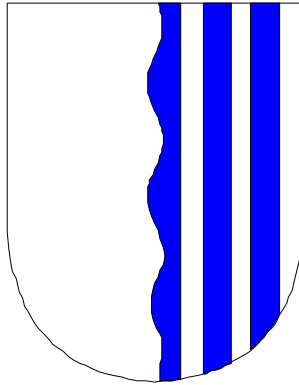


Information Memorandum No. 3

TENDER OFFER FOR SUBSCRIPTION OF 30,000,000
A-SHARES AND SALE OF 28,000,000 A-SHARES IN

AS Tallinna Vesi

(Public Limited Company Incorporated Under the Laws of Estonia)



TALLINNA VESI

THIS INFORMATION MEMORANDUM DOES NOT REPRESENT A PUBLIC
OFFERING OF SHARES AND THE FOLLOWING INFORMATION IS DESIGNED
FOR A LIMITED NUMBER OF SELECTED INVESTORS

July 3rd 2000



AS Suprema Securities and Severn Trent Water International Ltd (STWI) (“the Advisors”) have been appointed to advise the City of Tallinn in the Tender Offer with pre-qualification for subscription of 30,000,000 A-shares of AS Tallinna Vesi (the “Company”) and sale of 28,000,000 A-shares of AS Tallinna Vesi (the “Transaction”).

The principal objective of the City of Tallinn is to invite a Strategic Investor through the sale of a majority stake in the Company for the management and financing of the Company in order to achieve the quality and service standards set by National and European regulations.

The City of Tallinn wishes to attract a Strategic Investor who is fully committed to the development of the Company, and has the necessary technical, operational and financial capability to meet the established levels of service, as well as relevant international experience in the provision of water and wastewater services.

The Advisors have been requested by the City of Tallinn to prepare and distribute this Information Memorandum (the “Information Memorandum”) to parties (individually an “Interested Party” and collectively the “Interested Parties”) who may be interested in acquiring shares of the Company in the Transaction. This Information Memorandum is not, and should not be construed as, a recommendation by the City of Tallinn, the Company or the Advisors that any Interested Party should participate in the Transaction. Each Interested Party as a recipient of this Information Memorandum should make its own independent evaluation of the Transaction. In addition the Interested Parties should ensure the relevance, conclusions and accuracy of the information contained herein and therefore should make such other investigations and employ any advisors as it may deem necessary. This Information Memorandum does not purport to be comprehensive or to contain all the information that an Interested Party may require to make a decision regarding the Transaction described herein. The contents of this Information Memorandum are not to be construed as legal, business or tax advice.

The information contained within this Information Memorandum is based on information provided to the Advisors by the Company, and relevant authorities of the City of Tallinn and has not been independently verified by the Advisors. The information contained herein is intended to serve as general information and contains certain interpretations, explanations, summaries and general statements (including unofficial translations of Estonian documents, laws and regulations) which have been prepared to acquaint all Interested Parties with such matters in a general way.

These are not intended to be definitive or disclose or deal with aspects that may be important or relevant to an Interested Party. Interested Parties are advised to consult independent counsel competent in these matters, and not to rely on the summaries contained herein or any unofficial translations provided. In the event of confusion/doubt/contradiction the Estonian version of any legal documentation shall prevail. Interested Parties are recommended to seek their own independent financial advice to verify any relevant information contained herein.

Certain statements in this Information Memorandum are forward-looking. These forward-looking statements and information are based on the beliefs of the Company’s management or are assumptions based on information available to the Company. No representations and warranties are made as to the accuracy or completeness of any statements, estimates and projections with regard to future performance. Any forecasts and projections of the Company’s future business situation could prove unfounded and the realisation of which is not guaranteed.

No representation or warranty, expressed or implied, is made; or responsibility of any kind accepted by the Advisors with respect to the accuracy, reliability, reasonableness or completeness of the information contained herein in connection with the Transaction including but not limited to any oral or written information provided through e-mail and/or fax or otherwise before, during and after the Transaction. Neither the City of Tallinn, the Company nor the Advisors shall be liable for the use or interpretation by any Interested Party of the information contained in this Information Memorandum.

Acceptance of this Information Memorandum shall be deemed to occur upon receipt hereof and shall constitute the Interested Parties’ acknowledgement that neither the City of Tallinn, the Company, nor the Advisors, will be subject to any responsibility of liability (including liability by reason of negligence or negligent misstatement) arising from this Information Memorandum including statements, opinions, interpretations, information or other matters contained in or arising from, or for any omissions from, this Information Memorandum. These provisions will also apply to any subsequent information (in any form including orally, e-mail, fax etc) provided by the Advisors to the Interested Parties. The Advisors are under no obligation to update, correct or amend any information contained herein.

This Information Memorandum contains confidential information. By accepting this Information Memorandum, the Interested Party agrees that it will cause its directors, officers, employees, advisors and representatives to keep such information confidential and to use it only in connection with the Transaction described herein.

The City of Tallinn reserves the right, at any time, to refuse Pre-Qualification submissions and/or offers for the Transaction and to modify, amend, change or revoke any or all procedures and methods relating to the Transaction including termination of the Transaction itself.

Neither the City of Tallinn, the Company nor the Advisors shall be liable to reimburse or compensate any Interested Party for costs or expenses incurred by such Interested Party in evaluating or acting upon this Information Memorandum or otherwise in connection with this Transaction.

All references in this Information Memorandum to (i) “EEK” or “Estonian Kroon” refer to the currency of Estonia, (ii) “EUR” or “Euro” refer to the single currency of the European Union Member States participating in the European Monetary Union, (iii) “USD” or “US Dollars” refer to the currency of the United States of America.

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Definition of Terms

The Company	AS Tallinna Vesi, headquartered at Ädala 10, Tallinn 10614, Estonia
City of Tallinn or Tallinn or the City	Tallinn, the capital city of Estonia, as represented by its administrative authorities Tallinn City Council and Tallinn City Government
Shares	All issued and authorized common A-share and preferred B-shares of the Company
Transaction	Tender offer with pre-qualification for subscription of 30,000,000 A-shares of AS Tallinna Vesi and sale of 28,000,000 A-shares of AS Tallinna Vesi owned by the City of Tallinn
Advisors	AS Suprema Securities, headquartered at 10 Pärnu road, Tallinn 10148, Estonia Severn Trent Water International Ltd., headquartered at 2308 Coventry Road, Birmingham B26 3JZ, United Kingdom Luiga & Mugu Law Office, headquartered at 15 Pärnu road, Tallinn 10141, Estonia
Invitation	Invitation to a tender offer with pre-qualification for subscription of 30,000,000 A-shares and sale of 28,000,000 A-shares owned by the City of Tallinn, as published on June 26, 2000.
Bidder	Legal entity willing to participate in the Transaction
Qualification	Requirements set forth by the City of Tallinn in order to select the Bidders to be allowed to participate in the Transaction
Designated Parent	One of the shareholder of the Bidder, complying with all the Qualification requirements and holding no less than 1/3 of the Bidder's voting shares
Qualified Bidder	Bidders, satisfying the requirements of the Qualification procedures set forth by the City of Tallinn and allowed to proceed with the Transaction past the Qualification phase
Strategic Investor or Investor	Legal entity selected by the City of Tallinn as a winner of the Transaction tender offer among the Qualified Bidders
Due Diligence	An investigation into the business, legal and financial activities of the Company in connection with the Transaction
Data Room	Documents and other relevant information on the Company to be provided to the Qualified Bidders during Due Diligence process at the Company's location at Ädala 10, Tallinn 10614, Tallinn
Transaction Committee	Special committee established by the City of Tallinn to co-ordinate the Transaction
Shareholders' Agreement	Agreement between the City of Tallinn and the Strategic Investor, covering the main aspects of the Company shareholder relationship
Levels of Service	Operational and quality requirements to be achieved by the Company, as established by the City of Tallinn
Operator	Water utility company appointed by the Tallinn City Council to operate within a designated Operating Area
Operating Area	One of twelve designated areas of operation in Tallinn that will be assigned to the water Operators by the Tallinn City Council
Regulator	Tallinn City Price and Competition Board, or any other regulatory body established within the City of Tallinn to regulate the water industry Operators
EBRD	European Bank for Reconstruction and Development
Information Memorandum	This document, prepared by the Advisors for the purpose of providing the Bidders with information regarding the Company and the Transaction

EXECUTIVE SUMMARY

1. INTRODUCTION

AS Tallinna Vesi (The “Company”) is the largest provider of water distribution, wastewater treatment and stormwater collection services in Tallinn, the capital of the Republic of Estonia. The population of Tallinn is 415,300 and of Saue, its suburb, is 4,500, both of which are served by the Company.

The Company owns and operates a water and a wastewater treatment plant, together with water distribution, sewerage and stormwater collection networks in the Tallinn area. The Company is the legal successor of Tallinn Water Works and Sewerage Municipal Enterprise.

Currently, 100 per cent of the Company's Shares are held by the City of Tallinn, as represented by Tallinn Property Board, an agency of the City of Tallinn. According to the terms and conditions of the Transaction, the current shareholder will divest 28,000,000 common A-shares to the Strategic Investor and the Company will issue 30,000,000 new common A-shares to the Strategic Investor. In total, the Strategic Investor will acquire 58,000,000 common A-shares post-issue, representing 50.4 per cent shareholding in the Company.

