the assets and employees of AS Maardu Vesi, the number of full time employees of the Company rose to 352 on 1 July. The extensive restructuring, initiated in the fourth quarter, resulted in a reduction in the number of management positions, merger of certain functions of the units in the production division, and termination of the provision of design service. As a result of this changes, the number of full time employees reduced by 9 per cent by the end of the year.

Objectives in 2010

- Commitment and satisfaction with the Company among the employees is significantly above the average level in Estonian businesses.
- Inter-department cooperation is better than in 2009.
- Employee feedback on management is better than in 2009.
- There are no occupational accidents resulting from any factors that depend on the employer and the number of short-term sick leave days is lower than in 2009.



Employee commitment and satisfaction remained at a high level in comparison to Estonia's average in 2009 (Figure 1), but decreased by six points compared to the results of the 2008 employee satisfaction survey.

This was mainly caused by the structural changes at the end of the year and the resulting uncertainty among employees. Therefore, important objectives of the Company in 2010 include improving internal information exchange and cooperation and increasing credibility of managers.

The Company has launched several programmes to create opportunities for the vocational and professional development of all employees who are willing and prepared to do so.

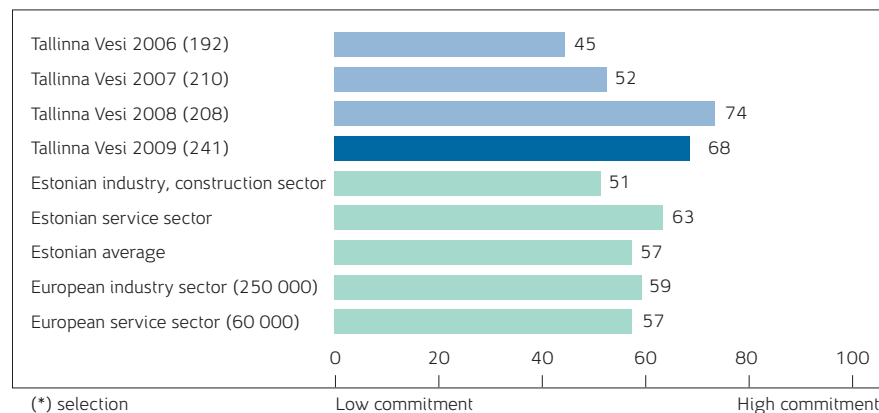
The main innovations in 2009 included:

- **Management Development Programme** – an assessment of the managers was carried out in the spring of 2009 in cooperation with Fontes PMP and the resulting development targets are used as a basis to organise training and development in 2009–2011. 24 senior, middle and frontline managers and specialists are involved in this programme.
- **Project Management Programme** – around 26 employees of the Company joined this voluntary programme to acquire theoretical knowledge on project management and to gain experience with implementing projects within the Company.
- **Professional Competence Training** – there were 663 training days in total in 2009, which amounts to an average of two training days per employee.

Action plans have been put in place to train a new generation of specialists for the critical positions in the core business of the Company. Developing a new generation of employees will be one of the main priorities for the Company in 2010 in addition to developing current employees.



Figure 1 Commitment of the employees of AS Tallinna Vesi, 2006–2009, in comparison to Estonian and European average indicators.



Occupational health and safety

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

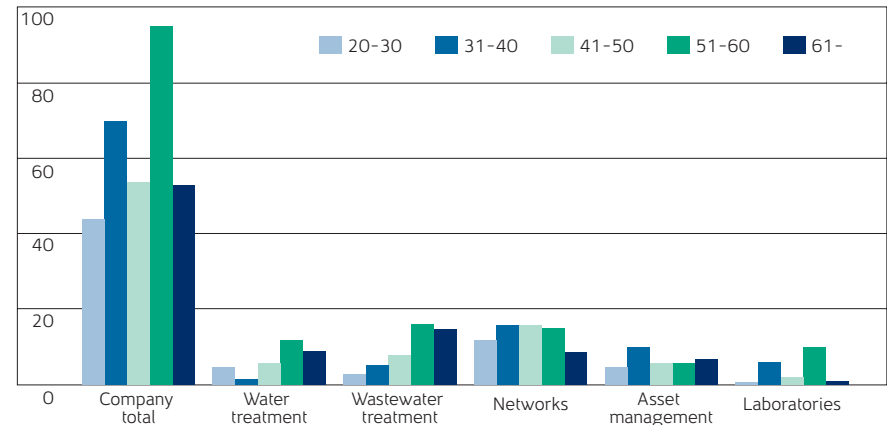
The work environment management system is based on an assessment of risks in the work environment and execution of activities aimed at preventing or reducing these risks. Workplaces are under constant internal monitoring and additional internal and external audits of the management system are carried out as well.

In 2009, the main focus of the Company was on three aspects:

- continuous improvement of the work environment in accordance with the requirements of the occupational health and safety management system OHSAS 18001
- prevention of occupational accidents through a system of registration of accidents that almost happened, i.e., “near misses”
- compliance with safety requirements for work at excavation objects.

There were no occupational accidents due to the employer’s fault that resulted in absence from work in 2009.

Figure 2 Number of operations division employees by age groups 2009



Work environment training

The implementation and results of work environment related actions are largely dependent on awareness of employees and, therefore, much attention is paid to training, information resources and other actions to raise awareness on the issues of the work environment. Training events held in 2009 included:

- regular training courses on lifting and pressure equipment;
- construction safety trainings;
- fire, electrical, chemical and gas work safety trainings;
- courses on safe driving in the dark and on slippery roads for the drivers of the Company;
- first aid and ergonomics of office workstations trainings.

The internal training course series “Change your mindset in safety issues”, continued in 2009. The purpose of this training is to draw attention to the possibilities of implementing effective and positive changes in the safety behaviour of employees. The training was intended for managers, senior specialists and work environment representatives. For the first time, a similar training course was organised for stakeholders from outside the Company, including representatives of contractors, officials of the Labour Inspectorate and the 3M Occupational Safety Club of the work environment specialists of the largest enterprises in Estonia. The Company also continued to organise information workshops for suppliers on occupational and environmental safety.

Raising the level of occupational safety

Several actions for improving the work environment were carried out in 2009 at treatment plants, water and sewerage networks, laboratories and offices:

- reconstruction or reconditioning of ventilation systems,
- improvement of the ergonomics of computer workstations in several departments,
- noise and lighting measurements, which were used to relocate, replace or upgrade lighting at workstations.

In 2009, the Company strongly focused on the prevention of occupational accidents, refining the system of registering “near misses”, i.e., accidents that almost happened. This was done by creating the “Maintenance Helpdesk” as an additional electronic tool, which enables all employees to communicate important information on faults discovered in their work environment (e.g., dead light bulbs, faulty ventilation, missing cleaning agents, etc.).

Promoting occupational health

For the fifth year, the Company successfully participated in the “Health Promoting Work Places” project, aimed at developing a healthy work environment, primarily by changing mindsets and increasing the mutual involvement of both employers and employees.

The Company organises various sports activities for its employees to promote a healthy lifestyle. Employees of the Company have the opportunity to use two gyms, as well as squash and ball courts and also take part in the sporting events of the Company. With the assistance of a trainer from Firmasport OÜ, a group of employees of the Company were trained to be internal coaches of Nordic walking. This was followed by several joint Nordic walking events at Lake Ülemiste and on the Stroomi activity trail.

Intranet and newsletter of the Company were used to raise health awareness of employees by drawing their attention to the importance of balanced nutrition and various sports activities outside the Company, urging everyone to participate.

The success of the Company in the field of health promotion has been noticed by other organisations and, as a result, the occupational health and safety specialists of the Company are held in high regard as speakers among the members of the network of health promoting working places.

Employees attend regular health checks, as foreseen by law, which provide the basis for adjustment of working conditions where needed. In addition to the procedures foreseen by legislation, the Company provides influenza vaccinations to all interested employees and prophylactic massage according to the prescription of the occupational health doctor. The occupational health doctor can be consulted in the medical office of the Company.

A crisis plan for action in case of influenza pandemic was developed in 2009, the existing crisis guidelines were updated and departments were supplied with necessary personal protective and disinfecting equipment. Information on methods for preventing infection with the influenza virus was made available on the intranet, in the newsletter and on information stands.

Our community

2009 objectives

- ✓ To improve our reputation in the community
- ✓ To increase consumer awareness about our products and services

The Company wants to be seen as an active and participating member of the communities where it operates. The Company has taken a serious approach to integrating the principles of corporate social responsibility into the Company's everyday activities. The Company hopes to shape an environmentally conscious way of thinking in the community by supporting water-related initiatives that promote environmental sustainability and a healthy lifestyle and educating their employees and customers. In 2009, the Company revised its corporate social responsibility strategy to establish a clear objective of integrating existing community and environmental projects with day-to-day operations and plan further actions to make a wider sustainable impact in Estonia and globally in the future.

The Company's sponsorship and endorsement principles are based on the idea that the money entrusted with the Company by its customers must be used to support projects and initiatives that are directly beneficial to the residents of the region. The Company's objective is to promote environmental activities, to increase awareness about the necessity to preserve natural resources and to support water-related themes and initiatives in general. One of the Company's objectives in 2009 was to increase our environment-related voluntary activity in the community and be amongst the top three Estonian socially responsible companies. The Company shared the first prize for the most socially responsible company in Estonia with Swedbank in the corporate social responsibility index compiled by the CSR Forum. The Company participated in the formation of the Estonian Responsible Business Index for the third consecutive year to assess the economic, social and environmental impact of its activities and to pass the respective information to its stakeholders and other interested parties. Experts from Äripäev, EBS Ethics Centre and the Responsible Business Forum Foundation took part in the evaluation commission.

In 2009 the total score of the companies participating in the responsible business index amounted to 60% of the 100 per cent reflecting the ideal situation. The total score of the Company amounted to 92,7% of the possible 100s per cent. The Company's area-by-area results considerably exceeded the average indicators of Estonian companies.

Objectives in 2010

- To increase our socially useful activities in the community and environment, through organizing environmental or community events and projects with the participation of the Company staff



Corporate Social Responsibility Index results across areas in comparison with the average of other companies, 2008 - 2009

	2008		2009	
	AS Tallinna Vesi	Average	AS Tallinna Vesi	Average
Company strategy	98	75	96	63
Integration of principles	72	61	80	52
Management of areas of activity	85	74	95	62
Assessment of results, reporting and communication	93	66	82	48

The Company has a very serious approach towards its relationship with the various stakeholders, therefore the Company's employees have regularly participated at meetings with various customer groups. In addition to organizing regular information exchange, the Company's representative presented tips on water efficiency to several hundred building association managers at an energy saving week conference in November. Regular meetings have also been held with the Ministry of Social Affairs, Ministry of Environment and other government institutions who regulate the water industry. As a member of EVEL (Estonian Water Undertakings Association), the Company has organized several water and sewerage themed seminars and training programs for other EVEL members.

