

Tallinna Vesi



AS Tallinna Vesi
Results of operations – for the 4th quarter of 2010

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

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MANAGEMENT REPORT

RESULTS OF OPERATIONS - FOR THE 4th QUARTER 2010

Overview

During 2010 the Company's total sales increased, year on year, by 0.6% to 49.7 mln EUR. The Company's underlying operating profit from water and wastewater related activities decreased by 10.1% to 24.2 mln EUR in 2010 compared to 2009. Profits from other activities (mainly construction and developments) increased by 25.2% to 3.3 mln EUR compared to the 2009. The Company's profit before taxes was 24.9 mln EUR, which is a decrease of 2.9% or 0.73 mln EUR, compared to 2009.

<i>mln EUR</i>	4 Q 2010	4 Q 2009	Change	12 months 2010	12 months 2009	Change
Sales	12,5	12,9	-3,3%	49,7	49,4	0,6%
Gross profit	6,8	7,8	-12,6%	29,0	31,2	-7,1%
Gross profit margin %	54,8	60,7	-9,6%	58,4	63,2	-7,7%
Operating profit	7,1	8,6	-17,3%	27,5	29,5	-7,0%
Operating profit - main business	5,4	6,7	-19,4%	24,2	26,9	-10,1%
Operating profit margin %	56,9	66,5	-14,5%	55,3	59,8	-7,6%
Profit before taxes	7,9	8,0	-1,2%	24,9	25,6	-2,9%
Net profit	7,9	8,0	-1,2%	16,4	21,7	-24,5%
Net profit margin %	63,6	62,2	2,2%	33,0	44,0	-25,0%
ROA %	4,3	4,5	-5,0%	8,9	12,3	-27,4%
Debt to total capital employed	60,1	49,7	20,9%	60,1	49,7	20,9%

Gross profit margin – Gross profit / Net sales

Operating profit margin – Operating profit / Net sales

Net Profit margin – Net Profit / Net sales

ROA – Net profit / Total Assets

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

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

Profit and Loss Statement

4th quarter 2010

Sales

In the 4th quarter of 2010 the Company's total sales decreased, year on year, by 3.3% to 12.5 mln EUR. Sales in the main operating activity principally comprise of sales of water and treatment of wastewater to domestic and commercial customers within and outside of the service area, and fees received from the City of Tallinn for operating and maintaining the storm water system.

Sales of water and wastewater services were 11.4 mln EUR, a 2.5% decrease compared to the 4th quarter of 2009, resulting from the slight fall in sales volumes as described below in addition to the 0.9% decrease in tariffs from 1 January 2010 for the Company's residential and commercial customers.

Within the service area, sales to residential customers decreased by 2.1% to 6.0 mln EUR. Sales to commercial customers decreased by 1.1% to 4.3 mln EUR. Sales to customers outside of the service area decreased by 10.9% to 0.82 mln EUR in the 4th quarter of 2010. Over pollution fees received were 0.18 mln EUR, a 6.5% decrease compared to the 4th quarter of 2009.

In the 4th quarter of 2010, the volumes sold to residential customers decreased by 1.2% year on year, which is still lower decrease than we faced in first two quarters of 2010 compared to 2009.

The volumes sold to commercial customers inside the service area were broadly on the same level as in 2009 reflecting only a minor 0.3% decrease compared to the same period in 2009. Total selling volumes to the industrial sector are decreasing due to Coca-Cola's leave from our service area, eliminating the fall in its consumption some increase can be noticed from the industrial sector. Better economic conditions are contributing also to leisure sector volumes starting to pick up.

Outside service area sales volumes were 22.5% lower than in the 4th quarter of 2009. The main factor in this decrease was lower storm water volumes in the 4th quarter of 2010 compared to 2009.

The sales from the operation and maintenance of the storm water and fire-hydrant system decreased by 17.8% to 0.80 mln EUR in the 4th quarter of 2010 compared to the same period in 2009. This is in accordance with the terms and conditions of the contract whereby the storm water and fire hydrant costs are invoiced based on actual costs and volumes treated.

Cost of Goods Sold and Gross Margin

The cost of goods sold for the main operating activity was 5.6 mln EUR in the 4th quarter of 2010, an increase of 0.56 mln EUR or 11.0% from the equivalent period in 2009.