2. COMPANY DESCRIPTION

The Company's history dates back to the end of the 19th century. In its current form, the Company was established in August 1997, as a legal successor of Tallinn Water Works and Sewerage Municipal Enterprise.

The main business activities of the Company include provision of water and sewerage services in Tallinn and its suburbs. The activities of the Company can be divided into three main functional areas:

- Water production
- Wastewater treatment
- Operation of water distribution, sewerage and stormwater networks

The Company supplies both surface and ground water to its clients. In 1999, 88 per cent of the Company's total sales was attributed to surface water and 12 per cent to ground water. The main water reservoir of the Company is Lake Ülemiste, located in Tallinn and connected through channels, rivers and pipelines to the surface water catchment area, consisting of water reservoirs with approximately 35 million cubic meters of usable capacity, covering the area of 1,782 hectares. The surface or raw water intake is situated at the Water Treatment Plant located at Lake Ülemiste. The surface water is treated prior to being pumped into the water distribution network. Multiple stage treatment process is employed by the Company, including ozonation.

Ground water is produced by the Company at 44 ground water pumping stations with 62 ground water wells. There are a total of 8 districts in Tallinn that consume ground water only. The ground water is typically not treated.

The surface water catchment and ground water resources are legally in the ownership of the Republic of Estonia and a resource usage tax is paid by the Company regularly for water intake.

The Company owns and operates a Wastewater Treatment Plant located at Paljassaare in Tallinn. The main function of the Wastewater Treatment Plant is treating the sewage generated by Tallinn and its suburbs. The treatment process utilizes mechanical, chemical and biological cleaning technologies. The biological treatment capacity of the Treatment Plant is 350,000 m³ per day. In 1999, the amount of wastewater treated at the Treatment Plant was 56.3 million m³, or approximately 154,264 m³ per day.

The effluent treated by the Wastewater Treatment Plant is discharged into the Baltic Sea. The quality of the treated effluent is subject to restrictions set by the Ministry of Environment and Tallinn Environmental Agency that are based on the European Council Directives and Helsinki Convention

on Baltic Sea Environmental Protection. The Company may be fined in cases when the quality of the treated effluent does not correspond to the level dictated by the relevant regulators.

Significant volumes of sewage sludge are generated by the Wastewater Treatment Plant. Historically, the sludge was dumped as a waste at the municipal waste disposal site. In 1999, however, the Company started to process the sludge into compost usable in agriculture. The volumes of composted sludge will increase in future, as the ultimate objective of the Company is to process and sell all the sludge generated by its operations.

The Company operates water distribution, sewerage and stormwater networks. The lengths of these networks are, respectively, 820.5 kilometers, 739.4 kilometers and 151.0 kilometers. The sewerage network of the Company is combined with the surface water drainage network in the older parts of Tallinn. The sewerage network of the Company is set for considerable expansion within the next six years, as it is the priority of the City of Tallinn to fully develop the sewage collection system in the City by 2006.

The Company supplied drinking water and sewage collection services to 15,911 clients as of January 1st 2000, including 3,598 industrial clients and 12,313 residential clients. Industrial clients of the Company include also apartment unions, established for collective management of residential properties, that are charged regular residential tariff.

In total, the Company has a customer base of approximately 405,000 for drinking water. The coverage equates to approximately 99 per cent of the 415,300 population of Tallinn. Similarly, the Company's wastewater and sewage collection systems in Tallinn cover approximately 385,000 consumers, resulting in the coverage of approximately 95 per cent in Tallinn.

The Company's Net Sales for the years ended December 31st 1997, 1998 and 1999 were, respectively, EEK 476.8 million, 482.1 million and 426.8 million. The sales statistics of the Company for the last five years is presented in Table 1.

Table 1: Sales Statistics of the Company 1995-1999 (thousand m³)

	Domestic		Non-Domestic	
	Water	Sewerage	Water	Sewerage
1995	33,540	33,931	9,922	12,262
1996	32,802	33,825	8,638	10,156
1997	27,838	27,611	7,336	8,767
1998	20,951	20,467	6,353	7,718
1999	18,048	17,569	5,634	6,943

The management structure of the Company consists of Supervisory Board with ten members and Management Board with five members. The organizational structure of the Company consists of five main functional divisions - Water Production, Wastewater Treatment, Water Supply and Sewerage Networks, Finance Division and Development Division. The Company employed 685 people as of January 1st 2000.

For a more detailed description of the Company and its activities, see Section II: The Company of this Information Memorandum.

3. SUMMARY FINANCIALS

The following information should be read in conjunction with the Financial Statements of the Company and Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company included in Section II of this Information Memorandum.. The Company's Financial Statements have been prepared in accordance with International Accounting Standards for the years ended December 31st 1997, 1998 and 1999. The following financial information of the Company for the years ended December 31st 1997 and 1998 has been audited by AS PriceWaterhouseCoopers. The financial information of the Company for the year ended December 31st 1999 has been audited by AS Deloitte & Touche Estonia.

EEK	Years ended December 31 st		
	1997	1998	1999
Operations			
Net sales	476,839,234	482,100,149	426,802,804
Gross profit	189,122,907	164,381,441	90,427,945
Operating profit	148,283,244	126,240,701	45,970,884
Net profit	88,725,433	47,360,821	4,988,117
Financial Position			
Current assets	100,351,734	112,205,672	95,229,840
Current liabilities	286,556,517	319,251,336	156,898,040
Net working capital	-186,204,783	-107,045,664	-61,668,200
Long-term financial investments	11,868,868	11,614,927	10,548,351
Tangible fixed assets	1,460,612,646	1,666,459,149	1,691,934,645
Total assets	1,578,148,166	1,790,424,818	1,798,697,564
Long-term liabilities	316,510,319	448,731,330	547,597,408
Shareholder's equity	1,578,148,133	1,790,424,818	1,798,697,564
Cash Flows			
Net cash flows from operating activities	192,121,470	165,688,329	177,797,540
Net cash flows from investment activities	-403,986,587	-321,078,228	-159,582,216
Net cash flows from financing activities	215,519,522	150,152,845	-3,097,441
Net change in cash position	3,654,405	-5,237,053	15,117,883

4. SUMMARY TERMS AND CONDITIONS OF THE TRANSACTION

According to the Resolution No. 210 of the Tallinn City Council dated June 15th 2000, it has been decided to alienate 50.4 per cent shareholding in the Company to a Strategic Investor. The sale and subscription of the shares in the Company will be conducted through a tender offer with pre-qualification for subscription of 30,000,000 A-shares of the Company and sale of 28,000,000 A-shares owned by the City of Tallinn. The minimum price for both sold and issued A-shares has been set at EEK 10 per share by the Tallinn City Council.

The principal objective of the City of Tallinn from the Transaction is to attract a Strategic Investor for the management and financing of the Company in order to achieve the quality and service standards set by National and European Union regulations.

As a result of the Transaction, the Investor will hold 58,000,000 A-shares of the Company, representing 50.4 per cent of the outstanding share capital of the Company (after the issuance of the above 30,000,000 new A-shares). The Investor will gain management control over the Company via majority in the Supervisory Board and the right to appoint the Management Board of the Company. The City of Tallinn will retain 49.6 per cent shareholding with 57,000,000 A-shares and 1 preferred B-share, along with control over certain matters relating to the Company's management.

The Bidders participating in the Transaction will be restricted to the parties meeting the pre-qualification criteria established by the City of Tallinn. The Qualified Bidders will be given equal access to all relevant Company information and will be asked to submit bids to the City of Tallinn no later than October 27th 2000. The two key components of the bids will include an offer price for the Company's Shares (40 per cent weight) and the proposed annual coefficients of the change in the price of water and wastewater services in Tallinn for the next five years (60 per cent weight). The Bidders will be evaluated and the winner confirmed by the Tallinn City Council.

The Strategic Investor will be required to enter into a Shareholders' Agreement with the City of Tallinn. This agreement will cover certain aspects of the shareholder relationship, including, *inter alia*, Investor's management control over the Company, subject to the veto right of Tallinn in a limited number of issues considered fundamental to the City's and its citizens' interests, and approvals by the City to any changes in shareholder structure of the Company, including Investor's share transfers. The draft Shareholders' Agreement and other relevant legal documents will be distributed to the Qualified Bidders.

It is the intention of the City of Tallinn to proceed with the Transaction according to the following schedule:

Event	Date
Transaction announcement	June 26 th 2000
Registration of Bidders/ distribution of information package	June 26 th - July 14 th 2000
Deadline for submission of Qualification Applications	July 17 th 2000
Qualified Bidders selected	July 24 th 2000
Technical and environmental reports and transaction legal documents made available	July 24 th - August 2000
Company visits, data room period, discussion with the management and meetings with respective authorities	July 26 th - September 29 th 2000
Discuss comments on legal documentation	August - September 2000
Final addendum / legal documentation available	October 10 th 2000
Final bid date	October 27 th 2000
Closing	End of 2000

For a more detailed description of the terms and conditions of the Transaction, see Section IV: The Transaction Structure of this Information Memorandum.