- In March 2009 the Company signed a sponsorship agreement with an athlete of great promise, decathlete Mikko Pahapill, who in the same year took gold at the European indoor pentathlon championships in Turin, Italy. During the year Mikko visited several motivational events aimed towards the Company's employees and signed autographs for young athletes at the Ülemiste Lake Run.
- In April, the Company signed a memorandum of understanding with Tallinn Technical University to support their interdisciplinary 5-year doctoral programme with The Company's expertise and through granting access to the Company's resources. In 2010-2014 the Company is going to participate in the practical side of the doctoral research projects, joint seminars and round tables.
- The traditional open door day brought a record number of 350 visitors, 50 of them children to the Company's wastewater treatment plant in Paljassaare on May

23, 2009. The Company's mascot, Tilgu was in charge of providing entertainment for the children. A record number of over 700 local residents visited the Company's water treatment plant in Ülemiste on August 29th. During the open door days the Company's employees showed the visitors around the plants and explained how the water purification and the waste-water treatment processes work. The Ülemiste Open Door Day also coincided with the running competition around Lake Ülemiste, attracting well over 2,000 participants. The run is popular among Tallinners, 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. While in previous years the visitors have primarily been schoolchildren and graduate students, then in 2009 there was overwhelming interest in the water company from whole families. The feedback from the visitors showed that they learned a lot of new information about water treatment and water efficiency.

- From June to October, the Company supported the Flower Festival in Tallinn's Old Town by providing free water from a hydrant and from water tankers.
- In 2009, one of the Company's objectives was to improve the awareness of its customers regarding the Company's products and services so that more than 55% of their clients and more than 38% of the end-customers would drink tap water. In August 2009 the Company launched its media campaign to promote water efficiency and distributed campaign flyers with interesting facts about water usage and useful tips on how to save water around the household. A separate internet web portal, www.jookraanivett.eu was created to disseminate additional information about tap water and water conservation. According to the Customer Satisfaction Survey conducted in the beginning of 2010, about 65% of the Company's customers drink tap water.
- The Company's employees and their family and friends participated in the initiative Cleaning Up 2009 and cleaned the surroundings of the Soodla water reservoir on June 27, 2009 and also cleaned up the shores of Paunküla reservoir together with local fishermen on October 24th.
- On October 25th the Company sponsored the forestation of Tallinn's Lasnamäe district - the Company supported the planting of more trees in Lasnamäe with fresh water. The idea was born at the „My Estonia” Brainstorming Day with the aim of improving the living environment in Lasnamäe.

- Following the release of the water-related PC-game "Traveller Drop" in 2008, the Company continued to improve children's environmental awareness by piloting a tap water project together with Lilleküla high school in 2009. Children and adults alike can drink and fill their water bottles from the public water taps at the school provided for free by the Company.
- In November the Company supported an international engineering competition organized by Tallinn Technical University's technology students. The competing teams were asked to analyze the possibilities of improving the efficiency of the ozone contact pool at the Ülemiste water treatment plant. After a tour of the water treatment plant and two days of thorough analysis, the teams presented their innovative solutions to the Company's representatives. The judges highly valued the inspired approach of all participating students and their unlimited fantasies, but also considered the practical applicability of the presented ideas. The winning idea will not be utilized completely at the water treatment plant, but many of the useful suggestions will be considered in the future. The overall goal behind supporting the engineering competition was to invite young technology students to take an interest in water treatment processes, to ensure that the Company would have capable progeny in the future as well.

An educational programme focus and cooperation with Tallinn Technical University and Kopli Vocational School also helps to ensure continuity of human resources.

The Company's objective is to be a responsible member of the community. For years the Company has supported children with special needs. The Company's Christmas greeting cards have featured the drawings of children from the "Õunake" kindergarten for several years already. Joint gingerbread baking events have also become a lovely tradition during Christmas, when the Company's volunteers help the children decorate their gingerbread cookies. The Company has also had years of cooperation with Ristiku primary school, supporting their summer camps financially. The Company's employees also gave lessons at the Ristiku school on environmental sustainability in 2009 as a part of the "Back to School" program.

Considering the amount of cooperation the Company already has with schools, kindergartens, and higher educational establishments, it was decided to consolidate ideas for an environmental educational programme for all educational levels from pre-school to

university. In 2009 it was agreed to proceed on a project-by-project basis, starting from an environmental audit project for younger children aged 6-7 to be implemented in 2010 to increase children's environmental awareness.

The Company continues to support and actively participate in the Youth to School ("Noored kooli") programme, initiated by the Good Deed Foundation, the purpose of which is to bring a greater number of active and talented young teachers to Estonian schools. The programme offers novice teachers innovative teacher training, a leadership training programme and mentoring, as well as a support network over two years. The Company supports the programme both financially and with know-how.



Our environment



The quality and environment policies approved by the Company's executive team express the Company's principles about managing corporate responsibility and environmental activities.

The Company's activity has a significant impact on the surrounding natural environment. The objective of the Company is to cause as little environmental damage as possible from its day-to-day operations. The Company systematically monitors its impact on the environment, the quality of life of the population as well as its business activities by identifying and keeping in check existing and potential negative and positive consequences. Implementing the environmental management system also means the Company agrees activities for improved environmental performance as part of setting the Company's annual objectives and individual performance objectives of our unit managers and employees. Any performance improvements also have to follow established legal requirements and restrictions.

The Company has implemented a quality and management system to improve customer satisfaction and the effectiveness of its environmental activities. The environmental management system is a part of the Company's management system aimed at minimizing or where possible, avoiding polluting the environment, through the inte-

gration of environmental management systems in the Company's daily operations.

The Company's environmental activities and the environmental management system are in accordance with international environmental management standard ISO 14001 and the European Union's Eco Management and Audit System EMAS.

The Company has identified the operational aspects that are most likely to cause significant changes to surrounding environment and has established necessary control mechanisms to avoid or mitigate any unfavorable environmental impact.

There are also positive aspects related to the Company's operations, which allow to improve the environment either directly or indirectly – primarily raising consumer awareness about the environment and also promoting the optimal and efficient use of water as an important natural resource.

Additional information about the Company's environmental policy and activities can be found in the electronic Environment Report attached to this annual yearbook.

Our compliance

2009 objectives

✓ To ensure regulatory and contractual compliance

The Company is required to comply with the following:

- 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)
- 2005 - EU EMAS Environmental Management System
- 2007 - OHSAS 18001 Occupational Health and Safety Management System
- EU, national as well as local self-governments' legislative acts – to ensure compliance with minimum environmental requirements
- Environmental permits issued to the Company
- Any prescriptions issued by authorities
- 97 contractual Levels of Service agreed with the City - to provide a better quality service than the minimum required by legal acts

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

The Company's and its management system's compliance with the environmental, work environment, occupational safety, quality and other legislative requirements is also monitored in the course of internal and external audits. In the course of internal audits carried out in 2009, the internal auditors presented a total of 34 non-conformities and 50 proposals, which form a good source for the managers to improve the management system's functionality and prepare for external audits.

The compliance of the management system with the ISO 9001, ISO 14001, OHSAS 18001 standard re-

2010 objective

- To ensure the compliance with LoS A1, ISO 9001, ISO 14001, OHSAS 18001 and EMAS requirements

quirements and with the EU (EMAS) Regulation 761/2001 requirements was externally audited by the accredited certifier Det Norske Veritas.

As a result of the 2009 external audit, Det Norske Veritas renewed all the Company's management system certificates. DNV also certified the 2008 Environmental Report (as part of the 2008 Annual Report). 5 minor non-compliances were discovered and 13 observations were made, which were related to the management of subcontractors, ambient air pollution and the clarity of data in the environmental report. The external auditors were very pleased with the proactive call-back improvements, implemented in the Contact Centre. All external audit findings have been resolved and the solutions have been accepted by the external auditor.

The Company's laboratories are accredited with the ISO 17 025 quality standard. The laboratories were audited separately in March 2009. No non-compliances were recorded. The Company's activities related to work environment are in compliance with the requirements of the legislation as well as international occupational health and safety management system standard OHSAS 18001.

The Company also has to ensure that its suppliers meet environmental, work environment and occupational safety requirements. The Company has established environmental, work environment and occupational safety criteria for the qualification of suppliers in its procurement procedures. A relevant confirmation from suppliers is insisted on already at the bid stage. All construction sites are monitored to ensure oc-



Our compliance

occupational safety and environmental protection measures are followed by its own employees as well as its sub-contractors. Compliance of suppliers is assessed after the completion of works and the contract and in 2009, the average assessment to environmental activities of the Company's suppliers was "good".

The Company is required to comply with EU, national as well as local self-governments' environmental legislative acts. On the EU level, this means compliance with the EU Council Water Framework Directive nr 2000/60/EC. On national level, the Company is required to comply with the Water Act, Public Water Supply and Sewerage Act, Waste Act, Chemicals Act, Ambient Air Protection Act and any regulations adopted on the basis thereof. On the local level, since the Company operates in Tallinn as well as its neighbouring municipalities, then the Company has to abide by various instructions and regulations for connections processes, usage and price of service enacted within various territories. Changes in applicable regulation are monitored and communicated monthly to relevant managers in charge of implementing the changes.

In 2009, the Company has actively participated in coordination rounds regarding those new legislative acts that affect the water industry and the environment via Estonian Water Companies Association (EVEL), the Estonian Quality Managers Association (EKJA), the Estonian Chamber of Commerce and Industry (EKTk) and the Tallinn Stock Exchange by providing opinions on draft acts and made proposals for their amendments.

The Company is required to operate in accordance with the environmental permits issued to the Company. Harju County Environmental Service has issued the following permits to the Company:

- 5 special use of water permits;
- 2 waste permits;
- 2 ambient air pollution permits and 1 special permit for ambient air pollution.

More information about the environmental permits issued to the Company is available in the electronic environmental report.

In 2009, the Company received 8 prescriptions from the following authorities - 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 fulfilled the conditions of all prescriptions on time within 2009 and to the level satisfactory to the relevant authorities.

In 2009, the Company objective was to achieve high operational quality and fulfil as well as exceed all applicable legal and contractual requirements and standards. Since 2001, when the Company and the City of Tallinn signed a Services Agreement to provide public water and sewerage services, the Company has agreed to meet 97 Levels of Services. These levels of service determine the quality standards the Company must guarantee to its customers, including water quality, environmental requirements and service interruptions. This makes the Company the most regulated water company in Estonia.

In 2009 the Company achieved 96 out of 97 levels of service in 2009. The Company managed to exceed several agreed levels of service, i.e. perform better than the minimum required by law and also perform better than the contract. The acceptable level of leakages, which is not regulated by law, has been contractually agreed as 26% and in 2009 the Company achieved the level of 17.5%. A contributing factor was the Company reconstructing 30.3 km of water and waste water pipes in 2009, instead of the contractually agreed 5 km annually. The only level not met was the one requiring that any and all service interruptions do not last longer than 12 hours. In 2009 the Company had 732 interruptions to supply and in case of 2 incidents the cause of the leak or interruption took longer than 12 hours to establish. The Company submits an annual thorough report on compliance with the previous year's Levels of Service to the City of Tallinn, as well as to the Supervisory Foundation for the Water Companies in Tallinn.

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. Regular cooperation with the trade union and the work environment council helps the Company to better take into account the wishes of its employees.

Being a member of the Estonian Environmental Management Association (EKJA) helps the Company to promote cooperation with other environmentally aware businesses. For more details on the environmental activities of the Company, please see the 2009 electronic environmental report.