In the 4th quarter of 2010 the Company did not achieve the beneficial 0.5 coefficient for pollution tax due to the combination of the nitrogen concentration, low volumes and low temperature in the beginning of the quarter, and thereby the amount of pollution tax payable was 0.74 mln EUR compared to 0.20 mln EUR in the 4th quarter of 2009. In addition to the coefficient increase the higher pollution tax payable in 2010 is generated by the increase in tax rates year on year by 19%. To mitigate the nitrogen treatment and tax risk we have started with the investment into an additional stage of waste water treatment and according to the construction schedule the works should be completed in the beginning of the 3rd quarter of 2011.

Chemical costs were 0.38 mln EUR, representing a 12.1% increase compared to the corresponding period in 2009. Although lower volumes were treated the main contributor to higher chemical costs are dosed methanol and other chemicals quantities related to the need to treat the increased pollution concentration in incoming sewerage. Also the increase in prices added some unfavorable impact to the cost of chemicals.

Electricity costs increased by 0.14 mln EUR or 23.3% in the 4th quarter of 2010 compared to the 4th quarter of 2009 due to higher electricity prices as a result of three sites buying electricity from the open market.

Salary expenses within costs of goods sold decreased in the 4th quarter of 2010, year on year, by 0.26 mln EUR or 18.0% mainly due to the reduced operating headcount.

Transport costs decreased by 0.04 mln EUR, or 13.9% year on year, having adverse impact from the increase in fuel prices that was more than compensated by decrease in usage of rented machinery and staff cars.

Other cost of goods sold in the main operating activity increased 0.12 mln EUR, or 16.1% year on year, mainly due to the additional costs of repair services resulting from new city act related to the asphaltting costs.

As a result of all of the above the Company's gross profit for the 4th quarter of 2010 was 6.8 mln EUR, which is a decrease of 0.99 mln EUR, or 12.6%, compared to the gross profit of 7.8 mln EUR for the 4th quarter of 2009.

Operating Costs and Operating Margin

Marketing expenses increased by 0.04 mln EUR to 0.22 mln EUR during the 4th quarter of 2010 compared to the corresponding period in 2009. This is mainly the result of a slight increase in expenses due to OÜ Watercom start-up costs in the second half-year of 2010.

In the 4th quarter of 2010 the General administration expenses increased by 0.09 mln EUR year on year to 1.0 mln EUR mainly due to the need for the consultancies related to the implication of the Anti Monopoly Bill and attempts to improve the image of the company insisting on the quality aspects.

Other net income/expenses

The majority of the income in Other net income/expenses relates to constructions and government grants. The driver for this income stream is the connections activity in Tallinn. Income and expenses from constructions and government grants totaled a net income of 1.7 mln EUR in the 4th quarter of 2010 compared to a net income of 1.9 mln EUR in the 4th quarter of 2009, this line varies throughout the year depending on construction volumes and estimates to the profit margins on projects completed.

The rest of the other income/expenses totaled an expense of 0.23 mln EUR in the 4th quarter of 2010 compared to an expense of 0.06 mln EUR in the 4th quarter of 2009. This line was mainly impacted by the change in accounting principles as described in the financial accounts and notes to the accounts. In addition it should be noted that more than 99% of debt is collected in a timely manner.

As a result the Company's underlying operating profit from sales of water and wastewater for the 4th quarter of 2010 totaled 5.4 mln EUR compared to 6.7 mln EUR in the corresponding quarter in 2009. In total the Company's operating profit for all activities for the 4th quarter of 2010 was 7.1 mln EUR, a decrease of 1.5 mln EUR compared to an operating profit of 8.6 mln EUR achieved in the 4th quarter of 2009. Year on year the operating profit for the 4th quarter has decreased by 17.3%.

Financial expenses

Net Financial revenues/expenses were 0.84 mln EUR in the 4th quarter of 2010, which is a variance of 1.4 mln EUR or 250.3% compared to the net expenses in the 4th quarter of 2009. The movement in net financial costs is mainly due to the increase in the fair value of swap agreements as result of increased interest rates and forecasts for the future.

The Company has mitigated partly the long term floating interest risk with 5 interest swap agreements, each with a principal value of 15 mln EUR. At this point in time the estimated fair value of these swap contracts is still negative, totaling 2.3 mln EUR, with a revaluation in the 4th quarter 2010 in the amount of 1.1 mln EUR which offsets the interest costs increase and the financial income decrease during the 4th quarter of 2010 thus contributing to a net financial income.

Profit Before Tax

The Company's profit before taxes for the 4th quarter of 2010 was 7.9 mln EUR, which is 0.09 mln EUR lower than the profit before taxes of 8.0 mln EUR for the 4th quarter of 2009.