5. CONTACT LIST

All contacts and inquiries regarding the Transaction process should be directed to one of the individuals listed below:

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Estonia

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Facsimile: (372) 6405 701

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All bidders are requested to avoid any direct contact with the employees of the Company or officials of the City of Tallinn during the Transaction process, and to deal with the Advisor only.

SECTION I: ESTONIA AND THE CITY OF TALLINN

The information contained in this section has been derived from official and/or publicly available sources which have not been prepared or independently verified by the Advisors or any of their respective affiliates in connection with the Transaction.

1. GENERAL INFORMATION

The Republic of Estonia is located on the Eastern coast of the Baltic Sea, separated from Finland by the Gulf of Finland and bordering Latvia and Russia. Together with Latvia and Lithuania, Estonia is one of the three Baltic States. Having a land surface area of approximately 45,000 square kilometers, Estonia is larger than Denmark, Switzerland or the Netherlands.

The population of Estonia as of January 1st 2000 was approximately 1.44 million. The majority of the population (65 per cent) is Estonian, while a significant minority (28 per cent) is Russian. The rest of the population is a mixture of other ethnic groups, primarily Ukrainians (2.5 per cent) and Byelorussians (1.5 per cent). Approximately 70 per cent of the population live in urban centers. Tallinn, the capital, is the largest with a population of approximately 415,300. Other major urban centers are Tartu (109,000), Narva (81,000) and Kohtla-Järve and Jõhvi (together 65,000).

There has been a history of mixed heritage in Estonia due primarily to long occupations by foreign powers. Nevertheless, by maintaining its own language, Estonia has preserved a strong national identity.

The population has fallen by 7.4 per cent since 1991, due to a declining birth rate, a rising death rate and increased emigration since the break-up of the Soviet Union.

2. POLITICAL SYSTEM

2.1. The Republic of Estonia

A new constitution of the Republic of Estonia was adopted in 1992. It provides for a unicameral 101-seat Riigikogu (Parliament) whose members are elected for a four-year term directly by proportional representation. Parties need a minimum of five per cent of total votes to be represented in the Riigikogu. Executive power rests with the Government of the Republic, consisting of ministers appointed by the President with the approval of the Riigikogu. The judiciary system is represented by an independent Supreme Court. The President of the Republic is the Head of State and Commander-in-Chief of the Estonian defence forces. The President can delay the implementation of legislation by sending it back to the Riigikogu. The President is elected for a term of five years by the Riigikogu; no person can be elected to the office of the President of the Republic for more than two consecutive terms. Lennart Meri was re-elected in September 1996 to serve until the next presidential elections in 2001.

Since independence, Estonia has had a large number of political parties. Fractional in-fighting in the first coalition government led to its fall in July 1994. A caretaker government was formed under Andres Tarand and governed until Parliamentary elections were held in March 1995, in which approximately 30 parties participated. The elections brought a center-right coalition (the Coalition Party and Rural Union) to power. After the elections, Tiit Vähi of the Coalition party became Prime Minister. Beginning from late 1995, however, a series of scandals and political in-fighting led to several changes in governments, with control moving from one center-right coalition to another. Beginning from February 1997 until March 1999, Mart Siimann of the Coalition party served as Prime Minister. As a result of the elections in March 1999, a coalition of the Reform Party, Isamaa and Moderates was brought to power.

The results of the 1999 parliamentary elections were as follows:

Table 2: Estonian Parliament Structure

Party	Votes (%)	Seats
Centrist Party	23.4	28
Reform Party	15.9	18
Isamaa (Pro Patria)	16.1	18
Moderates	15.2	17
Rural Party (EMÜ)	7.3	7
Coalition Party	7.6	7
United Nations Party	6.1	6
Total		101

The current Prime Minister of the Republic of Estonia is Mart Laar of the Isamaa party, who led the country's first government in 1992 and initiated a program of aggressive free market reforms. Economic reforms and Western Europe-oriented policies remain well entrenched in Estonia with the majority of the population in favor of a free market and integration with Europe. The current government's policy is to continue economic policies of free enterprise, low taxes and privatization set in motion already in 1992 and push for membership in Western European organizations such as the North Atlantic Treaty Organization (NATO) and the European Union.

Unlike its Baltic neighbors, Estonia was one of five initial Central and Eastern European countries invited to participate in formal negotiations with the EU which commenced in April 1998 and which are expected to result in Estonia's admission in the next wave of EU expansion.

2.2. The City of Tallinn

The municipal authorities in Tallinn consist of the City Council and the City Government. The City Council is the legislative body, which is elected by the citizens entitled to vote on the basis of the Law on Organization of Local Authorities. The City Government is the executive branch of the City Administration, established by the City Council.

There are 64 members in the Tallinn City Council. The Chairman of the City Council regulates the work of the Council and chairs meetings of the City Council. The City Council is elected every three years. The latest elections were held in October 1999.

Table 3: Tallinn City Council Structure

Party	Votes (%)	Seats
Centrist Party	23.7	21
Isamaa (Pro Patria)	17.2	14
People's Choice	13.8	9
Reform Party	12.7	10
People's Trust	10.5	4
Moderates	8.3	4
Coalition Party	5.0	2
Total		64

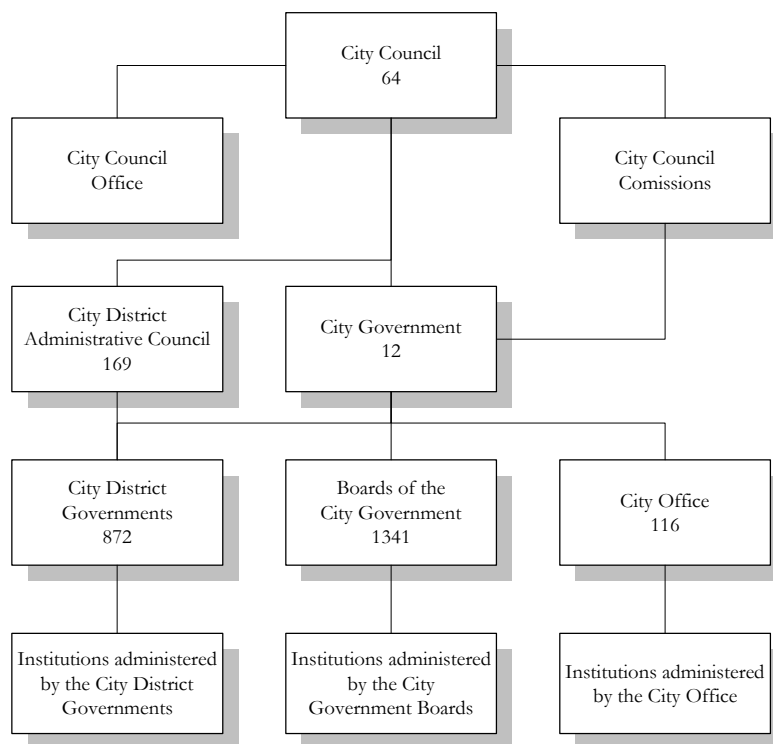
The City Council nominates the audit commission and other permanent and temporary commissions. There are 10 permanent commissions established at the present time, including environmental, order

maintenance, education and culture, child protection, city economy, city property, finance, audit, social welfare and health care and consumer protection commissions.

According to the Law on Organization of Local Government and the Statute of Tallinn, the City Government includes the Mayor, Deputy Mayors, other members of City Government and City Secretary. The Mayor is elected by the City Council. The members of the City Government are appointed to and removed from their office by the City Council, with the approval of the Mayor, except for the City Secretary, who is appointed by the Mayor directly. From the day of the election, the Mayor is given authority to form a City Government. The Mayor receives full legal rights, stipulated by the Law on Local Government Organization and the Statute of Tallinn, from the day of designation of the City Government.

The administration of the city is organized by municipal institutions, which include the Office of the City Council, the City Office, the Boards of the City Government and the Governments of City Districts. These institutions employed 2,386 people at the beginning of April 1998. The Heads of municipal institutions are appointed by the City Government. The organizational chart of the City Administration is presented in the figure below.

Figure 1: City of Tallinn Organizational Structure



The main duty of the Office of the City Council is the organization of the day-to-day operations of the City Council and the performance of technical services. The Office of the City Council is directed by the Chairman of the City Council. The responsibilities of the City Office, which is directed by the City Secretary, include the organization of the work of City Government members, technical assistance and services. The City Office currently consists of 9 departments. The Boards of the City Government perform the tasks assigned to local authorities and, together with the City Government, prepare materials for submission to the City Council.

The duties of Tallinn as a unit of local authority include the organization of social welfare, housing and communal economy, water supply and sewerage services, sanitation, territorial planning, municipal public transportation, maintenance of roads and streets. It is also the City's duty to support pre-school institutions, gymnasiums and hobby centers, libraries, community centers, museums, sports centers, shelters, health care institutions and other local institutions.

3. THE ECONOMY

3.1. General Economic Background

The political independence obtained by Estonia after the break-up of the Soviet Union in 1991 has been the main catalyst of the economic development and reform in the country during the last decade of the 20th century.