Annual accounts



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Results of operations - for the year 2009



Main economic indicators

million kroons

	2009	2008	2007	2006	2005	
Sales	772,4	719,9	648,3	589,2	549,9	
Gross profit	488,4	447,2	431,7	368,6	347,9	Gross profit margin – Gross profit / Net sales
Gross profit margin %	63,2	62,1	66,6	62,6	63,3	
Operating profit	461,9	405,4	377,4	337,9	282,6	Operating profit margin – Operating profit / Net sales
Operating profit – main business	414,4	377,4	363,1	331,0	278,8	
Operating profit margin %	59,8	56,3	58,2	48,7	47,7	Profit before taxes margin – Profit before taxes / Net sales
Profit before taxes	401,1	362,2	333,1	294,9	209,7	
Profit before taxes margin %	51,9	50,3	51,4	42,5	35,4	Net profit margin – Net profit / Net sales
Net profit	339,9	296,0	277,8	248,0	174,4	
Net profit margin %	44,0	41,1	42,9	42,1	31,7	ROA – Net profit / Total assets
ROA %	12,7	11,6	10,9	10,0	7,3	
Debt to total capital employed	48,1	49,9	51,8	53,4	55,3	Debt to Total capital employed – Total liabilities / Total capital employed
ROE%	24,4	23,1	22,5	21,5	16,4	
Current ratio	4,3	1,8	1,9	2,2	1,9	ROE – Net profit / Shareholders' equity
Number of employees	336	327	312	318	334	
Share capital	200	200	200	200	200	Current ratio – Current assets / Current liabilities

Profit and Loss Statement

Sales

In 2009 AS Tallinna Vesi's (hereinafter referred to as 'the Company') total sales increased, year on year, by 7.3% to 772.4 mln EEK. Sales in the main operating activity principally comprise of sales of water and treatment of wastewater to domestic and commercial customers within and outside of the service area, and fees received from the City of Tallinn for operating and maintaining the storm water system. Starting from 1 July 2009 the sales to the outside service area includes sales from a 30 year operating and maintenance contract signed with the city of Maardu. There is no considerable seasonality in the Company's operation.

Sales of water and wastewater services were 707.4 mln EEK, a 7.5% increase compared to 2008, resulting from the 12.8% increase in tariffs from 1 January 2009 for the Company's residential and commercial customers combined with the factors described below.

Included within this amount were the following changes by sectors. Within the service area, sales to residential customers increased by 9.4% to 379.3 mln EEK. Sales to commercial customers increased by 0.8% to 273.3 mln EEK. Sales to customers outside of the service area increased by 51.5% to 40.0 mln EEK, mainly due to the implementation of the Maardu's operating contract. Over pollution fees received were 14.7 mln EEK, a 6.6% increase compared to 2008.

In 2009, the volumes sold to residential customers dropped 3.0%. We believe that this is due to the combination of the economic recession and the fact that people have continued to move to the surrounding areas of Tallinn.

The volumes sold to commercial customers inside the service area decreased by 10.7% compared to the relevant period in 2008. The majority of the reduction in sales volumes in Tallinn is a result of the macroeconomic impact of companies reducing their production volumes and implementing efficiency measures, supplemented by companies moving to surrounding municipalities.

The sales from the operation and maintenance of the storm water and fire-hydrant system increased by 2.4% to 50.0 mln EEK in 2009 compared to last year. This is in accordance with the terms and conditions of the contract whereby the storm water and fire hydrant costs are invoiced based on actual costs and volumes treated.

Cost of Goods Sold and Gross Margin

The cost of goods sold for the main operating activity was 284.1 mln EEK in 2009, an increase of 11.3 mln EEK or 4.1% from the equivalent period in 2008.

In 2009 the Company achieved the beneficial 0.5 coefficient for pollution tax in 1st and 4th quarters, and the amount of pollution tax payable was 16.9 mln EEK compared to 17.0 mln EEK in 2008. In the 2nd and 4th quarters of 2008 Company did not achieve the 0.5 coefficient. Pollution tax payable is also impacted by the increase in tax rates year on year by 20%, partly offset by the reduction in treatment volumes. As the pollution level of the incoming sewage has continued to increase the Company has analyzed a range of alternatives to improve the waste water treatment processes and to use the optimum level of chemicals to achieve the 0.5 coefficient in the forthcoming quarters. In the 3rd quarter of 2009 an investment into an additional stage of waste water treatment was approved, which will enable the increasing pollution load to be treated to the levels required to achieve these standards.

Chemical costs were 20.1 mln EEK, representing a 12.1% decrease compared to the corresponding period in 2008. This result is the combination of volumes treated, chemicals dosed and the particularly favorable price impact.

Electricity costs increased by 3.7 mln EEK or 12.3% in 2009 compared to 2008 due to higher electricity prices.

Salary expenses increased in 2009, year on year, by 6.8 mln EEK or 10.6% mainly due to the take over of 23 employees from Maardu Vesi.

Depreciation charges decreased in 2009 by 1.1 mln EEK or 1.3% year on year.

Transport costs decreased by 2.3 mln EEK, or 11.5% year on year, due to the combination of the reduction in fuel prices and reduced rates for rented machines. Other cost of goods sold in the main operating activity increased 6.4 mln EEK, or 23.7% year on year, due to the costs of operating in Maardu.

As a result of all of the above the Company's gross profit for 2009 was 488.4 mln EEK, which is an increase of 41.2 mln EEK, or 9.2%, compared to the gross profit of 447.2 mln EEK for 2008.

Operating Costs and Operating Margin

Marketing expenses decreased by 1.1 mln EEK to 11.2 mln EEK during 2009 compared to the corresponding period in 2008. This is mainly the result of the efficiency program, which via the implementation of a new structure, reallocated part of the costs to the cost of goods sold and general administration expenses in 2009.

In 2009 the General administration expenses decreased by 1.1 mln EEK to 53.5 mln EEK year on year.

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

Other net income/expenses

The majority of the income in Other net income/expenses relates to constructions and government grants. This driver for this income stream is the connections activity in Tallinn. Income/expenses from constructions and government grants totalled a net income of 47.5 mln EEK, in 2009 compared to a net income of 27.9 mln EEK in 2008. This was primarily due to the significant increase in the number of connections finalized.

The rest of the other income/expenses totalled an expense of 9.2 mln EEK in 2009 compared to an expense of 2.9 mln EEK in 2008, from a combination of slightly worsened debt collection balanced by received penalties in 2009. It should be noted however that, more than 99% of debt is collected in a timely manner.

As a result of all of the above the Company's operating profit for main and other activities for 2009 was 461.9 mln EEK, an increase of 56.6 mln EEK compared to an operating profit of 405.4 mln EEK achieved in 2008. Year on year the operating profit has increased 14.0%.

Financial expenses

Net Financial expenses were 60.9 mln EEK in 2009, which is an increase of 17.7 mln EEK or 40.9% compared to 2008. The Company's interest costs have decreased by 38.0% compared to 2008 as a result of the reduction in Euribor rates and the replacement of the loan with a fixed interest rate (4.19% + risk margin), by loans with floating interest rates. The Company decided to mitigate the long term floating interest rate risk

and in May and June 2009 concluded 3 interest rate swap agreements, each with a principal value of 15 mln EUR. All contracts had forward start dates, for contracts with a notional amount of 30 mln EUR the forward start date became on 28 November 2009, and for a contract with a notional amount of 15 mln EUR the forward start date begins on 28 May 2010. At this point in time the fair value of these swap contracts is negative, therefore the provisions related to the Swap fair value in the amount of 16.1 mln EEK partly offset the interest costs savings and the increase in financial income earned during 2009.

Profit Before Tax

The Company's profit before taxes for 2009 was 401.1 mln EEK, which is 38.9 mln EEK higher than the profit before taxes of 362.2 mln EEK for 2008.

The Company's net profit for the 2009 was 339.9 mln EEK, which is 44.0 mln EEK higher than the net profit of 296.0 mln EEK in the equivalent period in 2008.

Balance sheet

During the twelve months of 2009 the Company invested 251.6 mln EEK into fixed assets. Non-current assets were 2,193.3 mln EEK at 31 December 2009. Current assets increased by 141.4 mln EEK to 488.8 mln EEK in the twelve months of the year, with customer receivables increasing by 78.7 mln EEK and cash at bank increasing by 62.6 mln EEK.

Current liabilities decreased by 77.3 mln EEK to 115.1 mln EEK in the twelve months of the year. This was mainly due to decreases in the Current portion of long-term borrowings by 81.2 mln EEK, as a result of the repayment and replacement of the EBRD loan in May 2009, a 10.6 mln EEK increase in Trade payables, and a decrease in Customer prepayments of 8.1 mln EEK.

The Company continues to maintain its leverage level within its target range of 50% with total liabilities to total capital employed of 48.1% as of 31 December 2009. Long-term liabilities stood at 1,175.8 mln EEK at the end of December 2009, consisting almost entirely of the outstanding balance of three long-term bank loans. The current total available loan facility is 95 mln EUR, from which we have drawn down 75 mln EUR. The Company intends to draw down the 20 mln EUR balance in May 2010. The current weighted average interest margin is 0.55%, for the total available facility the margin is 0.67%.

Cash flow

During the twelve months of 2009, the Company generated 426.9 mln EEK of cash flows from operating activities, a decrease of 4.2 mln EEK compared to the corresponding period in 2008. The reduction in operating cash flows is due to the payment of the one off financial costs of 27 mln EEK related to the prepayment of the EBRD loan. In addition the first quarter of 2008 was positively impacted by proceeds of some big services invoices issued at end of 2007. Underlying operating profit still continues to be the main driver for growth in operating cash flows.

In the twelve months of 2009 net cash outflows from investing activities were 72.8 mln EEK, which is 8.0 mln EEK more than in 2008. This is mainly because of number of connections finalized, balanced by lower CAPEX due to lower construction prices and savings on the program. In 2009 the Company invested 251.6 mln EEK – 208.7 mln EEK on networks (including 144.1 mln EEK on extension and developments), 17.4 mln EEK at Paljassaare wastewater treatment plant and sludge treatment, 6.4 mln EEK on water quality (Ülemiste water treatment plant and raw water), 18.6 mln EEK for other investments (IT, capital maintenance, meters, etc) and 0.5 mln EEK outside the Services area in the municipality of Maardu.

The cash outflows from financing activities were 291.5 mln EEK during the twelve months of 2009 compared to a cash outflow of 314.9 mln EEK during the same twelve months of 2008, representing the payouts of the dividend and associated taxes. The Company repaid and fully refinanced the loan from the EBRD in May 2009 due to the need to finance and construct the extensive network extension program and related investment outflows by 2011.

As a result of all of the above factors, the total cash inflow in the twelve months of 2009 was 62.6 mln EEK compared to a cash inflow of 51.4 mln EEK in the twelve months of 2008. Cash and cash equivalents stood at 292.5 mln EEK as at 31 December 2009.

Employees

At the end of 2009, the total number of employees was 336 compared to 326 at the end of 2008. The full time equivalent (FTE) was respectively 322 in 2009 compared to the 317 in 2008. The increase in FTE is primarily due to taking on staff from Maardu Vesi when Company commenced operations in July. The total salary cost was 95.2 mln EEK, including 3.2 mln EEK paid to the Management and Supervisory Council members. The off balance sheet potential salary liability would be up to 0.7 mln EEK if the Council would want to replace the Management Board member.

Dividends and share performance

Based on the results of the 2008 financial year, the Company paid 230,010,000 EEK of dividends. Of this 10,000 EEK was paid to the owner of the B-share and 230,000,000 EEK, i.e. 11.50 EEK per share to the owners of the A-shares. The dividends were paid out on 12 June 2009, based on the list of shareholders, which was fixed on 01 June 2009.