Results for the twelve months of 2010

During the twelve months of 2010 the Company's total sales increased, year on year, by 0.6% to 49.7 mln EUR. Sales of water and wastewater treatment were 45.2 mln EUR, a 0.1% decrease compared to the twelve months of 2009.

The underlying operating profit from the Company's main business activity, sales of water and wastewater, for the twelve months of 2010 decreased by 10.1% to 24.2 mln EUR compared to the twelve months of 2009.

The Company's profit before taxes for the twelve months of 2010 was 24.9 mln EUR, which is a 2.9% decrease compared to the profit before taxes in the relevant period in 2009.

The Company's net profit for the twelve months of 2010 was 16.4 mln EUR, which is 5.3 mln EUR lower than the net profit of 21.7 mln EUR in the equivalent period in 2009.

Balance sheet

During the twelve months of 2010 the Company invested 17.5 mln EUR into fixed assets. Non-current assets were 150.2 mln EUR at 31 December 2010. Current assets increased by 2.5 mln EUR to 33.7 mln EUR in the twelve months of the year, with customer receivables increasing by 7.9 mln EUR and cash at bank decreasing by 5.5 mln EUR.

Current liabilities increased by 8.5 mln EUR to 15.9 mln EUR in the twelve months of the year. This was mainly due to a 1.1 mln EUR increase in Trade payables and also due to 7.5 mln EUR increase in Current portion of long-term borrowings.

The Company has a leverage level as expected of 60.1% with the future target range within 60%. Long-term liabilities stood at 94.6 mln EUR at the end of December 2010, consisting almost entirely of the outstanding balance of three long-term bank loans. During 2nd quarter of 2010 we

drew down an additional 20 mln EUR, and at the end of the 4th quarter of 2010 the total loan balance is 95 mln EUR, which is the total available loan facility. The weighted average interest margin for the total available facility is 0.67%.

Cash flow

During the twelve months of 2010, the Company generated 27.0 mln EUR of cash flows from operating activities, an increase of 0.33 mln EUR compared to the corresponding period in 2009. 2010 operating cash flows were above 2009 cash flows mainly due to the payment of unwinding costs in 2009. Underlying operating profit still continues to be the main contributor to operating cash flows.

In the twelve months of 2010 net cash outflows from investing activities were 12.0 mln EUR, which is 8.0 mln EUR more than in 2009. This is mainly due to reduced inflow due to timing of compensations received for construction of pipelines. At the end of 2010 the cash outflows in relation to fixed asset investments were 17.1 mln EUR.

The cash outflows from financing activities were 20.5 mln EUR during the twelve months of 2010 compared to a cash outflow of 18.6 mln EUR during the same twelve months of 2009, representing the payouts of the dividends and income tax on dividends and received loans following the loan drawdown.

As a result of all of the above factors, the total cash outflow in the twelve months of 2010 was 5.5 mln EUR compared to a cash inflow of 4.0 mln EUR in the twelve months of 2009. Cash and cash equivalents stood at 13.2 mln EUR as at 31 December 2010 which is 5.5 mln EUR lower than at the corresponding period of 2009.

Employees

At the end of the 4th quarter of 2010, the total number of employees was 319 compared to 336 at the end of the 4th quarter of 2009. The full time equivalent (FTE) was respectively 305 in 2010 compared to the 322 in 2009. The decrease in FTE is primarily due to reorganization in various departments at the end of 2009.

Corporate structure

At the end of the quarter, 31 December 2010, the Group consisted of 2 companies. The subsidiary Watercom OÜ is wholly owned by AS Tallinna Vesi and consolidated to the results of the Company.

Dividends and share performance

Based on the results of the 2009 financial year, the Company paid 31,956,463 EUR of dividends. Of this 639 EUR was paid to the owner of the B-share and 31,955,824 EUR, i.e. 1.60 EUR per share to the owners of the A-shares. The dividends were paid out on 11 June 2010, based on the list of shareholders, which was fixed on 01 June 2010.