Table 4: Main Economic Indicators 1995-1999

	1995	1996	1997	1998	1999
GDP, mUSD	3,539.6	4,370.5	4,627.6	5,200.4	5,133.8
GDP per Capita, USD	2,397.6	2,989.1	3,182.9	3,597.4	3,567.6
GDP Growth, %	4.3	3.9	10.6	4.7	-1.1
Monthly Wage, USD av.	206.5	248.8	257.1	292.6	301.0
Unemployment, %	4.0	4.3	3.6	4.0	5.2
Export, mUSD	1,903.9	2,085.4	2,930.2	3,232.1	2,938.1
Import, mUSD	2,589.6	3,240.5	4,435.6	4,780.0	4,114.1
Current Account, mUSD	-157.9	-397.9	-563.4	-478.1	-314.4
FDI, mUSD	201.1	151.2	265.8	572.6	304.4
FDI per Capita, USD	135.5	102.9	182.3	395.0	211.5
CPI Growth, %	29.0	23.1	11.2	8.2	3.3

3.2. Economic Growth

Due to inefficiencies in the old economic system and growing difficulties in exports to Russia, the Estonian economy experienced a severe recession in 1991 and 1992. GDP decreased by 12.6 per cent in 1991 and 14.2 per cent in 1992. The decline in GDP slowed down beginning from 1993 and in 1995 a real growth of economy of approximately 4 per cent was achieved. A significant GDP growth was achieved in the three following years, especially in 1997, followed by a decline in real GDP of 1.1 per cent in 1999. The economic decline of 1999 can be attributed to the consequences of the currency devaluation in Russia in August of 1998 and the collapse of Eastern export markets.

The economic transformation during this period was characterized by a sharp decline in the industrial output, growth of the service sector of GDP and re-orientation to Western markets away from former Soviet Union.

3.3. Monetary Sector

One of the cornerstones of the economic transformation and macroeconomic stability achieved in Estonia has been the currency reform of 1992, which replaced the Soviet currency Rouble with the Estonian Kroon (EEK). The fixed exchange rate of the new Estonian currency, Kroon, pegged to the German Mark at the rate of 8 EEK for 1 DEM, and the introduction of the currency board system, provided an impetus for further restructuring and development of the economy. Its impact was soon evident in stabilizing price levels and falling interest rates. Considering the rapid economic development and the unique characteristics of a transition economy, the inflation rate in Estonia has been adequate to cover the inevitable structural adaptation and adjustments of the real exchange rate. Due to the reliable monetary policy, the full convertibility of the Kroon and liberal foreign exchange regulations, the interest rate level in Estonia has remained moderate, compared to other economies in transition.

Under the currency board system the money in circulation is fully backed by the gold and hard currency reserves of the Bank of Estonia. The latter guarantees full account convertibility and is authorized to issue money only after the foreign currency reserves have been increased accordingly.

Estonia's transition to a market economy initially resulted in relatively high rates of inflation. In 1992, the Consumer Price Index (CPI) grew by 953 per cent. This hyper-inflation occurred mainly due to the liberalization of domestic prices, reduction of state subsidies and price increase for imported goods (mainly raw materials and energy from Russia). After the introduction of the national currency, the inflation rate stabilized, declining to 3.3 per cent in 1999.

3.4. Fiscal Sector

Since the introduction of the independent state budget, Estonia has pursued a policy of balancing revenues and expenditures. The balanced state budget requirement, initially introduced by the State Budget Law in 1993 has been firmly observed until today. The main source of government sector revenues has historically been value added tax, followed by excise tax revenues, individual income tax revenues and corporate income tax revenues. Beginning from 2000, however, corporate income tax on reinvested earnings has been abolished. Capital revenues from the privatization of state companies also contribute to government sector revenues.

As of September 30th 1999, Estonia's net foreign debt amounted to EEK 3.0 billion, representing 4.1 per cent of GDP. The foreign debt has decreased from the level of previous years, as in 1999 the state repaid foreign net debts in an amount of approximately EEK 650 million. Under the law on foreign loans and state guarantees to contracted loans, which entered into force on May 1st 1995, the total amount of external loans taken by the state in a current fiscal year may not exceed 15 per cent of the budget revenues planned for that year. The domestic debt of Estonia was at the level of EEK 0.4 billion or 0.5 per cent of GDP as of September 30th 1999.

3.5. Real Sector

The real sector of the Estonian economy can be characterized by the absence of large industrial base and much larger service sector. The industrial segment of Estonia has historically been concentrated around wood industry and food processing industry. However, the information technology and electronics industries have also started to develop in the recent past, aided by the foreign direct investments from the part of a number of Scandinavian corporations.

Transportation, transit and financial services are the most prominent players in the service industry, supported by foreign investments and geographical position of Estonia of a gateway between Russia, other former Soviet Union countries and Western Europe.

The economic environment of Estonian real sector has been considerably assisted by the liberal policies of the central government, leading to increased private sector involvement, state company privatization and abolition of corporate income tax beginning from 2000.

3.6. External Sector

After five years of accession negotiations, Estonia became a member of the World Trade Organization on November 13th 1999. This step was yet another milestone for Estonia on the road of transformation of its economy in a rather short time from a planned system to one that is in full conformity with market principles.

Considering the continuous integration of Estonia into the international financial markets, the country has undergone credit rating assessments by the three major credit rating agencies in the world - Moody's Investors Service, Standard & Poor's and Fitch IBCA. Estonia was awarded the following investment grade credit ratings:

- Moody's Investors Service Baa1
- Standard & Poor's BBB+
- Fitch IBCA BBB

4. TAX POLICY

The following summary of certain Estonian tax consequences of the purchase, ownership and disposition of the Shares is based upon laws in force and as interpreted by the relevant taxation authorities as of the date of this Information Memorandum.

Legislative, juridical or administrative changes or interpretations could, however, alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences of holding the Shares. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a decision to purchase, own or dispose of the Shares.

Each prospective bidder is recommended to consult a tax advisor as to the particular tax consequences to such bidder of the purchase, ownership and disposition of the Shares, including the applicability and effect of any applicable tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Information Memorandum and of any actual changes in applicable tax laws after such date.

4.1. Income Tax Law

The Estonian Parliament passed the new Law on Income Tax on December 15th 1999. The latter radically changed the existing corporate income tax system introduced initially in 1994. The new Law is effective from January 1st 2000. When applying the law, it should be noticed that double taxation treaties might provide for different taxation principles and tax rates in relation to transactions with non-residents.

The main objective of the Income Tax Law is to exempt corporate entities and permanent establishments from income tax on undistributed profits, regardless of whether these are reinvested or merely retained and to promote investment in Estonia, by not taxing profits until these are distributed (or deemed to have been distributed).

Individuals and non-residents without a permanent establishment in Estonia pay income tax on their income in accordance with the existing rules (generally through withholding taxes). The rate of the tax is 26 per cent, except insurance indemnities and payments from pension fund received by individuals, which are subject to 10 per cent withholding tax. Interest payments by commercial banks, branches of non-resident commercial banks or State Compensation Fund to resident individuals are redeemed from income tax. In addition, interest payments by commercial banks or State Compensation Fund to non-resident individuals are redeemed from income tax.

Resident legal entities (e.g. companies) and non-residents with a permanent establishment in Estonia (e.g. branches of foreign companies) pay income tax on all distributions (both actual and deemed) including: fringe benefits; gifts, donations and representation expenses; dividends and other profit distributions and expenses and payments not related to business. Distributions of profits will be subject to income tax at the rate of 26/74.

4.2. Taxation of Dividends

Upon the payment of a dividend by an Estonian company, income tax in the amount of 26/74 of the aggregate amount of the dividend must be paid based on the amount of dividends or other distributions on the shares. Income tax will be due on dividends paid in cash or in kind, as well as on:

- other profit distributions, to individuals, non-residents and non-profit associations, and
- foundations not included in the list published by the Government (dividends paid to resident legal entities will not be subject to income tax)

Under the Income Tax Law, dividends paid to Estonian residents are currently not subject to further taxation. Dividends paid by an Estonian company to non-residents, however, are subject to income tax in the amount of 26 per cent. If the recipient of dividends is a non-resident legal person and at the time of dividend payment owns at least 25 per cent of the share capital of the respective company, dividends are not subject to income tax. Above mentioned terms do not apply, if non-resident dividend recipient is a company located in a tax haven. The amount of 26/74 of the

aggregate amount of dividends paid by the Estonian company is not regarded as withholding of income tax of the recipient of the dividends.

The Estonian company, after having paid an amount equal to 26/74 of the aggregate dividend amount as discussed above, has no obligation to make any further withholdings from the amount paid by way of dividends.

The issue of taxation of dividends to non-residents of Estonia is regulated principally by means of bilateral treaties on the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and capital gains. To-date, treaties have been concluded with Latvia, Lithuania, Finland, Sweden, Norway, Denmark, Iceland, Germany, Poland, the Ukraine, the Czech Republic, the United Kingdom, Canada, Netherlands, France, Italy, Byelorussia, Ireland, United States, Chinese Republic and Republic of Moldova. Under the majority of these treaties, Estonia is entitled to levy a withholding tax of 15 per cent to be deducted from dividends paid to residents of the relevant jurisdictions if the recipient is the beneficial owner of the dividends. Where such non-resident owns 25 per cent or more of the Estonian company concerned, the rate of withholding tax is reduced to 5 per cent.