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

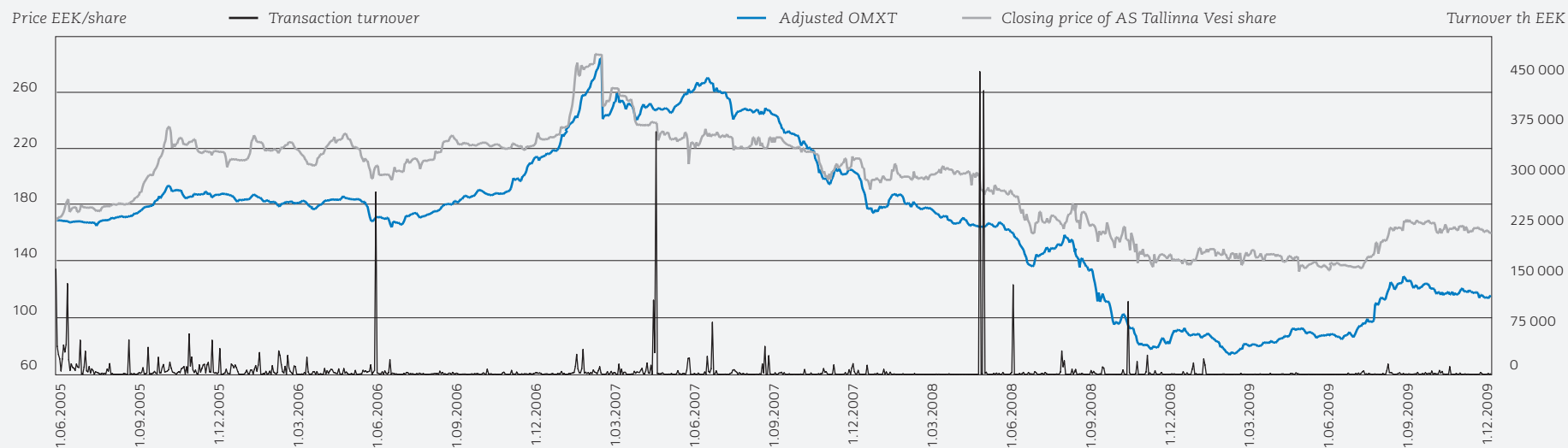
As of 31 December 2009 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%
Credit Suisse Securities (Europe) Ltd Prime Brokerage A/C Prime Brokerage Clients	5.67%

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 2009, the closing price of the AS Tallinna Vesi share was 156.47 EEK (10.00 EUR), which is an 11.2% increase compared to the closing price of 140.66 EEK (8.99 EUR) at the end of the previous year. During the same period the OMX Tallinn index rose by 47.2%.

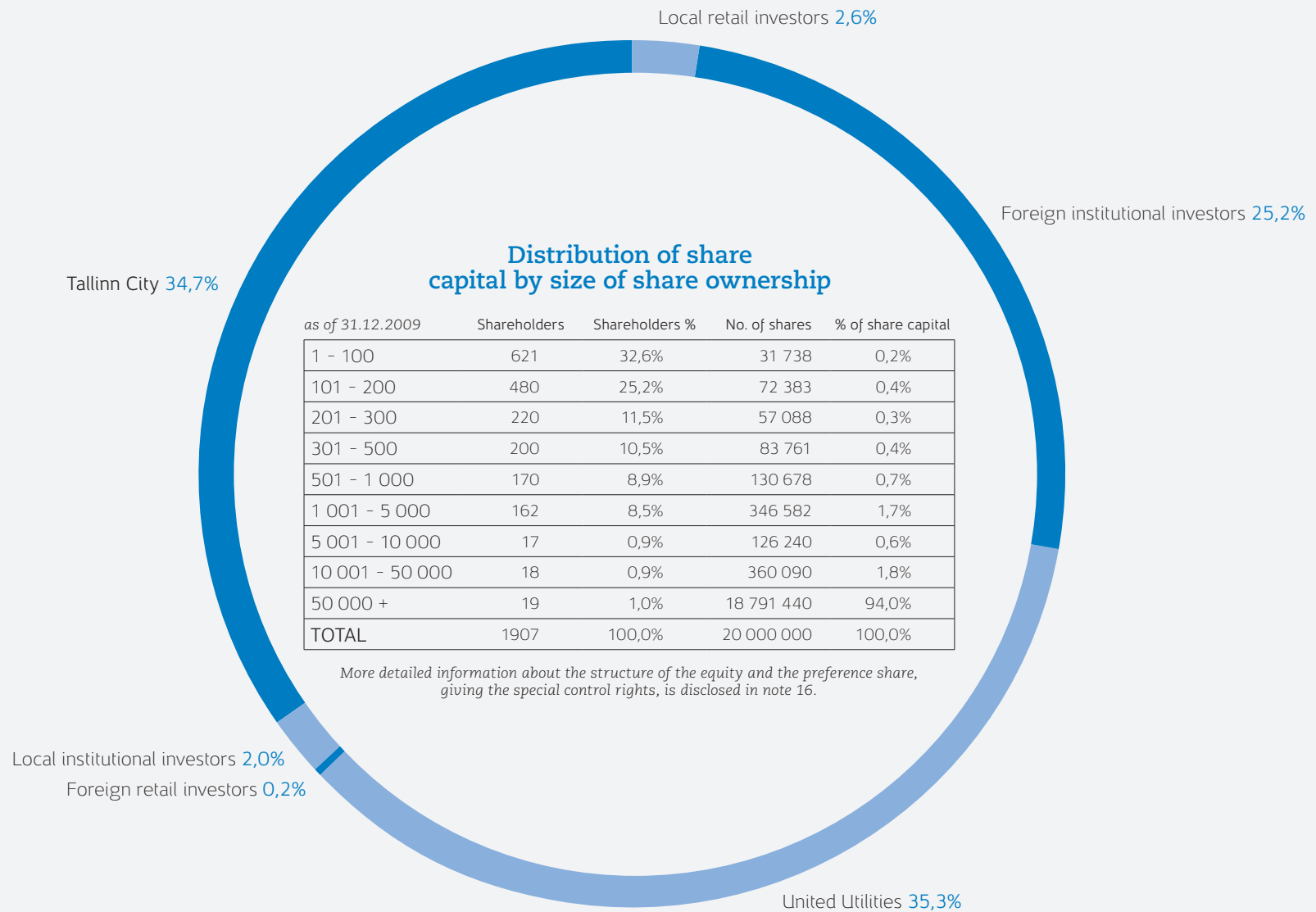
Closing Price & Adjusted OMXT vs Transaction Turnover



Share price statistics after listing

EEK	2009	2008	2007	2006	2005
Share price, open	140,82	207,32	234,70	211,23	155,53
Share price, at the end of the year	156,47	140,66	202,78	234,86	210,92
Share price, low	128,30	131,59	195,58	195,11	155,53
Share price, high	167,26	212,79	290,87	234,86	235,48
Share price, average	145,19	178,09	232,20	217,49	197,46
Traded volume	1 547 108	7 958 820	5 462 916	4 274 094	7 993 844
Turnover, million	226,6	1 453,1	1 295,9	913,2	1 509,9
Capitalisation, million	3 129	2 813	4 056	4 697	4 218
Earnings per share	17,00	14,80	13,89	12,40	8,72
Dividend per share	n/a	11,50	12,45	9,80	7,85
Dividend / net profit	n/a	78%	90%	79%	90%
P/E	9,20	9,50	14,60	18,94	24,19
P/BV	2,2	2,2	3,3	4,1	4,0

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



Shareholders by type

Corporate governance and corporate governance recommendations report

Corporate governance constitutes a system of principles for the management of the company. Generally these principles are 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 exchange are recommended to follow the “Corporate Governance Recommendations” issued by the Financial Supervision Authority. Throughout 2009 the management of the Company was following these regulations and principles.

An Annual General Meeting of Shareholders was convened to approve the annual report, distribution of dividends, recalling of auditors and recalling/electing 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.

The Company 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 operating, corporate disclosures and relations with shareholders. The Company has been recognized several times for this – in 2008 and 2009 the IR Magazine ranked the Company to be the best in investor relations in Estonia. In 2009 the NASDAQ OMX Baltic awarded the Company for the Best Annual Report in NASDAQ OMX Baltic and for the Best Investor Relations in NASDAQ OMX Tallinn.

The Company has regular dialogue with major shareholders and potential investors with presentations made generally at least bi-annually – timetable of such meetings and the list of presentations are available on the Company’s website. To keep the Company’s shareholders informed Meetings of Shareholders are kept where shareholders have the opportunity to ask questions from the Management Board and Supervisory Board.

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 Company’s 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 Board consists of nine members the term of whose authority is two years. In 2009 five Supervisory Board meetings were held. The Supervisory Board approved the 2009 annual report presented at the Annual General Meeting, and approved the 2010 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, Leslie Anthony Bell, Andrew James Prescott, Matti Hyrynen, Mart Mägi, Valdur Laid, Elmar Sepp, Rein Ratas, Deniss Boroditš.

At each meeting, an internal audit report was presented to the Supervisory 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 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.

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.

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 four members, three 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 fulfil 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.

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

Until 30 November 2009 the duties of the member of the Management Board Siiri Lahe were, amongst other duties, to fulfil 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. As of 30 November 2009 Stephen Benjamin Howard took over the role of the Chief Financial Officer and he was appointed as a member of the Management Board. Siiri Lahe continues to be a member of the Management Board during her maternity leave period.

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 Corporate Governance principles. However it does not comply with some principles, 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.'

The Company does disclose the overall management board remuneration in the report appendix 26, 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 mem-

bers, 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 Management Board of the following companies belonging to United Utilities group: United Utilities Pacific Holdings B.V., United Utilities Australia Holdings BV, United Utilities B.V., Birchpoint No 1, Halkyn District Mines Drainage Company Limited, United Utilities Europe Holdings B.V., United Utilities (Sofia) Limited, United Utilities (Sofia) B.V., United Utilities (Poland) BV, Aqua Spolka Akcyjna, United Utilities (Tallinn) B.V.

Siiri Lahe, Stephen Benjamin Howard, CFO, and David Hetherington, COO, are not in the Management Boards and 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).

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 paid to six members. 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 2009 five Supervisory Board meetings were held (29 January 2009, 26 March 2009, 30 April 2009, 16 July 2009 and 22 October 2009).

Chairman of the Supervisory Board (Robert John Gallienne) and most of the members of the Supervisory Board (Matti Hyrynen, Mart Mägi, Elmar Sepp, Rein Ratas, Deniss Boroditš, Valdur Laid) 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.

- Kevin Starling attended all the Supervisory Board meetings (3), until being recalled from Board on 16.06.2009. He attended on 29.01.2009, 26.03.2009 and 30.04.2009 respectively.
- Steven Richard Fraser attended two Supervisory Board meetings, until being recalled from Board on 16.06.2009. He attended on 29.01.2009 and 26.03.2009 respectively.
- Leslie Anthony Bell attended all the Supervisory Board meetings (2) since his nomination on 16.06.2009. He attended on 16.07.2009 and 22.10.2009 respectively.
- Andrew James Prescott attended one Supervisory Board meeting since his nomination on 16.06.2009. He attended on 16.07.2009.

The previous sections, Chairman's statement, Results of operations – for the year 2009, Corporate Governance and Corporate Governance Recommendations Report from the Management Report are an integral part of the annual report of AS Tallinna Vesi for the financial year ended 31 December 2009. The Management Report gives a true and fair view of the trends and results of operations, main risks and doubts of the Company.

Management confirmation

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 2009 on pages 17 to 52.

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 2009, 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 2009. 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 2010 have been considered in preparing the financial statements.