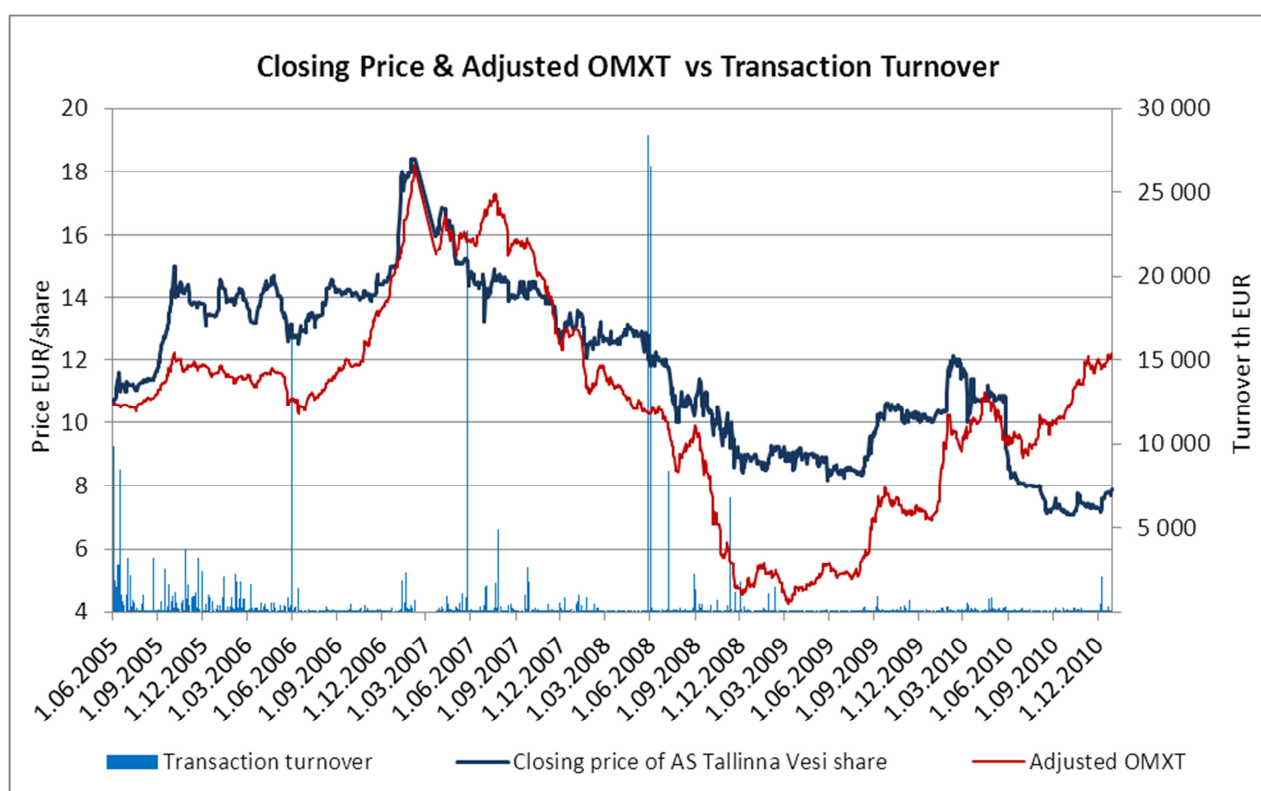
AS Tallinna Vesi is listed on OMX Main Baltic Market with trading code TVEAT and ISIN EE3100026436.

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

United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%

We have seen the next two biggest shareholders Parvus AM and AKO Capital reducing their holdings in the Company in the second half-year of 2010. Parvus AM has declared that their shareholding in the clients' accounts fell below 10% of the share capital and AKO Capital has declared selling their entire holding in the Company.

At the end of the quarter, 31 December 2010, the closing price of the AS Tallinna Vesi share was 7.89 EUR, which is an 11.13% increase compared to the closing price of 7.10 EUR at the beginning of the quarter. During the same period the OMX Tallinn index rose by 15.80%.



Operational highlights in 2010

- Company's overall operating performance is continuously good, most of the quality aspects exceeding the level of 2009 as described in TSE notice on 24 January 2011.
- Baltic Corporate Governance Institute awarded the Company as the best Corporate Governance in Estonia and OMX Nasdaq awarded the Company as the best Investor Relations in Tallinn Stock Exchange. Ministry of Environment awarded the Company with the title of "Environmental Player of the Year" in the environmental management category.
- In the 3rd quarter the Anti Monopoly Bill (AMB) was passed by the Parliament and approved by the President. The key impact for the Company will be related to the fact that from 1 November onwards the tariff approval process of the Company was transferred from the City of Tallinn to the Competition Authority (CA). The main aim of the AMB is to

control the profits of the water companies. The CA has issued their recommendations how to calculate the allowed return and revenues for the water companies. The Company finds it regrettable that the regulator-to-be has yet only considered the price sensitivity of the customers and ignored fully their expectations regarding the product and service quality.