Realized capital gains are regarded for the purposes of the Income Tax Law as income and taxed accordingly. Non-resident shareholders pay Estonian income tax on capital gains realized by them on the transfer of shares in Estonian registered companies (subject to any relevant double tax treaties as described below) and are required to file a tax report with the Estonian Taxation Board by the March 31st in the following year.

4.3. Stamp Duty

No stamp duty or VAT is applicable upon the transfer of shares in Estonia.

4.4. Other Taxes

At present, there are no inheritance or gift taxes in Estonia, although such taxes are contemplated in the current tax legislation and may be introduced in the future.

5. FOREIGN INVESTMENT AND EXCHANGE CONTROLS

For every Company established under the laws of Estonia, the payment of dividends and other distributions on the shares shall be paid in Estonia. Any payment of dividends or other distributions on the shares to investors outside of Estonia will be subject to Estonian foreign investment and exchange control regulations in effect at the time of payment.

The following is a summary of certain Estonian foreign investment and exchange controls affecting the purchase, ownership, and disposition of shares and does not purport to be a complete analysis of such foreign investment and exchange controls.

This summary is based on Estonian foreign investment and exchange regulations in force as of the date of this Information Memorandum and is subject to changes in Estonian regulations.

5.1. Foreign Investment

The Foreign Investments Act (adopted September 11th 1991, amended on November 22nd 1997) and bilateral agreements on the reciprocal promotion and protection of investments establish a legal platform for foreign investors and guarantees to protect foreign investment in Estonia. The property of a foreign investor cannot be nationalized, expropriated or confiscated, unless provided by law. In any such case, the foreign investor has the right to prompt, adequate and effective compensation in a freely convertible currency. Generally, no restrictions apply to foreign investors acquiring a company or equity interest in Estonia. All restrictions and rights applying to Estonian companies shall generally apply to foreign-owned companies on an equal basis. However, in certain industries, a license to establish and run a business is required. These industries include, among others: mining, energy and gas supply, key transport areas (ports, airlines and railways), as well as telecommunications and pharmaceuticals. In addition, establishment of commercial banks is regulated by the Bank of Estonia.

A foreign investor has the right to repatriate profits and other income received from Estonia in foreign currency.

5.2. Foreign Exchange

Non-residents can execute foreign currency transactions without any limitations and repatriate income in the form of dividends, interest, and capital gains without any restrictions, subject to taxes payable under Estonian Laws (see "Tax Policy" above).

Estonian companies are allowed to open foreign currency denominated accounts in Estonian banks without any restrictions.

SECTION II: THE COMPANY

1. GENERAL INFORMATION

1.1. Corporate Information

The legal address of the Company is Ädala 10, Tallinn 10614, Estonia. The Company was registered in the Estonian Commercial Register on August 28th 1997 under the register code 10257326. The Company is the legal successor of the Tallinn Water Works and Sewerage Municipal Enterprise. The fiscal year of the Company begins on January 1st and ends on December 31st.

The registered share capital of the Company is EEK 850 million, which is divided into 85,000,000 registered ordinary Shares with a nominal value of EEK 10 each (A-shares). The Tallinn City Council has also authorized the issue of 30,000,000 additional A-shares and 1 registered preferred B-share. 100 per cent of the Company's Shares are currently owned by the City of Tallinn.

The principal bank of the Company is AS Hansapank, located at Liivalaia 8, Tallinn 15040, Estonia. The legal advisors to the Company are Messrs. Peeter Lepik and Toomas Luhaäär of the Lepik ja Luhaäär law firm, located at Dunkri 7, Tallinn 10123, Estonia.

The financial statements of the Company for the years ended December 31st 1997 and 1998 included in this Information Memorandum have been audited in accordance with the International Accounting Standards by AS PriceWaterhouseCoopers, located at Narva mnt. 9A, Tallinn 10117, Estonia. The financial statements of the Company for the year ended December 31st 1999 were audited in accordance with the International Accounting Standards by AS Deloitte & Touche Estonia, located at Suur-Karja 21, Tallinn 10148, Estonia.

1.2. History

The history of water supply and sewerage network in Tallinn goes back to the first half of the 14th century, according to the earliest mentions of the city chronicles. The first official document regarding the organization of water supply in Tallinn can be traced back to 1337, when the regulation of the city-wide water transportation was attempted.

Beginning from the 19th century the development of Tallinn water supply and sewerage system can be monitored with greater detail. In 1864, the construction of gas and water network was initiated. In 1881 Tallinn City established Gas and Water Commission that was responsible for control and management of Gas and Water Networks, a predecessor of the Company. In 1946, the Gas and Water Networks were reorganized in order to accommodate the Tallinn sewerage network. The new entity was named Tallinn City Gas, Water Supply and Sewerage Trust. Reflecting the expansion of the gas division of the trust, this area was detached into a separate organization, Tallinn Gas, in 1953.

In 1992, the Company was reorganized as Tallinn Water Works and Sewerage Municipal Enterprise. According to the early intentions of the City, the municipal enterprise was supposed to retain the ownership rights of the infrastructure assets and real estate, while Company business activities were to be carried out by an independent private Operator on the basis of a concession.

After the adoption of the Commercial Code of Estonia in 1995, the status of municipal enterprise was abolished. Accordingly, in 1997, the Company was reorganized as public liability company Tallinn Water, with 100 per cent of shares in the ownership of Tallinn City Property Board. All the assets of Tallinn Water Works and Sewerage Municipal Enterprise were transferred to the new entity.

2. REVIEW OF OPERATIONS

The main business activities of the Company include provision of water and sewerage services in Tallinn and its suburbs. The activities of the Company can be divided into three main functional areas:

- Water production
- Wastewater treatment
- Operating water, sewerage and stormwater networks

Each functional area of the Company's business activities will be described in detail in the separate sections below.

2.1. Water Production

The water production function of the Company includes the following operations:

- Raw surface and ground water intake
- Raw surface water treatment
- Pumping the treated water into the water supply network of Tallinn

The water production facilities of the Company are located near the south-eastern border of Tallinn in direct proximity to Lake Ülemiste - the main water reservoir of the Company.

Table 5: Water Production 1995-1999 (m³/day average)

Year	Surface water	Ground water	Total
1995	150,112	21,854	171,966
1996	145,529	19,721	165,250
1997	123,419	14,678	138,097
1998	100,696	11,131	111,827
1999	87,520	12,246	99,766

2.1.1. Water Resources

Approximately 88 per cent of the Company's Operating Area in Tallinn and its suburbs is supplied with surface water by the Company, and only 12 per cent – with ground water. The Company is using surface water from Lake Ülemiste as the primary source of raw water. For a long time, this was the only source of surface water for Tallinn and its resources were sufficient to satisfy the demand of the Company's customers. In 1922, however, Lagedi pumping station and Pirita-Ülemiste channel were constructed in order to direct part of the water from the River Pirita to Ülemiste Lake. After World War II the channel was re-constructed as self-flowing and the adjacent rivers were connected to the River Pirita in order to satisfy the water needs of the growing Tallinn. In particular, Angerja, Pärnu, Jägala and Soodla Rivers were linked with Pirita River.

The surface water system contains six artificial water reservoirs and Lake Raku in addition to Lake Ülemiste (see Table 6 below). Lake Ülemiste alone would be sufficient to satisfy the demands of Tallinn for approximately 100 day period only. It is a large and shallow natural lake located between the water treatment plant and Tallinn International Airport that serves as the raw water storage reservoir for the treatment works. No alternative surface raw water source or storage facility exists, although plans for by-passing the lake during the summer months have been under consideration by the Company for some time.

In addition to the water reservoirs, a total of eight channels with the length of 66.9 kilometers and 2.1 kilometers of pipeline (see Table 7 below) comprise the surface water system. The total usable capacity of water in the system is estimated at approximately 35 million m³ (including 17 million m³ in Lake Ülemiste). The total area of the surface raw water resources of the Company is approximately 1,782 hectares.

Table 6: Water Reservoirs of the Company

	Year of Inauguration	Total Capacity (million m ³)	Usable Capacity (million m ³)	Maximum Area (ha)
Lake Ülemiste		33.83	16.74	985
Vaskjala reservoir	1970	0.60	0.45	55
Paunküla reservoir	1960/79	12.15	12.00	350
Soodla reservoir	1980	9.00	4.30	286
Raudoja reservoir	1981	0.24	0.20	11
Aavoja reservoir	1984	0.41	0.20	26
Kaunissaare reservoir	1984	1.60	1.03	69
Total:		57.83	34.92	1,782

Table 7: Channels and Pipelines of the Company

	Year of Inauguration	Length (km)	Max. Discharge Capacity (m ³ /s)
Pirita-Ülemiste channel	1922/70	11.1	5.0
Jägala-Paunküla channel	1975	9.2	1.5
Ardu channel	1979	3.9	5.0
Hieveski channel	1979	1.0	1.0
Pärnu- Jägala channel	1975	4.3	0.5
Raudoja-Aavoja channel	1981	9.1	1.5
Aavoja-Jägala channel	1984	2.8	1.5
Jägala-Pirita channel	1987	25.5	3.5
Pressure pipe of Jägala Pumping Station Ø 1,200	1975	1.5	1.5
Soodla-Raudoja conduit	1980	0.6	1.5

As the consumption of water by Tallinn has decreased steadily in the last several years, the capacity of the surface water reserves exceeds the demand for water considerably. The current capacity of the water treatment plant is approximately 45 million m³ annually, or 123,511 m³ per day on average. The current capacity of the water treatment plant and surface raw water resources is adequate.