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



Ian John Alexander
Plenderleith
Chairman of the
Management Board
25.02.10



David Nigel
Hetherington
Member of the
Management Board
25.02.10



Stephen Benjamin
Howard
Member of the
Management Board
25.02.10



Siiri Lahe
Member of the
Management Board
25.02.10

Statement of financial position

for the year ended 31 December, thousand EEK	Note	2009	2008
Assets			
Current assets			
Cash and equivalents	6	292 474	229 860
Customer receivables, accrued income and prepaid expenses	7,8	191 317	112 638
Inventories		3 819	3 760
Non-current assets held for sale		1 209	1 140
Total current assets		488 819	347 398
Non-current assets			
Property, plant and equipment	9	2 152 952	2 168 225
Intangible assets	9	40 319	43 428
Total non-current assets		2 193 271	2 211 653
Total assets		2 682 090	2 559 051
Liabilities and equity			
Current liabilities			
Current portion of long-term borrowings	10	1 936	82 843
Trade and other payables	11, 12	97 866	87 270
Short-term provisions		3 570	2 486
Prepayments and deferred income	15	11 687	19 797
Total current liabilities		115 059	192 396
Non-current liabilities			
Borrowings	10	1 174 034	1 084 642
Other payables	11	1 795	735
Total non-current liabilities		1 175 829	1 085 377
Total liabilities		1 290 888	1 277 773
Equity			
Share capital	16	200 001	200 001
Share premium		387 000	387 000
Statutory legal reserve		20 000	20 000
Retained earnings		784 201	674 277
Total equity		1 391 202	1 281 278
Total liabilities and equity		2 682 090	2 559 051

Notes to the financial statements on pages 21 to 52 form an integral part of the financial statements.

Statement of comprehensive income

for the year ended 31 December, thousand EEK	Note	2009	2008
Revenue	17	772 446	719 923
Costs of goods sold	19	-284 064	-272 752
Gross profit		488 382	447 171
Marketing expenses	19	-11 213	-12 310
General administration expenses	19	-53 493	-54 546
Other income/ expenses (-)	20	38 264	25 045
Operating profit		461 940	405 360
Financial income	21	25 267	15 606
Financial expenses	21	-86 131	-58 805
Profit before taxes		401 076	362 161
Income tax on dividends	22	-61 142	-66 193
Net profit		339 934	295 968
Total comprehensive income		339 934	295 968
Attributable to:			
Equity holders of A-shares		339 924	295 958
B-share holder		10	10
Earnings per A share (in kroons)	23	17,00	14,80
Earnings per B share (in kroons)	23	10 000	10 000

Notes to the financial statements on pages 21 to 52 form an integral part of the financial statements.

Cash flow statement

for the year ended 31 December, thousand EEK	Note	2009	2008
Cash flows from operating activities			
Operating profit		461 940	405 360
Adjustment for depreciation/amortisation	9, 19	89 153	89 669
Adjustment for profit from government grants and connection fees	20	-47 512	-27 921
Other finance expenses	21	-29 203	-1 614
Profit from sale of property, plant and equipment, and intangible assets		-150	-455
Expensed property, plant and equipment		0	-19
Change in current assets involved in operating activities	24B	-14 675	22 781
Change in liabilities involved in operating activities	24B	6160	906
Interest paid		-38 793	-57 569
Total cash flow from operating activities		426 920	431 138
Cash flows from investing activities			
Acquisition of property, plant and equipment, and intangible assets	24C	-243 906	-332 407
Compensations received for construction of pipelines	24A	155 772	250 190
Proceeds from sale of property, plant and equipment, and intangible assets		238	480
Interest received		15 077	16 906
Total cash flow used in investing activities		-72 819	-64 831
Cash flows from financing activities			
Received loans	10	700 968	42 246
Repayment of loans	10	-701 303	-41 910
Dividends paid	22	-230 010	-249 010
Income tax on dividends	22	-61 142	-66 193
Total cash flow used in financing activities		-291 487	-314 867
Change in cash and cash equivalents			
Cash and equivalents at the beginning of the period		229 860	178 420
Cash and equivalents at the end of the period	6	292 474	229 860

Notes to the financial statements on pages 21 to 52 form an integral part of the financial statements.

Statement of changes in equity

thousand EEK	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
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
Dividends (Note 22)	0	0	0	-230 010	-230 010
Net profit of the financial year (Note 23)	0	0	0	339 934	339 934
31 December 2009	200 001	387 000	20 000	784 201	1 391 202

Information about share capital is disclosed in note 16.

Notes to the financial statements on pages 21 to 52 form an integral part of the financial statements.

Notes to the financial statements

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:

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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 set 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 notes. 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 policies have been applied consistently for all the periods presented in the accounts.

The financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter IFRS) as adopted by the European Union (EU).

The financial statements have been prepared under the historical cost convention, as modified by the accounting policy for derivatives, measured at fair value through profit and loss, as disclosed in the accounting policies below.

Operating segments are reported in a manner consistent with the internal reporting provided to the Management Board, being the chief operating decision-maker. The

Management Board, who is responsible for allocating resources and assessing performance of the operating segments, reports to the Supervisory Board which has been identified as the steering committee that makes strategic decisions.

The preparation of 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.

Adopted new standards, amendments and interpretations to existing standards which became mandatory for the Company from 1 January 2009

Improving Disclosures about Financial Instruments – Amendment to IFRS 7, issued in March 2009 effective for annual periods beginning on or after 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

IAS 1, Presentation of Financial Statements, revised in September 2007 effective for annual periods beginning on or after 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

IAS 23, Borrowing Costs, revised in March 2007 effective for annual periods beginning on or after 1 January 2009. In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009, the Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Company previously recognized all borrowing costs as an expense immediately. This

change in accounting policy was due to the adoption of IAS 23, 'Borrowing costs' (2007) in accordance with the transition provisions of the standard; comparative figures have not been restated. The change in accounting policy had no material impact on earnings per share. The Company has capitalized borrowing costs relating to the most important projects based on their value the total of which formed at least 80 % of the total of unfinished construction projects accounted at the end of the year.

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 that file, 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's financial statements do not include the segment reporting as the Management Board has not distinguished business or geographical segments clearly related to the activities of the Company.

The following amendments and interpretations to existing standards became mandatory for the Company from 1 January 2009 but are not relevant to the Company's operations or did not have a material effect on Company's financial reporting.

IFRIC 11, IFRS 2 - Group and Treasury Share Transaction as adopted by the EU is effective for annual periods beginning on or after 1 March 2008, early adoption permitted.

IFRIC 12, Service Concession Arrangements as adopted by the EU is effective for annual periods beginning on or after 30 March 2009, early adoption permitted.

IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction as adopted by the EU is effective for annual periods beginning on or after 31 December 2008, early adoption permitted.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment is effective for annual periods beginning on or after 1 January 2009.

Vesting Conditions and Cancellations—Amendment to IFRS 2 is effective for annual periods beginning on or after 1 January 2009.

IFRIC 13, Customer Loyalty Programmes effective for annual periods beginning on or after 1 July 2008, IFRIC 13 as adopted by the EU is effective for annual periods beginning after 31 December 2008; early adoption permitted.

IFRIC 15, Agreements for the Construction of Real Estate effective for annual periods beginning on or after 1 January 2009; IFRIC 15 as adopted by the EU is effective for annual periods beginning after 31 December 2009, early adoption permitted.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment is effective for annual periods beginning on or after 1 January 2009.

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009 is effective for annual periods ending on or after 30 June 2009; amendments to IFRIC 19 and IAS 39 as adopted by the EU are effective for annual periods beginning after 31 December 2009, early adoption permitted.

Improvements to International Financial Reporting Standards, issued in May 2008 effective for annual periods beginning on or after 1 January 2009.

New standards, amendments and interpretations to existing standards that are not yet effective and have earlier adopted by the Company.

IFRIC 18, Transfers of Assets from Customers effective prospectively to transfers of assets from customers received on or after 1 July 2009, earlier application permitted; IFRIC 18 as adopted by the EU is effective for annual periods beginning after 31 October 2009, early adoption permitted.

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 significant impact on the Company's financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurement, issued in November 2009 effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU.

IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subse-

quently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

The Company is considering the implications of the standard, the impact on the company and the timing of its adoption by the Company.

New standards, amendments and interpretations to standards that are not yet effective and are not expected to have a material effect on the Company's financial reporting.

IFRIC 16, *Hedges of a Net Investment in a Foreign Operation* effective for annual periods beginning on or after 1 October 2008; IFRIC 16 as adopted by the EU is effective for annual periods beginning after 30 June 2009, early adoption permitted.

IFRIC 17, *Distributions of Non-Cash Assets to Owners* effective for annual periods beginning on or after 1 July 2009; IFRIC 17 as adopted by the EU is effective for annual periods beginning after 31 October 2009, early adoption permitted.

Classification of Rights Issues - Amendment to IAS 32, issued in October 2009 effective for annual periods beginning on or after 1 February 2010.

IAS 27, *Consolidated and Separate Financial Statements*, revised in January 2008 effective for annual periods beginning on or after 1 July 2009.

IFRS 3, *Business Combinations*, revised in 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.

Amendment to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* (and consequential amendments to IFRS 1) effective for annual periods beginning on or after 1 July 2009.

Eligible Hedged Items—Amendment to IAS 39 is effective with retrospective application for annual periods beginning on or after 1 July 2009.

IFRS 1, *First-time Adoption of International Financial Reporting Standards*, revised in December 2008 effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; restructured IFRS 1 as adopted by the EU is effective for annual periods beginning after 31 December 2009, early adoption permitted.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2 effective for annual periods beginning on or after 1 January 2010, not yet adopted by the EU.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1 is effective for annual periods beginning on or after 1 January 2010; not yet adopted by the EU.

Amendment to IAS 24, *Related Party Disclosures*, issued in November 2009 effective for annual periods beginning on or after 1 January 2011.

IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* effective for annual periods beginning on or after 1 July 2010; not yet adopted by the EU.

Prepayments of a Minimum Funding Requirement - Amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011; not yet adopted by the EU.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 effective for annual periods beginning on or after 1 July 2010; not yet adopted by the EU.

Improvements to International Financial Reporting Standards, issued in April 2009 amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; the improvements have not yet been adopted by the EU.

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 translated into Estonian kroons using the official exchange rates of the Bank of Estonia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been converted into Estonian kroons based on foreign currency exchange rates valid at the balance sheet date. Gains and losses from exchange rate changes are aggregated and shown in the income statement as "other income (-expense)" on net basis.

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 is 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 recorded in balance sheet at value date (i.e. are recognised when the Company becomes the owner of the financial assets and are derecognised when the Company has transferred substantially all risk and rewards incidental to ownership).

According to the purpose of acquisition and management intentions 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

As at 31 December 2009 and 2008 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 acquired for the purpose of selling in the near term). 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 from 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.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance sheet date.

Loans and receivables are initially recognised at a fair value together with the transaction costs. Loans and receivables are subsequently carried at amortised cost, using effective interest rate method (less any impairment allowances).

Receivables

Trade receivables comprise of short term receivables generated in normal operations. Trade receivables are recorded using the amortised cost method.

Allowance for receivables is recorded if there is objective evidence that the Company is not able to collect all amounts due according to the original terms of the agreement. Impairment of individually material receivables is evaluated separately for each customer, considering the present value estimated future cash flows. For receivables which are not individually significant and for which there is no direct information that their value has been decreased, the allowance is evaluated collectively using previous years experience on impairment of receivables. The amount of the allowance for 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“. Subsequent recoveries of doubtful receivables are recorded as a decrease of impairment loss.