Another major issue arising from the proposed draft methodology for calculating water and wastewater tariffs concerns one of the primary objectives of any regulator - to guarantee an acceptable return on invested capital for investors. Within the current methodology it appears that the Competition Authority is excluding the privatisation value of the Company from the calculation of justified profitability, which since 2001 has been included in the calculation of justified profitability of the Company under current regulation within the Services Agreement signed with the City of Tallinn.

- On 9 November the Company submitted its tariff application in accordance with best practice regulation for privatized utilities, such as that favoured by Ofwat in the UK. In its tariff application the Company has requested that the Competition Authority should expand the definition of regulated asset base to include the privatisation value of the utility. This would ensure the privatisation contract was not unilaterally broken and would respect the investments made in good faith into Estonia by our investors on the basis of that contract. The Company has published its tariff application on its website and to the Tallinn Stock Exchange and will keep its investors informed of all future developments regarding the further key developments regarding the processing of the tariff application. Still, at this point in time the Company is unable to say what next year's tariffs will be as it is unclear at the moment how the CA intends to analyze and proceed with the tariff applications.

Additional information:

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Chief Financial Officer

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AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement
for the 12 months period of financial year 2010 ended 31 December 2010

MANAGEMENT CONFIRMATION

The Management Board of AS Tallinna Vesi (hereinafter the company) has prepared the interim accounts in the form of consolidated condensed financial statements for the 12 months period of financial year 2010 ended 31 December 2010. The interim accounts have not been reviewed by the auditors.

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

The interim management report gives a true and fair view of the main events that occurred during the 12 months of the financial year and of their effect to the condensed financial statements. It includes the description of the main risks and unclear aspects that can, based on the sensible judgement of the Management Board, have an impact on the company.

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

All material subsequent events that occurred by the interim accounts preparation date of 27 January 2011 have been assessed as part of this review.

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



Ian John Alexander Plenderleith

Chairman of the Management Board

Chief Executive Officer



Robert Thomas Yuille

Member of the Management Board

Chief Operating Officer



Siiri Lahe

Member of the Management Board

Chief Financial Officer

27 January 2011

Introduction and photos of the Management Board members are published in 2009 Yearbook and the information regarding any changes is available at www.tallinnavesi.ee

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements

for the 12 months period of financial year 2010 ended 31 December 2010

CONDENSED STATEMENTS OF FINANCIAL POSITION

(thousand EUR)

		as of 31 December		
ASSETS	Note	2010	2009	2008
CURRENT ASSETS				
Cash and equivalents	2	13 235	18 692	14 691
Customer receivables, accrued income and prepaid expenses		20 088	12 227	7 199
Inventories		306	244	240
Non-current assets held for sale		76	77	73
TOTAL CURRENT ASSETS		33 705	31 241	22 203
NON-CURRENT ASSETS				
Property, plant and equipment	3, 13	148 179	142 964	141 800
Intangible assets	3	1 972	2 577	2 776
TOTAL NON-CURRENT ASSETS		150 151	145 541	144 575
TOTAL ASSETS		183 856	176 782	166 778
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current portion of long-term borrowings		7 606	124	5 295
Trade and other payables		7 331	6 255	5 578
Short-term provisions		117	228	159
Prepayments and deferred income		810	747	1 265
TOTAL CURRENT LIABILITIES		15 864	7 354	12 296
NON-CURRENT LIABILITIES				
Prepayment of single and developing areas	13	5 765	5 365	3 225
Borrowings		87 446	75 034	69 321
Other payables		1 419	115	47
TOTAL NON-CURRENT LIABILITIES		94 630	80 514	72 593
TOTAL LIABILITIES		110 494	87 868	84 890
EQUITY				
Share capital		12 782	12 782	12 782
Share premium		24 734	24 734	24 734
Statutory legal reserve		1 278	1 278	1 278
Retained earnings		34 568	50 120	43 094
TOTAL EQUITY		73 363	88 914	81 889
TOTAL LIABILITIES AND EQUITY		183 856	176 782	166 778

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

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements

for the 12 months period of financial year 2010 ended 31 December 2010

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(thousand EUR)