The relatively water-scarce year of 1995 is used as a base for estimating and calculating the surface water reserve. It is assumed that at the beginning of the annual water supply cycle (April), the water reservoirs of the Company are empty and they are filled, according to their usable capacity and the maximum discharge capacities of the connecting channels. The water losses due to evaporation and water addition from precipitation are also accounted for, when estimating the surface water reserves. A 75 per cent chance of increased precipitation and 25 per cent chance of increase in evaporation are applied to the base year statistics, depending on the shape of the water reservoir and other parameters. The losses of surface water due to filtration and evaporation are estimated at 5 per cent

in the Pirita-Ülemiste channel. No losses of water due to filtration are calculated for surface water reservoirs.

There are a total of 8 districts in Tallinn that use only ground water: Merivälja, Pirita, Kose, Laagri, Nõmme, Tiskre and portions of Rocca al Mare and Kaarla street area. The Nõmme district is by far the largest of the eight, consuming approximately 54 per cent of all produced ground water. In addition, the City of Saue is also provided with ground water by the Company. In total, approximately 4.5 million m³ of ground water was produced by the Company in 1999.

The ground water production facilities of the Company in 1999 included 44 ground water pumping stations with 62 ground water wells. The ground water is not generally treated. Pressure filters are currently installed on only 3 pumping stations. However, the increased level of iron contained in the ground water in selected regions indicates that the need for treatment of ground water will arise in the future in order to elevate the water quality to the level required by the European Union. The Company is expecting to equip at least 22 further pumping stations with pressure filters in order to ensure the desired water quality.

Ground water is extracted from the following three aquifers:

- Cambrian-Vendian, depth 80-200 m
- Ordovician-Cambrian, depth 30-100 m
- Quaternary, depth to 140 m

Most of the ground water (approximately 85 per cent) is extracted from the Cambrian - Vendian aquifer.

The production of ground water in Tallinn has decreased from 21,854 m³ per day in 1995 to 11,131 m³ per day in 1998, primarily due to the decrease in overall water consumption. In 1999, production has increased to 12,246 m³ per day, because of the start of operations of the Sütiste water intake, supplying portions of Mustamäe district.

According to the evaluation of the ground water reserves available to the Company performed in 1998, the estimated daily water reserve of the Cambrian-Vendian aquifer amounts to 44,500 m³. The short-term consumption of up to 60,000 m³ of ground water per day is possible under special conditions.

The raw water resources of the Company are in the legal ownership of the Republic of Estonia. Therefore, a tariff for abstraction of raw surface and ground water is paid by the Company to the Republic of Estonia, according to the rates set forth in the Decree of the Government of the Republic of Estonia No. 226 of October 7th 1998. The Decree regulates the water resource tariffs for the period from 1999 to 2001. The tariffs for water resource abstraction for surface and ground water in 2000 and 2001 are shown in the table below.

Table 8: Water Resource Tariffs 2000-2001

	Tariff 2000 (per m ³)	Tariff 2001 (per m ³)
Surface water	0.25	0.30
Ground Cambrian-Vendian	0.40	0.45
Ground Ordovician-Cambrian	0.35	0.40
Ground Quaternary	0.25	0.30

There are adequate reserves of raw water stored in the catchment to satisfy the needs of water customers in the Company's operating region for the foreseeable future, provided the catchment is managed appropriately.

The raw water usage of the Company is regulated by the Authorization of Water Usage TKA-19 issued by the Tallinn Environmental Agency for a period from April 1st 1998 to January 1st 2001.

The Authorization of Water Usage for a period from 2001 until 2005 will be issued to the Company before the end of 2000.

2.1.2. Water Treatment

The surface water treatment process of the Company consists of the six following major steps - (1) micro-filtration, (2) pre-ozonation or pre-chlorination, (3) adding coagulant and flocculant, (4) clarification with the floating-bed clarifier, (5) final filtration with sand and activated carbon filters, and (6) post-chlorination.

The treatment process begins from the mechanical cleaning of raw water, whereby the water is cleared of any floating waste and fish after being pumped in by the intake pumping station. The water is then directed through the micro-filtration process, where both zoo- and phytoplankton is removed. The next step of the treatment process is preliminary ozonation of the surface water, where the water is combined with ozone in special reservoirs and the organic substances remaining in the water are removed. High doses of ozone are used, because the micro-filtration process can not ensure the removal of all organic substance from the water. In case the ozonation plant is not functioning, the pre-chlorination can be employed for treatment of the water instead of pre-ozonation. In that case, liquid chlorine is added before micro-filtration process at the dosage of 1 to 1.5g per m³.

After the preliminary ozonation, the water is stored in the reservoirs and the coagulant - liquid aluminum sulphate, containing approximately 8% Al_2O_3 - is added. At the next stage the water with coagulant is pumped into the special mixing tanks and combined with the flocculant Magnafloc. The mixed water starts to form flakes that set at the bottom of the tank and are then separated from the clean water with a floating-bed clarifier.

After the clarification of water, it is channeled through sand and activated carbon filters for the final filtration. In case the water quality is still not sufficient prior to the final filtration, it is possible to improve the quality by adding additional flocculant.

After the filtration process the water is combined with chlorine and channeled into the clean water tanks of the Company. Chlorine is added, taking into account the conditions of the water distribution network. From the clean water tanks, the water is pumped into the water supply network of Tallinn.

At the time of the Tallinn Water Treatment Plant design, the projected treatment capacity was estimated at approximately 270,000 m³ of treated water per day, at the same time as the actual current useful capacity of the plant amounts to only 123,511 m³ of water per day (in case the ozonation treatment method is employed; without the ozonation the actual useful capacity of the plant is higher). The difference between the projected and actual capacities of the Treatment Plant originates from the decrease of the raw water quality, changes in the Estonian Drinking Water Standard and the relatively small useful surface of the Company's filters. As the filters of the Company's Treatment Plant are physically located in the two separate buildings, the treatment capacity is divided between them fairly evenly (54 to 46 per cent respectively).

The raw water is treated for iron removal only, as it generally corresponds to the Estonian Drinking Water Standard. More treatment is expected in future, as the quality of the aquifer has deteriorated.

2.1.3. Quality of Raw and Treated Water

The quality of the drinking water produced by the Company and supplied to the customers is regulated by the Drinking Water Standard EVS 663:1995 of the Republic of Estonia, established by the Decree of the Ministry of Social Affairs on March 15th 1996. The standard distinguishes between the three water quality levels - satisfactory, good and very good.

The Ministry of Social Affairs based the current Estonian Drinking Water Standard on the European Council Water Quality Directive 98/83/EC that will come into effect in the European Union member countries from the end of 2000, replacing the earlier Directive 80/778/EC.

The measurement of the water quality is performed by the Company and the regulating organization - Tallinn Health Protection Authority. The Company measures the quality of raw and treated drinking water both at the treatment plant and at various locations in the water supply network across the operating region. The measurements and tests performed by the Company are done by the Water Laboratory. The laboratory is not currently accredited, but according to the requirements of the Food Products Law and Pollution Fee Law of the Republic of Estonia, the laboratories performing the drinking water analysis will have to be accredited by the proper authorities prior to the beginning of the year 2002.

The raw water taken in by the Company from lake Ülemiste for drinking water production does not correspond to the Drinking Water Standard of the Republic of Estonia, as indicated by the primary characteristics shown in the Table 38 in the Appendix I. The lake itself is eutrophic and suffers from severe algae blooms in the months from June to September, making effective water treatment difficult.

The quality of raw surface water in respect of coliform bacteria was in accordance with the European Council Directive 75/440/EEC in 1999 (see Table 38). The abovementioned Directive concerns the quality required of surface water intended for abstraction of drinking water. The raw surface water used by the Company complied with the classification A2 of the Directive as requiring only normal physical treatment.

The quality of raw surface water after the treatment process, before being pumped into the water distribution network of the Company, corresponds to the "good" and "very good" quality levels as stipulated by the Drinking Water Standard (see Table 39).

The quality of the raw ground water is understood to comply to the current Estonian Drinking Water Standard and no treatment except for iron removal is undertaken by the Company.

2.1.4. Consumables for Water Production

The primary consumables used for the water production activities of the Company are chemicals - liquid aluminum sulphate, flocculant Magnafloc and liquid chlorine - along with energy. Chemicals are added to the raw surface water during the treatment process at the treatment plant. No chemicals are typically added in the ground water production process.

Table 9: Consumables Used in Water Production 1997-1999

	1997		1998		1999	
	tons	EEK th.	tons	EEK th.	tons	EEK th.
Liquid aluminum sulphate	13,158	13,202.2	10,341	11,352.5	8,171	9,912.8
Liquid chlorine	97.00	767.2	72.00	562.1	75.00	582.3
Flocculant	8.70	497.5	9.23	526.6	8.70	468.8

Liquid aluminum sulphate is added to raw water at the rate of approximately 20 mg per liter. Ozonation rate achieved at the treatment plant is from 6 to 10 mg per liter. Liquid aluminum sulphate and ozonation also differ throughout the year, as more treatment is needed in the summer months.