Inventories

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

The weighted-average cost method has been used to expense inventories. Inventories are carried in the balance sheet at the lower of the cost and 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 for a reasonable price compared to their fair value.

Non-current assets held for sale are classified in the balance sheet as current assets and depreciation ended at the moment of reclassification. Non-current assets held for sale are carried in the balance sheet at the lower of book value and fair value less costs to sell.

Property, plant and equipment and intangible assets

Property, plant and equipment are tangible assets used in operating activities of the Company with an expected useful life of over one year. Property, plant and equipment are carried in the balance sheet at historical cost less 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.

Development Costs are costs that are incurred for at the application of research findings 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, the Company is able to use or sell the assets and the amount of the development costs and the economic benefit emerging from intangible assets in the future can be measured reliably.

Software • Acquired computer software that is not an integral part of the related hardware is recognised as an intangible asset. Development costs of computer software are recognised as intangible assets if these are directly related to the development of such software objects that are identifiable, controllable by the Company and that are expected to generate economic benefits beyond 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 over the estimated useful lifetime, the duration of which is up to 5 years.

Other intangible assets • Expenses for acquiring patents, trademarks, licences and certificates are capitalized if it is possible to estimate the future economic benefits attributable to these assets. Other intangible assets are amortised on a straight line 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 applied to working hours which are needed for taking the asset to the location and condition necessary for it to be capable of operating in the manner intended by the management. Hourly rate is calculated individually for each employee and includes other direct expenses connected with the employee in addition to salary expense.

If an item of property, plant and equipment consists of components with different useful lives, these components are depreciated as separate items.

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009, the Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

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. Costs 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 and other equipment etc. 10-20 % per annum;
- development costs 20 % per annum;
- licenses and other 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 carrying amount.

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:

- fair value less costs to sell and
- 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 present value of the estimated future cash flows generated by the assets.

The impairment of assets may be assessed either for an individual asset or a group of assets (cash-generating unit). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment loss is immediately recognised in the income statement. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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, the earlier impairment is reversed 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.

Financial liabilities

Financial liabilities include trade payables, accrued expenses, loans payable and other short term and long term financial liabilities. Financial liabilities are initially recognised at fair value net of transaction cost. 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), interest expenses calculated from the liability using effective interest rate method subsequently.

Liabilities are classified as current liabilities, unless the Company has an unconditional right to defer the settlement of the liability for at least 12 month after the balance sheet date.

Corporate income tax

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise.

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, resident legal entities are liable to income tax on all dividends paid and other profit distributions irrespective of the recipient. The rate is 21/79 on the amount of the dividends payable (2008: 21/79).

The contingent tax liability that would occur if all distributable retained earnings were paid out as dividends is not recognized in the balance sheet. The income tax due on dividend distribution is recorded as a liability and as a tax expense in the income statement during the same period as the dividend is declared regardless of the actual payment date or the period for which dividends are declared. Income tax liability is due on the 10th date of the month following the dividend payment.

Employee 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.

Termination 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 termination benefits as liabilities and expenses only when the Company is obliged to offer termination benefits in order to encourage voluntary leaving.

Provisions and contingent liabilities

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions com-

prise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

The amount 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 to full extent within 12 months from the balance date.

Provisions have been recognised based on of the best estimates of the Company's Management Board and the actual costs of these transactions can differ from the provided estimates. Commitments and other possible and existing liabilities, the realization of which is unlikely or the amount of accompanying costs cannot be assessed with sufficient reliability but 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 reserve capital

Pursuant to the requirements of the Commercial Code the statutory reserve capital is set up comprising of the allocations from net profits. The annual allocation must be at least 5% of the net profit of the accounting year until the reserve capital is equal to 10% of paid-up share capital. As the Company's reserve capital has reached the required level, the reserve capital is no longer increased from net profit.

At the decision of the General Meeting of the Shareholders the reserve capital 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 reserve capital cannot be distributed to the shareholders.

Leases

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.

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 and 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 within 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 the period when government grant was received. Government grants are not recognised as income before there exists sufficient confidence that Company complies with the conditions relating 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".

Revenue

Revenue is recognised at the fair value of consideration received or receivable, net of VAT and sales discounts. Revenue comprises sales of services.

Sales of water, services of waste water, storm water, fire hydrants and other sales income is recorded in the period when the service has been provided, the amount of the revenue and cost incurred for the transaction can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the entity.

Revenues received from the sale of assets shall be recognised when all the significant risks and rewards related to the ownership of assets have been transferred to the purchaser, it is probable that economic benefits associated with the transaction will flow to the entity and the cost related to the transaction can be reliably determined.

Connection fees received from customers are recognized as income during the period of the duration of customer contract. Such income is recorded as "other income/expenses".

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 effective interest rate, except when the receipt of interests is uncertain. In this case interest income is recognised on cash basis.

Earnings per share

Earnings per share are 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.

Note 3. Financial risk management

In its everyday business activities the Company has to take into account 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 the Company.

Financial assets

<i>thousand EEK</i>	31.12.2009	31.12.2008
Receivables (incl cash and cash equivalents)	480 928	338 839
Total	480 928	338 839

Financial liabilities

<i>thousand EEK</i>	31.12.2009	31.12.2008
Financial liabilities at amortised cost	1 259 516	1 255 490
Financial liabilities at fair value through profit and loss	16 115	0
Total	1 275 631	1 255 490

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 is the potential loss due to unfavourable movements in currency exchange rates against Estonian kroon. Sums that have been received, paid or denominated 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 owed in foreign currencies (excluding euro). Most of Company's international purchases are made in euros and the proportion of purchases in other currencies in 2009 was less than 0.1% (2008: 1.1%). Because of the small proportion of purchases in other currencies Company considered it unnecessary to undertake special activities to minimize this currency risk.

On 31 December 2009 the Company's banks accounts balances (including deposits) totaled 292 474 thousand kroons (2008: 229 860 thousand kroons) from which less than 1 thousand kroons (2008: 219 thousand kroons) were in other currencies than Estonian kroons or euros. There were no other significant exposures to foreign currencies arising from other financial assets or financial liabilities.

Due to the above, the Management Board considers the Company's currency risk level to be low. To keep this risk also low in the future most of Company's business transactions are planned to be made 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 income arises only from depositing finances to overnight or fixed term deposits and is considered, due to requirements to counterparties, to be low.

The Company's interest rate risk related to financial expenses is related to long term borrowings of which all as of 31 December 2009 had floating interest rates. At the end

of 2008 the Company had a loan with a fixed interest rate from the EBRD (European Bank for Reconstruction and Development) but this loan was refunded in May 2009.

To mitigate the interest risk of cash flows the Company concluded in the first half of 2009 three interest rate SWAP contracts to fix its interest payments future cash flows. The interest rate SWAP contracts expose the Company to fair value interest rate risk and are accounted at fair value.

SWAP contracts

	31.12.2009
Contracts trade date	2009 May-June
Contracts start date	2009 Nov - 2010 May
Contracts maturity date	2015 May
Contracts notional amount	704 097
Contracts fair value as of 31.12.2009	-16 116

Company's average interest rate from loans in 2009 was 3.01% (2008: 4.88%). 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 or smaller and all other variables were held constant, then the Company's profit before tax for the year ended 31 December 2009 would have decreased or increased by 4 788 thousand kroons (2008: 3 002 thousand kroons).

Credit risk

Credit risk expresses potential loss that can arise if counterparty fails to fulfil its contractual obligations. Cash in bank accounts and deposits, financial assets at fair value through profit and loss, trade and other receivables are exposed to credit risk.

According to the Company's risk management policies the Company's short term available resources can be deposited only in accounts and fixed term deposits opened in credit institutions. For depositing counterparties with at least an A rating are used. On 31.12.2009 100% of Company's cash and deposits were deposited with counterparty with higher rating than A3 by Moody's (2008: 100% higher than A3).

The Company has procedures for co-operation with customers, to ensure that selling of products and services is always in compliance with the Company's internal principles. To reduce the credit risk related to accounts receivable the customer's payment

Notes to the financial statements

discipline is consistently observed. In case of 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 policies regarding the commencement of court proceedings to recover overdue debt have also been defined. As of 31.12.2009 only receivables from Viimsi Vesi AS exceeded 5% of total receivables constituting 6.3% of the total (2008: 3.9%). On 31.12.2008 only receivable from Tallinna Kommunaalamet exceeded the 5% limit. On 31.12.2009 this constituted only 2.3% of total receivables (2008: 23.0%).

Trade receivables, 31.12.2009

thousand EEK	Balance	Not due	Overdue		
			up to 3 months	4-6 months	7-12 months
Commercial entities, incl	42 200	35 330	4 061	1 614	1 195
partially impaired	7 435	1 921	2 705	1 614	1 195
Private persons, incl	52 133	50 318	1 255	60	501
partially impaired	1 264	375	329	60	501
Total	94 333	85 648	5 316	1 674	1 696
Proportion	100%	90,8%	5,6%	1,8%	1,8%

Trade receivables, 31.12.2008

thousand EEK	Balance	Not due	Overdue		
			up to 3 months	4-6 months	7-12 months
Commercial entities, incl	62 566	57 322	5 012	155	77
partially impaired	6 472	2 452	3 788	155	77
Private persons, incl	45 638	43 502	1 886	143	108
partially impaired	603	171	182	143	108
Total	108 204	100 824	6 898	298	185
Proportion	100%	93,2%	6,4%	0,3%	0,2%

The Company's maximum credit risk is equal to the carrying amount of the financial assets. According to the Management Board the overall credit risk is considered low.

Liquidity risk

Liquidity risk is the risk that the Company is unable to fulfil its financial obligations due to insufficient cash funds or inflows. This risk realizes 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.

Financial liabilities in terms of payment (undiscounted amounts):

thousand EEK	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
31.12.2009						
Non-interest bearing	94 833	1 080	3 889	3 597	134	103 533
Floating interest rate instruments	-	-	16 641	831 714	411 537	1 259 892
Total	94 833	1 080	20 530	835 311	411 671	1 363 425
Proportion	7,0%	0,1%	1,5%	61,3%	30,2%	100,0%
31.12.2008						
Non-interest bearing	85 422	1 006	842	614	121	88 005
Floating interest rate instruments	0	0	32 626	1 202 864	120 753	1 356 243
Fixed interest rate instruments	0	0	108 278	482 712	42 881	633 871
Total	85 422	1 006	141 746	1 686 190	163 755	2 078 119
Proportion	4,1%	0,0%	6,8%	81,1%	7,9%	100,0%

In liquidity risk management the Company has taken a prudent view, maintaining sufficient cash balance and short term deposits to be able to fulfil its financial liabilities at every moment of time. Continuous cash flow forecasting and control are essential tools in the day-to-day liquidity risk management of the Company.

Equity risk management

The Management Board of the Company ensures the management of the Company's capital structure in accordance with the Business Plan approved by the Supervisory Board. The long-term borrowing contracts limit the equity capital minimum ratio to 35% of the total assets. The Company has been in compliance with the banks requirement for every month in 2009 and in 2008.

Equity ratio:

thousand EEK	31.12.2009	31.12.2008
Equity	1 391 201	1 281 278
Total assets	2 682 090	2 559 051
Equity ratio	51,9%	50,0%

Fair value

Fair values of cash and cash equivalents, accounts receivable, short-term borrowings and accounts payable do not vary significantly from their carrying amount because their realization will take place within 12 months from the date the balance sheet was composed.