		Quarter 4		for the year ended 31 December	
	Note	2010	2009	2010	2009
Revenue	4	12 465	12 895	49 680	49 368
Costs of goods sold	6	-5 631	-5 072	-20 684	-18 155
GROSS PROFIT		6 834	7 823	28 996	31 213
Marketing expenses	6	-214	-178	-787	-717
General administration expenses	6	-1 017	-928	-3 651	-3 419
Other income/ expenses (-)	7	1 490	1 863	2 906	2 446
OPERATING PROFIT		7 093	8 580	27 464	29 523
Financial income	8	387	580	1 059	1 615
Financial expenses	8	450	-1 137	-3 624	-5 505
PROFIT BEFORE TAXES		7 930	8 023	24 900	25 633
Income tax on dividends	9	0	0	-8 495	-3 908
NET PROFIT FOR THE PERIOD		7 930	8 023	16 405	21 726
COMPREHENSIVE INCOME FOR THE PERIOD		7 930	8 023	16 405	21 726
Attributable profit to:					
Equity holders of A-shares		7 929	8 023	16 404	21 725
B-share holder		0,64	0,64	0,64	0,64
Earnings per A share (in euros)	10	0,40	0,40	0,82	1,09
Earnings per B share (in euros)	10	639	639	639	639

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

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements

for the 12 months period of financial year 2010 ended 31 December 2010

CONDENSED CASH FLOW STATEMENTS

(thousand EUR)

		for the year ended 31 December	
	Note	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		27 464	29 523
Adjustment for depreciation/amortisation	3	5 620	5 698
Adjustment for profit from government grants and connection fees		-3 312	-3 037
Other finance expenses	8	-14	-1 866
Profit from sale of property, plant and equipment, and intangible assets		-3	-10
Expensed property, plant and equipment		70	0
Change in current assets involved in operating activities		-9 628	-1 580
Change in liabilities involved in operating activities		9 223	394
Interest paid		-2 443	-2 479
Total cash flow from operating activities		26 978	26 643
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment, and intangible assets		-17 055	-15 588
Compensations received for construction of pipelines		3 945	9 956
Proceeds from sale of property, plant and equipment, and intangible assets		16	15
Interest received		1 109	1 606
Total cash flow used in investing activities		-11 984	-4 012
CASH FLOWS FROM FINANCING ACTIVITIES			
Received loans		20 000	44 800
Repayment of loans		0	-44 821
Dividends paid	9	-31 956	-14 700
Income tax on dividends	9	-8 495	-3 908
Total cash flow used in financing activities		-20 451	-18 629
Change in cash and cash equivalents		-5 458	4 002
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD			
		18 692	14 691
CASH AND EQUIVALENTS AT THE END OF THE PERIOD			
	2	13 235	18 692

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

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements

for the 12 months period of financial year 2010 ended 31 December 2010

CONDENSED STATEMENTS OF CHANGES IN EQUITY

(thousand EUR)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2008	12 782	24 734	1 278	43 094	81 889
Dividends	0	0	0	-14 700	-14 700
Net profit of the financial year	0	0	0	21 726	21 726
as of 31 December 2009	12 782	24 734	1 278	50 120	88 914
Dividends	0	0	0	-31 956	-31 956
Net profit of the financial period	0	0	0	16 405	16 405
as of 31 December 2010	12 782	24 734	1 278	34 568	73 363

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

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements

for the 12 months period of financial year 2010 ended 31 December 2010

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT

(thousand EUR)

NOTE 1. ACCOUNTING PRINCIPLES

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

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

In order to ensure compliance with the IFRIC 18 enforced in 2010, the recording of revenues and costs for single connections and development area connections in the report has been changed. In line with the instructions set out in the IFRIC 18, Property, plant and equipment are accounted for under costs and long-term liabilities under revenues. Property, plant and equipment and liabilities are amortised and depreciation is recorded in the Income Statement during the useful life of pipeline, which is 75 years. The Company is applying the interpretation of IFRIC 18 retroactively since 01.01.2008 (see the Note 13: Reclassification).

NOTE 2. CASH AND CASH EQUIVALENTS

	as of 31 December	
	2010	2009
Cash in hand and in bank	651	24
Short-term deposits	12 584	18 668
Total cash and cash equivalents	13 235	18 692

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
for the 12 months period of financial year 2010 ended 31 December 2010

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT

(thousand EUR)