Liquid aluminum sulphate is purchased from the company Kemivesi, located in the proximity to the water production facilities of the Company, and transported via pipeline. A one-month supply is typically stored in the Company's inventory. Flocculant Magnafloc is purchased from the company CIBA, a subsidiary of the Specialty Chemicals Germany. The purchases are made by the lots of 2.7 tons, sufficient for approximately three months of operations. Exchange of this supplier is possible after at least one year of tests. The liquid chlorine is purchased from the Ässä Chemical Plant of Finland. Again, a one-month supply is typically stored in the Company's inventory.

Energy is also used extensively in the water production process. In 1999, 15.2 million KWh of energy were used in the surface water production and 2.2 million KWh in ground water production, with a total cost of EEK 7.8 million. This represented, on average, 0.51 KWh or EEK 0.21 per one cubic meter of produced surface and ground water.

2.2. Networks

2.2.1. Regional Division

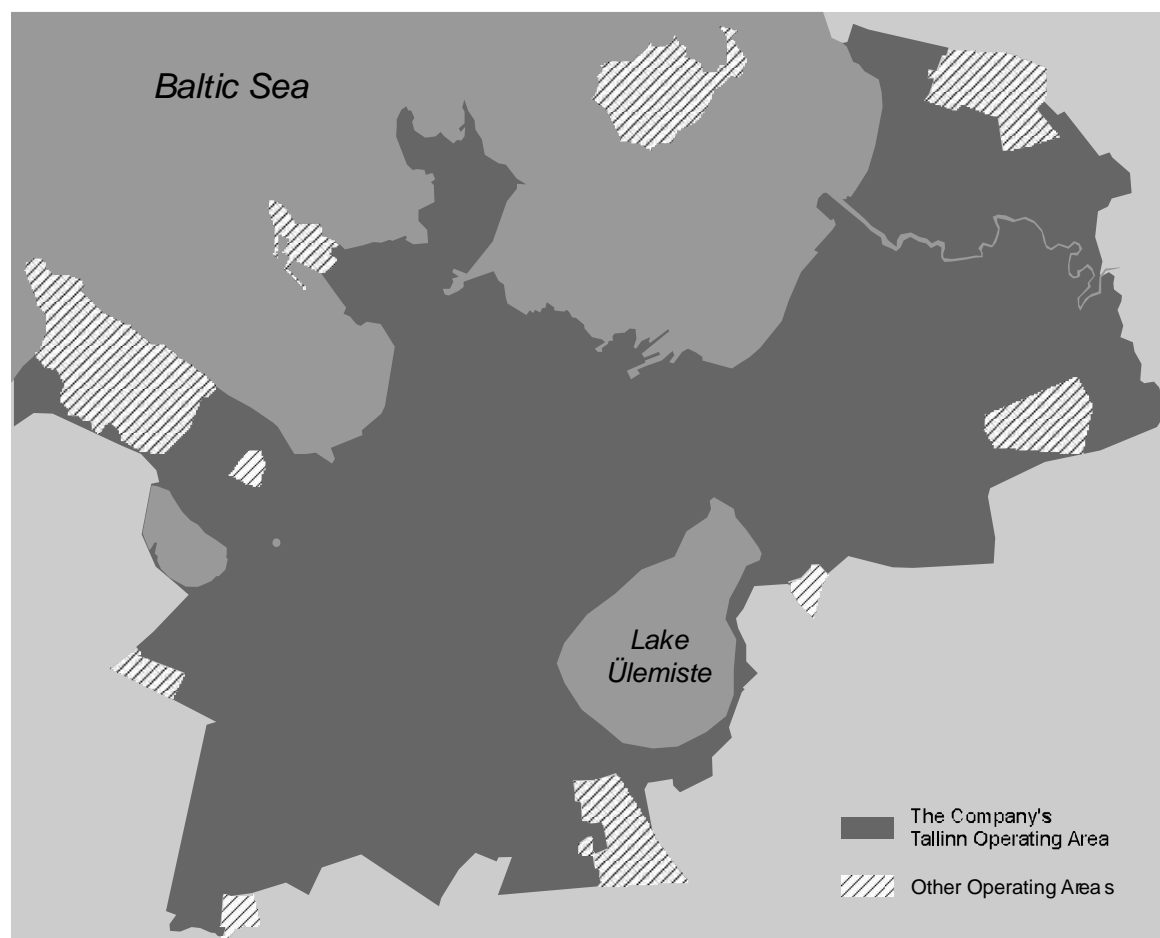
The Company conducts its business operations in Tallinn, capital of Estonia with the population of 415,300 and Saue, a suburb of Tallinn with the population of 4,500.

The territory of Tallinn has been divided into 12 operating areas by the Decree No. 214 of Tallinn City Council accepted on June 15th 2000. The current operations and assets of the Company are located in the Operating Area No. 1 (Operating Area), the largest of the areas in Tallinn covering approximately 130 square kilometers (86 per cent of the Tallinn territory) and 405 thousand inhabitants (97.5 per cent of total Tallinn population).

The water companies for every Operating Area have to be assigned separately by the Tallinn City Council under the terms of Water and Sewerage Act and Competition Act. According to the existing legislature, the assignment of the operating company to the Operating Area with exclusive or special rights has to be conducted through public tender pursuant to the procedure established by the Government of the Republic of Estonia. The tender procedures for Operating Areas in Tallinn were under preparation at the time of issue of this Information Memorandum.

Although the Company has not been assigned to operate in any Operating Area, it is assumed for the purpose of this Information Memorandum that the Company will be assigned to exclusively operate in the Operating Area No. 1 for a period of up to 20 years, beginning from 2001. The Bidders will be notified of any progress in the Operating Area assignment process in due course.

Figure 2: Map of the Company's Tallinn Operating Area



The participation of the Company in tenders for operating rights in the other Operating Areas, both in Tallinn and outside Tallinn is possible in future.

Prior to the end of 1999, the Company's operating region was divided between three separate departments of the Water and Sewerage Networks Division of the Company:

- Eastern Region, including Pirita, Lasnamäe and a part of Kesklinn district
- Central Region, including Kesklinn, Põhja Tallinn, Kristiine and parts of Mustamäe and Haabersti districts
- Western Region, including Mustamäe, Haabersti, Nõmme districts and Saue suburb

The responsibilities of the departments included water and sewerage network maintenance and support, supervision of construction activities and control over investments in their designated regions. Beginning from 2000, however, the Company's operating region has been divided into two sections, Eastern and Western. The Eastern region now includes Pirita, Lasnamäe and Kesklinn, while Western region includes Kristiine, Põhja Tallinn, Haabersti, Nõmme, Mustamäe and Saue. The functions of the reformed departments remain the same.

2.2.2. Water Supply Network

As of January 1st 2000, the Company operated a water supply network of 820.5 kilometers, with 807.5 kilometers in the direct ownership of the Company. Within its Operating Area in Tallinn, the Company covered approximately 99.5 per cent of territory and approximately 99.9 per cent of consumers with water supply network. There are also 12 booster pumping stations in the ownership of the Company.

Existing districts in the Company's Operating Area in Tallinn which are not entirely covered with a water distribution system currently include Kose, Nõmme and Pirita. The estimated length of pipeline needed to connect these districts to a water distribution system is 35.1 kilometers, to be completed between 2001 and 2006 according to the requirement of the City of Tallinn set forth in the Levels of Service schedule in the Section V of this Information Memorandum.

The connection fees for new water distribution system to be constructed by the Company will be paid by the connecting clients and partially subsidized by the City of Tallinn to an extent of 50 to 80 per cent, according to the Decree No. 25 of the Tallinn City Council approved on June 15th 2000. The connection fee will cover all the expenditures incurred by the Company in water distribution network extension.

The condition of existing water distribution network operated by the Company varies between different areas. Generally, the condition of drinking water in the network is adversely influenced by high concentration of old water supply pipes (see Table 10) and over dimensioned pipes.

Table 10: Water Supply Pipes by Age 1999

Age	Length (m)	%
Under 10 years	79,626	9.7
11 to 20 years	108,175	13.2
21 to 30 years	158,991	19.4
31 to 40 years	155,948	19.0
41 to 50 years	97,301	11.9
51 to 60 years	35,932	4.4
Over 60 years	180,824	22.0
Not assigned	3,703	0.5
Total:	820,500	100%

Table 11: Water Supply Pipes by Material 1999

Material	Length (m)	%
Cast iron	526,921	64.22
Iron	238,213	29.03
Zinc	15,597	1.90
Plastic	5,252	0.64
Other	34,517	4.21
Total:	820,500	100%

There were a total of 1,659 leakage and non-leakage related incidents in the Company's water supply network in 1999. Leakage incidents included pipeline, valves and fire hydrant bursts, while non-leakage incidents included breakdowns of valves, hydrants and wells.

Table 12: Leakage and Non-Leakage Related Incidents 1999

	Leakage Related	Non-leakage Related
Pipeline	539	-
Valves	217	604
Hydrants	67	7
Wells	-	225
Total	823	836

The proportion of the unaccounted water due to leakages and network cleaning accounted for approximately 35 per cent of the treated water in 1999. Losses are measured from the output of the treatment plant. The historical statistics of water leakages and unaccounted water is shown in the Table 13 below.