At the end of 2009 all Company's long-term borrowings had floating interest rates and because Company's long-term borrowings risk margins were smaller than existing market's risk margin the fair value of its long-term borrowings on 31.12.2009 was 121 106 thousand kroons smaller than their carrying amount (2008: 21 011 thousand kroons smaller).

Smaller interest risk margins compared to market situation means that if the Company would like to refinance its long-term borrowings on existing market conditions it would bring to it higher total loans costs compared to the existing agreements.

Note 4. Critical accounting estimates

Management has made an assessment of the key assumptions concerning the future and other key sources of uncertainty at the balance sheet date that may have 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 the note 2 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 2009 Company owns property, plant and equipment, and intangible assets with a book value of 2.2 bn kroons (31.12.2008: 2.2 bn kroons) and annual depreciation was 89 mln kroons in 2009 (2008: 89 mln kroons). If the depreciation/amortization rates decreased / increased by 5 %, the depreciation/amortization expense would increase / decrease respectively by 4.5 mln kroons (2008: 4.5 mln kroons).
- The Company has assumed an obligation to construct water and wastewater and storm water pipelines with an estimated construction cost of up to 679 mln kroons in 2008-2012. The construction of pipelines is compensated by local governments with the grants receivable in 2008-2014. Compensations received from local governments are recognised as government grants - compensations received or receivable 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 dependent 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 2012 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 to give a change of 5% in the profit rates of the project it would have an impact to the profit of 2009 by 9 300 thousand kroons (2008: 7 900 thousand kroons).

As compensations for pipelines will be received until June of 2014 and the exact extent of compensations depends on water consumption, the fair value of compensations receivable is also based on estimates. In the estimates compensation is receivable for 2008-2014 and has been discounted using a rate of 9.4% (2008: 7.0%). If the discount rate would be decreased/increased by 0.5%, the profit of the accounting period would increase/decrease up to 500 thousand kroons (2008: up to 1 000 thousand 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%.

Impairment of individually material receivables can differ from the rates above.

Note 5. **Impact of the ongoing global financial and economic crisis**

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the “Credit Crunch”) has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporate, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing global financial and economic crisis is proving to be difficult to anticipate or completely guard against.

Impact on liquidity

The volume of financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Company to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Impact on customers

Debtors of the Company may be adversely affected by the financial and economic environment which could in turn impact their ability to repay the amounts owed. Deteriorating economic conditions for customers 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 determine the effects on the Company's future financial position of any further deterioration in the Company's operating environment as a result of the ongoing crisis. Management believes it is taking all the necessary measures to support the sustainability and development of the Company's business in the current circumstances.

Note 6. **Cash and cash equivalents**

<i>as of 31 December, thousand EEK</i>	2009	2008
Cash in hand and in bank	376	1 551
Short-term deposits	292 098	228 309
Total cash and cash equivalents	292 474	229 860

Note 7. **Customer receivables**

<i>as of 31 December, thousand EEK</i>	2009	2008
Accounts receivable	107 819	111 681
Allowance for doubtful receivables	-13 486	-3 477
Total trade receivables	94 333	108 204

Impairment loss of receivables:

<i>for the year ended 31 December, thousand EEK</i>	2009	2008
Write off of uncollectible receivables	-53	-169
Receipt of receivables previously written off as uncollectible	186	172
Change in allowance for doubtful receivables	-10 009	-16

Note 8. **Accrued income and prepaid expenses**

<i>as of 31 December, thousand EEK</i>	2009	2008
Accrued interest	908	765
Other accrued income	93 213	0
Prepaid expenses	2 863	3 669
Total accrued income and prepaid expenses	96 984	4 434

The Company's current assets (Notes 7, 8) in the amount of 196 345 thousand kroons (2008: 113 878 thousand kroons) have been pledged as a security to the bank loans (Note 10).

Notes to the financial statements

Note 9. **Property, plant and equipment, and intangible assets**

thousand EEK	Property, plant and equipment				Assets in progress				Intangible assets		Total property, plant and equipment and intangible assets
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Construction in progress - unfinished pipelines	Prepayment for fixed assets	Unfinished intangible assets	Development costs	Acquired licenses and other intangible assets	
As of 31 December 2007											
Acquisition cost	364 188	2 134 970	566 408	17 708	45 253	90 057	5 399	2 781	19 006	66 817	3 312 587
Accumulated depreciation	-63 393	-673 373	-342 016	-11 514	0	0	0	0	-12 980	-23 706	-1 126 982
Book value	300 795	1 461 597	224 392	6 194	45 253	90 057	5 399	2 781	6 026	43 111	2 185 605
Transactions in the period 01.01.2008 - 31.12.2008											
Acquisition in book value (Note 24C)	0	0	0	0	113 524	189 651	0	3 082	0	0	306 257
Write off and sale of property, plant and equipment, and intangible assets in book value	283	12	-19	0	0	0	0	0	0	0	276
Compensated by government grants (Note 24A)	0	0	0	0	0	-186 282	0	0	0	0	-186 282
Reclassification	3 925	100 384	31 701	1 149	-136 695	-1 452	-3 546	-3 137	5 873	-2 736	-4 534
Depreciation (Note 19)	-4 221	-38 023	-34 635	-1 218	0	0	0	0	-8 931	-2 641	-89 669
Total transactions in the period 01.01.2008 - 31.12.2008	-13	62 373	-2 953	-69	-23 171	1 917	-3 546	-55	-3 058	-5 377	26 048
As of 31 December 2008											
Acquisition cost	368 045	2 234 538	585 674	18 373	22 082	91 974	1 853	2 726	17 742	62 372	3 405 379
Accumulated depreciation	-67 263	-710 568	-364 236	-12 247	0	0	0	0	-14 774	-24 638	-1 193 726
Book value	300 782	1 523 970	221 438	6 126	22 082	91 974	1 853	2 726	2 968	37 734	2 211 653
Transactions in the period 01.01.2009 - 31.12.2009											
Acquisition in book value (Note 24C)	0	0	0	0	99 293	144 141	0	7 698	0	0	251 132
Write off and sale of property, plant and equipment, and intangible assets in book value	-2	0	-44	-54	0	0	0	0	0	0	-100
Compensated by government grants (Note 24A)	0	0	0	0	0	-178 646	0	0	0	0	-178 646
Reclassification	6 123	43 729	26 302	2 063	-78 323	-1 103	-406	-8 938	4 740	4 198	-1 615
Depreciation (Note 19)	-4 196	-38 733	-34 188	-1 229	0	0	0	0	-2 200	-8 607	-89 153
Total transactions in the period 01.01.2009 - 31.12.2009	1 925	4 996	-7 930	780	20 970	-35 608	-406	-1 240	2 540	-4 409	-18 382
As of 31 December 2009											
Acquisition cost	374 151	2 275 666	603 762	18 441	43 052	56 366	1 447	1 486	15 083	73 172	3 462 626
Accumulated depreciation	-71 444	-746 700	-390 254	-11 535	0	0	0	0	-9 575	-39 847	-1 269 355
Book value	302 707	1 528 966	213 508	6 906	43 052	56 366	1 447	1 486	5 508	33 325	2 193 271

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 there were no contracts for financial lease. As of 31 December 2009 the net balance sheet value of finance leases was 5 203 thousand kroons.

The Company's non-current assets in the amount of 459 534 thousand kroons (2008: 547 887 thousand kroons) have been pledged as a security (Note 10).

A mortgage in the amount of 544 713 thousand kroons (2008: 468 790 thousand kroons) serves as a security to the bank loans for the Company's non-current assets (land and buildings) (Note 10).

Note 10. **Borrowings**

as of 31 December, thousand EEK	2009	2008
Current borrowings		
Current portion of long-term bank loans	0	82 843
Current portion of long-term finance lease liabilities	1 936	0
Total current borrowings	1 936	82 843
Non-current borrowings		
Long-term bank loans	1 172 098	1 084 642
Long-term finance lease liabilities	1 936	0
Total non-current borrowings	1 174 034	1 084 642

thousand EEK	Balance	Effective interest rate
Bank loans at 31 December 2009		
Borrowings at floating interest rate (based on 6-month Euribor), Currency EUR (euro)	1 172 098	6-month Euribor + 0,55%

thousand EEK	Balance	Effective interest rate
Bank loans at 31 December 2008		
Borrowings at floating interest rate (based on 6-month Euribor), Currency EUR (euro)	628 219	6-month Euribor + 0,323%
Borrowings at fixed interest rate	539 266	4,95%

thousand EEK	2009	2008
Collateral of loans and pledged assets at book value as of 31 December		
Type of collateral	Specification and location of collateral	
Commercial pledge	Movables of the Company (Notes 7, 8, 9)	655 879
		661 765
Mortgage	Real estates located at Paljassaare põik 14 and Järvevana tee 3, Tallinn, Estonia (Note 9)	544 713
		468 790

Note 11. **Trade and other payables**

as of 31 December, thousand EEK	Balance amount 2009	Balance amount 2008	Short-term portion 2009	Long-term portion 2009
Liabilities				
Trade payables – operating expenditures	16 614	13 966	16 614	0
Trade payables – capital expenditures	28 738	26 805	28 738	0
Factoring	0	107	0	0
Payables to related parties (Note 26)	3 836	3 972	3 836	0
Payables to employees* (Maturity date 12.2011)	11 421	11 658	9 760	1 661
Interest payable	18 780	4 829	18 780	0
Other accrued expenses	1 390	2 913	1 390	0
Long-term guarantee deposit** (Maturity date 04.2102)	134	121	0	134
Total trade and other payables	80 913	64 371	79 118	1 795

* 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, thousand EEK	2009	2008	Tax rates
Income tax	2 072	1 916	21% (2008: 21%)
VAT	5 505	7 699	01.01.2009 - 30.06.2009 18 %, since 01.07.2009 20% (2008: 18%)
Tax on special use of water	3 012	2 732	0,4 - 0,96 kr/m ³ (2008: 0,38 - 0,88 kr/m ³)
Pollution taxes	3 186	7 052	5 891 - 187 200 kr/t (2008: 4 909 - 156 000 kr/t)
Social security tax	4 194	3 890	33%
Other	779	345	0,3 -21%
Total	18 748	23 634	

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 186 533 thousand kroons (2008: 159 310 thousand kroons) (Note 24A). Property, plant and equipment have been reduced by the amount received as government grants of 145 160 thousand kroons (2008: 135 820 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.

The Company's distributable retained earnings as at 31 December 2009 amounted to 784 201 thousand kroons (2008: 674 277 thousand kroons). Consequently, the maximum possible tax liability which would become payable if retained earnings were fully distributed is 208 458 thousand kroons (2008: 179 238 thousand kroons).

Note 15. Prepayments and deferred income

<i>as of 31 December, thousand EEK</i>	2009	2008
Prepayments for water and sewerage services	976	1 073
Prepayments for pipelines (Note 24A and 24B)	10 711	18 724
Total deferred income	11 687	19 797

Note 16. Share capital

At 31 December 2009 and 2008 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).

As of 31 December 2009 and 2008 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 2009 Credit Suisse Securities (Europe) Ltd Prime Brokerage A/C customers 1 134 948 (5.67%) and HSBC Bank PLC RE Parvus European Absolute Opportunities Master Fond customers owned 869 568 (4.35%) shares.

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 Fond customers owned 1 091 109 (5.46%) shares.