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

	Property, plant and equipment				Assets in progress			Intangible assets			Total property, plant and equipment and intangible assets
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Construction - progress - unfinished pipelines	Prepayment for fixed assets	Unfinished intangible assets	Development costs	Acquired licenses and other intangible assets	
as of 31 December 2008											
Acquisition cost	23 522	146 038	37 431	1 174	1 411	5 878	118	174	1 134	3 986	220 868
Accumulated depreciation	-4 299	-45 414	-23 279	-783	0	0	0	0	-944	-1 575	-76 293
Book value	19 223	100 625	14 152	392	1 411	5 878	118	174	190	2 412	144 575
Transactions in the period 01.01.2009 - 31.12.2009											
Acquisition in book value	0	0	0	0	6 346	9 212	0	492	0	0	16 050
Write off and sale of property, plant and equipment, and intangible assets in book value	0	0	-3	-3	0	0	0	0	0	0	-6
Compensated by government grants	0	0	0	0	0	-11 418	0	0	0	0	-11 418
Reclassification	391	4 935	1 681	132	-5 006	-70	-26	-571	303	268	2 037
Depreciation	-268	-2 475	-2 185	-79	0	0	0	0	-141	-550	-5 698
Total transactions in the period 01.01.2009 - 31.12.2009	123	2 459	-507	50	1 340	-2 276	-26	-79	162	-282	965
as of 31 December 2009											
Acquisition cost	23 913	150 807	38 587	1 179	2 752	3 602	92	95	889	4 752	226 667
Accumulated depreciation	-4 566	-47 723	-24 942	-737	0	0	0	0	-612	-2 547	-81 127
Book value	19 347	103 084	13 646	441	2 752	3 602	92	95	277	2 205	145 541
Transactions in the period 01.01.2010 - 31.12.2010											
Acquisition in book value	0	0	0	0	9 967	7 505	0	62	0	0	17 534
Compensated by government grants	0	0	0	0	0	-7 155	0	0	0	0	-7 155
Reclassification	155	4 928	1 873	54	-7 041	-3	-25	-37	4	32	-60
Depreciation	-272	-2 593	-2 081	-84	0	0	0	0	-180	-486	-5 694
Total transactions in the period 01.01.2010 - 31.12.2010	-117	2 336	-213	-39	2 926	347	-25	25	-175	-454	4 610
as of 31 December 2010											
Acquisition cost	24 067	155 727	39 738	1 157	5 660	3 950	68	119	714	4 518	235 718
Accumulated depreciation	-4 838	-50 307	-26 288	-755	0	0	0	0	-612	-2 767	-85 567
Book value	19 229	105 420	13 433	402	5 677	3 950	68	119	102	1 751	150 151

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Property, plant and equipment and intangible assets are written off if the conditions of the asset do not enable further usage for production purposes.
As of 31 December 2009 and 2010 the net balance sheet value of finance leases was respectively 333 thousand euros and 257 thousand euros.

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NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT (thousand EUR)**NOTE 4. REVENUE**

	Quarter 4		for the year ended 31 December	
	2010	2009	2010	2009
Revenues from main operating activities				
Total water supply and waste water disposal service, incl:	11 363	11 651	45 167	45 212
<u>Private clients, incl:</u>	<u>6 026</u>	<u>6 154</u>	<u>23 797</u>	<u>24 243</u>
Water supply service	3 351	3 425	13 232	13 510
Waste water disposal service	2 675	2 729	10 565	10 734
<u>Corporate clients, incl:</u>	<u>4 334</u>	<u>4 380</u>	<u>17 108</u>	<u>17 469</u>
Water supply service	2 375	2 397	9 441	9 720
Waste water disposal service	1 959	1 983	7 667	7 749
<u>Outside service area clients, incl:</u>	<u>826</u>	<u>927</u>	<u>3 415</u>	<u>2 557</u>
Water supply service	208	207	840	501
Waste water disposal service	618	721	2 575	2 056
<u>Overpollution fee</u>	<u>178</u>	<u>190</u>	<u>848</u>	<u>942</u>
Stormwater treatment and disposal service	752	907	3 286	3 001
Fire hydrants service	49	68	193	197
Other works and services	300	269	1 034	959
Total revenue	12 465	12 895	49 680	49 368

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

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

NOTE 5. STAFF COSTS

	Quarter 4		for the year ended 31 December	
	2010	2009	2010	2009
Salaries and wages	-1 318	-1 436	-4 340	-4 563
Social security and unemployment insurance taxation	-439	-478	-1 445	-1 520
Staff costs total	-1 757	-1 914	-5 785	-6 083
Number of employees at the end of reporting period			319	336

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NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT (thousand EUR)**NOTE 6. COST OF GOODS SOLD, MARKETING AND GENERAL ADMINISTRATIONS EXPENSES**

	Quarter 4		for the year ended 31 December	
	2010	2009	2010	2009
Cost of goods sold				
Tax on special use of water	-208	-193	-847	-734
Chemicals	-374	-334	-1 433	-1 283
Electricity	-729	-591	-2 704	-2 136
Pollution tax	-741	-202	-2 290	-1 081
Staff costs	-1 182	-1 441	-4 030	-4 491
Development	-8	0	-8	-2
Depreciation and amortization	-1 270	-1 273	-5 092	-5 177
Transport	-252	-293	-1 209	-1 114
Other costs of goods sold	-866	-746	-3 070	-2 136
Total cost of goods sold	-5 631	-5 072	-20 684	-18 155
Marketing expenses				
Staff costs	-96	-77	-320	-289
Depreciation and amortization	-83	-83	-334	-333
Other marketing expenses	-36	-18	-133	-95
Total cost of marketing expenses	-214	-178	-787	-717
General administration expenses				
Staff costs	-479	-395	-1 435	-1 303
Depreciation and amortization	-52	-47	-194	-188
Other general administration expenses	-486	-486	-2 022	-1 928
Total cost of general administration expenses	-1 017	-928	-3 651	-3 419

NOTE 7. OTHER INCOME / EXPENSES

	Quarter 4		for the year ended 31 December	
	2010	2009	2010	2009
Profit from government grant	1 721	1 918	3 310	2 644
Other income / expenses (-)	-230	-55	-404	-199
Total other income / expenses	1 490	1 863	2 906	2 446

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NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT (thousand EUR)**NOTE 8. FINANCIAL INCOME AND EXPENSES**

	Quarter 4		for the year ended 31 December	
	2010	2009	2010	2009
Interest income	387	580	1 059	1 615
Interest expense, incl swap interests	-670	-417	-2 373	-2 327
Swap fair value	1 107	-710	-1 237	-1 030
Other financial expenses	13	-10	-14	-2 147
Total financial income / expenses	837	-557	-2 565	-3 890

NOTE 9. DIVIDENDS

	for the year ended 31 December	
	2010	2009
Dividends declared during the period	31 956	14 700
Dividends paid during the period	31 956	14 700
Income tax on dividends paid	-8 495	-3 908
Income tax accounted for	-8 495	-3 908
<i>Paid-up dividends per shares:</i>		
Dividends per A-share (in euros)	1,60	0,73
Dividends per B-share (in euros)	639	639

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

NOTE 10. EARNINGS PER SHARE

	Quarter 4		for the year ended 31 December	
	2010	2009	2010	2009
Net profit minus B-share preference rights (in euros)	7 929	8 023	16 404	21 725
Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces)	20 000 000	20 000 000	20 000 000	20 000 000
Earnings per A share (in euros)	0,40	0,40	0,82	1,09
Earnings per B share (in euros)	639	639	639	639

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

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NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT (thousand EUR)**NOTE 11. RELATED PARTIES**

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

Shareholders having the significant influence

	as of 31 December	
Balances recorded in working capital on the balance sheet of the Company	2010	2009
Accounts receivable	7 194	138
Accrued income	7 256	5 957
Accounts payable - short-term trade and other payables	200	245

	Quarter 4		for the year ended 31 December	
	2010	2010	2010	2009
Transactions with the related parties				
Sales services	792	965	3 440	3 179
Compensations receivable from the local governments for constructing new pipelines	7 073	5 610	10 390	11 922
Purchase of administrative and consulting services	231	331	1 032	1 237
Financial income	345	384	732	642
Management Board fees excluding social tax	76	40	199	163
Supervisory Board fees excluding social tax	10	10	38	38

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

The market prices were implemented in transactions with related parties.

Company shares belonging to the Management Board and Supervisory Board members

As at report generation date Siiri Lahe owned 700 AS Tallinna Vesi shares.

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NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT

NOTE 12. LIST OF SUPERVISORY COUNCIL MEMBERS

Robert John Gallienne	Chairman of the Supervisory Council
Leslie Anthony Bell	Member of the Supervisory Council
Simon Gardiner	Member of the Supervisory Council
Andrew James Prescott	Member of the Supervisory Council
Ardo Ojasalu	Member of the Supervisory Council
Mart Mägi	Member of the Supervisory Council
Rein Ratas	Member of the Supervisory Council
Valdur Laid	Member of the Supervisory Council
Deniss Boroditš	Member of the Supervisory Council

Introduction and photos of the Supervisory Council members are published in 2009 Yearbook and the information regarding any changes is available at www.tallinnavesi.ee

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NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT

NOTE 13. RECLASSIFICATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	2009		2009
	Opening balance	Reclassification	Revised balance
Property, plant and equipment	137 599	5 365	142 964
Prepayment of single and developing areas	0	5 365	5 365
	2008		2008
	Opening balance	Reclassification	Revised balance
Property, plant and equipment	138 575	3 225	141 800
Prepayment of single and developing areas	0	3 225	3 225