As of 31 December 2009 and 2008 from Supervisory and Management Board members only Siiri Lahe owned 700 shares.

Dividends declared and paid are disclosed in note 22. Contingent income tax on the dividend payments from retained earnings is described in note 14.

Note 17. **Revenue**

for the year ended 31 December, thousand EEK

	2009	2008
Revenues from main operating activities		
Total water supply and waste water disposal service, incl:	707 408	658 305
Private clients, incl:	379 322	346 836
Water supply service	211 379	193 688
Waste water disposal service	167 943	153 148
Corporate clients, incl:	273 338	271 231
Water supply service	152 092	150 669
Waste water disposal service	121 246	120 562
Outside service area clients, incl:	40 003	26 401
Water supply service	7 841	2 160
Waste water disposal service	32 162	24 241
Over pollution fee	14 745	13 837
Storm water treatment and disposal service	46 957	46 158
Fire hydrants service	3 083	2 687
Other works and services	14 998	12 773
Total revenue	772 446	719 923

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

Note 18. **Staff costs**

for the year ended 31 December, thousand EEK

	2009	2008
Salaries and wages	-71 400	-66 330
Social security and unemployment insurance taxation	-23 777	-22 093
Staff costs total (Note 19)	-95 177	-88 423
Number of employees at the end of reporting period	336	327

Note 19. **Cost of goods sold, marketing and general administration expenses**

for the year ended 31 December, thousand EEK

	2009	2008
Cost of goods sold		
Tax on special use of water	-11 479	-10 804
Chemicals	-20 082	-22 841
Electricity	-33 422	-29 759
Pollution tax	-16 918	-17 010
Staff costs (Note 18)	-70 273	-63 516
Development	-29	-26
Depreciation and amortization (Note 9)	-81 006	-82 079
Transport	-17 427	-19 693
Other costs of goods sold	-33 428	-27 024
Total cost of goods sold	-284 064	-272 752
Marketing expenses		
Staff costs (Note 18)	-4 516	-5 417
Depreciation and amortization (Note 9)	-5 207	-5 065
Other marketing expenses	-1 490	-1 828
Total cost of marketing expenses	-11 213	-12 310
General administration expenses		
Staff costs (Note 18)	-20 388	-19 490
Depreciation and amortization (Note 9)	-2 940	-2 525
Other general administration expenses	-30 165	-32 531
Total cost of general administration expenses	-53 493	-54 546

Note 20. **Other income / expenses**

for the year ended 31 December, thousand EEK

	2009	2008
Profit from connection fees (Note 24A)	6 139	4 430
Profit from government grant (Note 24A)	41 373	23 491
Other income / expenses (-)	-9 248	-2 876
Total other income / expenses	38 264	25 045

Note 21. Finance income and expenses

for the year ended 31 December, thousand EEK	2009	2008
Interest income	25 267	15 606
Interest expense	-35 241	-57 191
Other financial expenses*	-50 890	-1 614
Total finance income / expenses	-60 864	-43 199

* Other financial expenses mainly include the expenses arising from loan refinancing and changes in the fair value of Swap.

Note 22. Dividends

for the year ended 31 December, thousand EEK	2009	2008
Dividends declared during the period	230 010	249 010
Dividends paid during the period	230 010	249 010
Income tax on dividends paid	-61 142	-66 193
Income tax accounted for	-61 142	-66 193
The income tax rates were 21/79 in 2009 and 2008.		
Paid-up dividends per shares:		
Dividends per A-share (in kroons)	11,50	12,45
Dividends per B-share (in kroons)	10 000	10 000

Note 23. Earnings per share

for the year ended 31 December	2009	2008
Net profit for the period ended 31.12 minus B-share preference rights (in kroons)	339 924	295 958
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)	17,00	14,80
Earnings per B share (in kroons)	10 000	10 000

Diluted earnings per share for the periods ended 31 December 2009 and 2008 do not vary significantly from the earnings per share figures stated above.

Note 24. Notes to the cash flow statement

Note 24A. Compensations received for construction of pipelines

for the year ended 31 December, thousand EEK	2009	2008
Income		
Connection fees and government grants received for pipelines taken into use (Note 13 and 20)	226 158	214 203
Increase in prepayments for pipelines (Note 15 and 24B)	-8 013	-22 280
Change in accounts receivable from pipelines (Note 24B)	20 780	58 267
Change in accrued income for government grants	-83 153	0
Proceeds from connection fees	155 772	250 190
Acquisition cost of pipelines taken into use (Note 9 and 20)	-178 646	-186 282

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 -47 512 thousand kroons (2008: -27 921 thousand kroons) (Note 20).

Note 24B. Change in current assets and liabilities

for the year ended 31 December, thousand EEK	2009	2008
In addition to the changes in the balance sheet, current assets and liabilities have been adjusted as follows:		
Current assets		
Change in balance sheet	-141 421	26 189
Adjustments:		
Change in cash and cash equivalents	62 614	51 440
Movements between non-current and current assets	1 616	4 252
Change in accrued interests	142	-833
Change in accounts receivable from pipelines (Note 24A)	-20 780	-58 267
Change in accrued income for government grants	83 153	0
Total change in current assets	-14 676	22 781

Current liabilities

Change in balance sheet	-77 337	-6 872
Adjustments:		
Change in non-current borrowings	82 686	-40 659
Change in trade payables – capital expenditures (Note 24C)	-7 226	26 150
Change in prepayments for the sale of property, plant and equipment, and deposits	24	7
Change in prepayments for pipelines (Note 15 and 24A)	8 013	22 280
Total change in current liabilities	6 160	906

Note 24C. Acquisition of property, plant and equipment, and intangible assets

<i>for the year ended 31 December, thousand EEK</i>	2009	2008
Acquisition of property, plant and equipment, and intangible assets (Note 9)	-251 132	-306 257
Adjustments:		
Change in trade payables – capital expenditures (Note 24B)	7 226	-26 150
Total acquisition of property, plant and equipment and intangible assets	-243 906	-332 407

Note 25. Operating lease

<i>for the year ended 31 December, thousand EEK</i>	2009	2008
Leased assets		
Total operating lease expenses for computers and vehicles	7 747	7 970
<i>Following period operating lease payments from the non-cancellable contracts are as follows: as of 31 December</i>		
Less than 1 year	5 010	7 342
1-5 years	4 638	8 010
Total minimum lease payments	9 648	15 352

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

Note 26. Related parties

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

Shareholders having the significant influence

<i>as of 31 December, thousand EEK</i>	2009	2008
Balances recorded in working capital on the balance sheet of the Company		
Accounts receivable	2 160	24 935
Accrued income (Note 7)	93 200	0
Accounts payable – short-term trade and other payables (Note 11)	3 836	3 972

<i>for the year ended 31 December, thousand EEK</i>	2009	2008
Transactions with the related parties		
Sales services	49 740	48 845
Compensations from the local governments for constructing new pipelines (Note 13)	186 533	159 310
Purchase of administrative and consulting services	19 357	20 585
Financial income	10 047	0
Management Board fees excluding social tax	2 558	2 295
Supervisory Board fees excluding social tax	600	600

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

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.


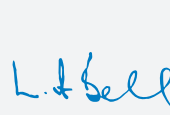







Paid-up dividends are described in note 22.

Confirmation of the management board and supervisory council

The Management Board has prepared the management report and the financial statements of AS Tallinna Vesi on 25 February 2010. The Supervisory Council 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 Council.

			
Ian John Alexander Plenderleith Chairman of the Management Board 25.02.10	David Nigel Hetherington Member of the Management Board 25.02.10	Stephen Benjamin Howard Member of the Management Board 25.02.10	Siiri Lahe Member of the Management Board 25.02.10

								
Robert John Gallienne Chairman of the Supervisory Council 25.03.10	Leslie Anthony Bell Member of the Supervisory Council 25.03.10	Matti Hyyrynen Member of the Supervisory Council 25.03.10	Mart Mägi Member of the Supervisory Council 25.03.10	Rein Ratas Member of the Supervisory Council 25.03.10	Elmar Sepp Member of the Supervisory Council 25.03.10	Deniss Boroditš Member of the Supervisory Council 25.03.10	Valdur Laid Member of the Supervisory Council 09.04.10	Andrew James Prescott Member of the Supervisory Council 25.03.10

Independent auditors' report



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Fax +372 614 1900
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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 statement of financial position as of 31 December 2009 and the statement of comprehensive income, statement of changes in equity and cashflow 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 judgment, 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 2009, 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.

26. February 2010

Tiit Raimla
AS PricewaterhouseCoopers

Stan Nahkor
Authorised Auditor

* 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.

AS Tallinna Vesi Management Board and Supervisory Council 2009

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. He is a member of the Chartered Institute of Management Accountants.
Tallinna Vesi shares 31.12.09: 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 Lancaster University.
Tallinna Vesi shares 31.12.09: 0



Stephen Howard
*Member of the Management Board,
Chief Financial Officer (CFO)*

Stephen Howard, British, joined the Company in November 2009. Stephen has held several positions in the financial departments of United Utilities Plc and he holds a BA in Accounting & Finance from John Moores University in Liverpool.
Tallinna Vesi shares 31.12.09: 0



Siiri Lahe

*Chief Financial Officer (CFO),
on maternity leave as of November 2009*

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 31.12.09: 700

AS Tallinna Vesi Management Board and Supervisory Council 2009

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.

The Tallinn Stock Exchange Rules require that if more than 30 per cent of the share capital of a company listed on the Tallinn Stock Exchange is held by a single shareholder, then at least two (2) members of the supervisory council of the relevant company must be independent. Thus, AS Tallinna Vesi held an Extraordinary General Meeting of shareholders on 22 November 2005 where two independent Council members were elected. Members of the Council elect from among themselves the Chairman of the Council who will organise the activities of the Council and chair Council meetings.

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 31.12.09: 0



Andrew James Prescott

Member of the Supervisory Council

Appointed by UUG on 16th of June 2009. Andrew James Prescott is Financial Planning and Analysis Manager of United Utilities Utility Solutions. He has previously worked for Princes Limited and Rank Leisure Holdings before joining United Utilities as Group Financial Control Manager in 2006. Mr. Prescott holds a BA in Economics and Economic History.

Tallinna Vesi shares 31.12.09: 0.



Leslie Anthony Bell

Member of the Supervisory Council

Appointed by UUG on June 16th 2009. Leslie Anthony Bell is Managing Director of United Utilities Utility Solutions. He has previously worked for AMEC Civil Engineering before joining United Utilities in 2001 as Managing Director of United Utilities International. Mr. Bell holds a MSc in Engineering Geology.

Tallinna Vesi shares 31.12.09: 0.



Matti Hyyrynen

Member of the Supervisory Council

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 31.12.09: 0.

Tallinn City representatives:



Elmar Sepp

Member of the Supervisory Council

Appointed 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 31.12.09: 0



Deniss Boroditš

Member of the Supervisory Council

Appointed 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 31.12.09: 0



Rein Ratas

Member of the Supervisory Council

Rein Ratas was nominated by the City of Tallinn, 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 a PhD in the field of biology from the University of Tartu.

Tallinna Vesi shares 31.12.09: 0

Independent Members:



Mart Mägi

Member of the Supervisory Council

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 Amserve Grupp AS. Mart Mägi has extensive knowledge and experience in finance and business. He has an 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 31.12.09: 0



Valdur Laid

Member of the Supervisory Council

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 an MBA degree from International Institute of Management Development in Lausanne, Switzerland. Tallinna Vesi shares 31.12.09: 0

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