Table 13: Leakages in the Water Supply Network (thousand m³/day, average)

Year	Treated Water	Leakages	Network Cleaning	Unaccounted Water (%)
1994	191.8	59.4	0.3	31.1
1995	172.0	52.7	0.2	30.8
1996	165.3	51.8	0.3	31.5
1997	138.1	41.5	0.3	30.2
1998	111.8	36.5	0.5	33.1
1999	99.8	34.2	0.6	34.9

The definition of leakage incident was changed from 1998 to incorporate the leakage-related replacement of valves and repair of fire hydrants. Prior statistics included pipeline bursts as the only type of leakage-related incidents. Accordingly, official statistics for 1998 and 1999 saw a considerable increase in leakage-related incidents in comparison to the four previous years that can be attributed to the change in the measurement and recording practices, rather than deterioration of network condition (see Table 14). According to the standards effective in 1994-1997, the total amount of leakages (pipeline bursts) in 1999 was 539.

Table 14: Leakage Incidents 1994-1999

Year	Pipeline Length (km)	Total Leakages	Length/Annual No. of Incidents
1994	756	638	1,185 m
1995	774	652	1,187 m
1996	790	682	1,157 m
1997	793	685	1,157 m
1998	812	854	950 m
1999	820	823	996 m

In 1999, the Company rehabilitated 3,689 meters of its water supply network. In addition, 2,203 meters of new pipeline were constructed and 2,593 meters of existing networks were purchased from other parties.

2.2.3. Drinking Water Quality

The quality of water supplied to the customers of the Company is regulated by the Estonian Drinking Water Standard, as described in the section "The Company - Review of Operations - Water Production" above. The key requirements of the Standard are shown in the Table 39 in the Appendix I, along with the recommendations of the European Council Directive on Drinking Water Quality. Although the water produced by the Company in 1999 was in compliance with the Estonian Drinking Water Standard before being pumped into the water supply network, the condition of the existing network impacts the supplied water quality adversely. Overall, of 2,345 tests performed by the Company in 1999 in the water distribution network, 209 (or 8.9%) did not correspond to the characteristics required by the Estonian Drinking Water Standard. Specifically, 3.5% of samples did not comply with the microbiological requirements, 2.4% of samples had increased iron level and 2.5% of samples had increased content on organic matter.

The samples are taken by the Company at the location where the water supply pipe belonging to the Company enters the internal water distribution network of the client - typically a residential house with a number of apartments. Sampling of the water quality directly from the customer's tap is not performed at the moment, due to the high discrepancies in the condition of the internal distribution network of the Company's clients. In addition, such issues as compensation for the water sample taken have not been resolved yet.

Both the Company and Tallinn Health Protection Authority are responsible for controlling the quality of the supplied water. The Company has 106 official testing locations (101 in Tallinn and 5 in Saue), along with 35 reserved testing locations assigned internally by the Management Board. No random testing is performed currently.

Each month, the Company typically conducts two-round water testing in at least 100 locations across its operating region and compares the resulting characteristics with the Estonian Drinking Water Standard requirements. The summary of these tests is presented in the Table 40 in the Appendix I. In an event the quality of the supplied water does not comply to the Drinking Water Standard requirements, the Water Quality Control Group of the Water Supply and Sewerage Division is informed by the testing laboratory. The group then attempts to research the reasons behind the quality problems and eliminate them. In an event of higher than normal deviation in the quality of the supplied water, the Management Board of the Company, along with the Tallinn Health Protection Authority and State Health Protection Authority, are informed.

Tallinn Health Protection Authority also conducts its own selective testing of the quality of the water supplied by the Company to its customers. In an event the lower than allowed water quality has been detected, the Company is informed. The Authority has the right to demand compensation from the Company for not following the Estonian Drinking Water Standard through an administrative court. There has been no precedent, however, for this type of litigation.

2.2.4. Sewerage Network

As of January 1st 2000, the Company operated a sewerage network of 890.4 kilometers, with 880.4 kilometers in the direct ownership of the Company. Within its Operating Area in Tallinn, the Company covered approximately 91 per cent of territory and approximately 95 per cent of consumers with sewage collection network. The length of the Company's sewerage network includes also approximately 151 kilometer of the stormwater drainage network owned and operated by the Company.

Existing districts in the Company's Operating Area in Tallinn not entirely covered with sewage collection system currently include Nõmme, Lilleküla, Mustjõe, Merivälja, Kose, Maarjamäe, Kakumäe and Pirita. The estimated length of pipeline needed to connect these districts to the sewerage network of the Company is 189.6 kilometers, to be completed between 2001 and 2006 according to the requirement of the City of Tallinn set forth in the Levels of Service schedule in the Section V of this Information Memorandum.

The connection fees for the sewerage network to be constructed by the Company will be paid by the connecting clients and partially subsidized by the City of Tallinn to an extent of 50 to 80 per cent, according to the Decree No. 25 of the Tallinn City Council approved on June 15th 2000. The connection fee will cover all the expenditures incurred by the Company in sewerage network extension.

The condition of existing water distribution network operated by the Company varies between different areas. Generally, the condition of the sewerage network can be adversely affected by the old age of sewerage network pipes (see Table 16), leading to sewer collapse and blockages.

Table 15: Sewerage Network Pipes by Age 1999

Age	Length (m)	%
Under 10 years	111,026	12.47
11 to 20 years	249,650	28.04
21 to 30 years	200,837	22.56
31 to 40 years	128,782	14.46
41 to 50 years	65,111	7.31
51 to 60 years	3,035	0.34
Over 60 years	131,560	14.78
Not assigned	399	0.04
Total:	890,400	100%

Table 16: Sewerage Network by Material 1999

Material	Length (m)	%
Concrete	385,896	43.34
Asbestos cement	224,151	25.17
Plastic	76,029	8.54
Ceramics	93,350	10.48
Cast iron	38,231	4.29
Other	72,743	8.17
Total:	890,400	100%

In order to deliver the sewage from all the Tallinn regions and Saue to the Wastewater Treatment Plant, the Company uses sewage pumping stations. Of the 35 pumps that are operated by the Company, 30 are situated in Tallinn, 2 in Saue and 3 in Tabasalu, Harku County. 7 additional pumps will be added to the Company's assets in the year 2000.

Additionally, 8 stormwater pumps are also operated by the Company in Tallinn.

Table 17: Sewerage Network Blockage Incidents 1994-1999

Year	Sewer Length (km)	Total Blockages	Sewer Length/ No. of Blockages
1994	811	2,898	280 m
1995	829	2,750	301 m
1996	840	2,492	377 m
1997	859	2,750	312 m
1998	879	2,939	299 m
1999	890	2,444	364 m

In 1999, the Company rehabilitated 1,749 meters of its sewage collection network. In addition, 9,448 meters of new pipeline were constructed and 1,462 meters of existing networks were purchased from other parties.

2.2.5. Stormwater Collection Network

The Company owns and operates a stormwater collection network within its Operating Area. The network is partially separate and partially combined with the sewerage pipeline.

The combined stormwater and sewerage network is located in Kesklinn, Põhja Tallinn and portions of Lasnamäe and Nõmme city districts. The area covered with combined stormwater collection network covers 29.2 square kilometers. The stormwater collected by the combined network is directed, together with collected sewage, to the wastewater treatment plant, where it is discharged into the sea after the extensive treatment process.

The combined sewerage network represents serious complications to the wastewater treatment facilities of the Company. In the case of severe rainfall, the amount of wastewater directed to the treatment plant may exceed the plant capacity. In 1999, the Company was forced to discharge 195 thousand cubic meters of effluent with no or partial (mechanical or biological) treatment as a result of the wastewater treatment plant overflowing. The comparable figure for 1998 was 129 thousand cubic meters. The incidents resulted in the pollution fines imposed by the Tallinn Environmental Authority.

The separate stormwater collection network is located in the Lasnamäe, Mustamäe, Haabersti, portions of Nõmme and Kristiine districts. The area covered with separate stormwater collection network covers 44.8 square kilometers of the Company's operating region and contains approximately 151 kilometers of pipeline. The stormwater collected through a separate stormwater network is directed to the stormwater reservoirs and then discharged into the sea without treatment.

Four stormwater pumps are also operated and owned by the Company.

The average annual costs of maintenance of the stormwater network for the last three years was estimated by the Company's management at the level of EEK 35 million.

2.2.6. Fire Hydrants

The Company is maintaining approximately 4,112 fire hydrants within its Operating Area in Tallinn and in Saue. The condition of the fire hydrants is regulated by the Estonian Fire Fighting and Emergency Equipment Standard 620-3:1966. In their current condition, the fire hydrants of the Company do not correspond fully to the Standard and need mass replacement.

The Company has already started replacing the existing hydrants with the uniform Tallinn-type hydrants. The Company replaced 32 fire hydrants in 1999. Further 1,323 fire hydrants were replaced during the period from 1995 to 1998. However, the remaining fire hydrants are not operational currently.

According to the requirements set forth in the Levels of Service in the Section V of this Information Memorandum, the Company has to reach compliance with the Standard 620-3:1966 above in 100 per cent of its fire hydrants located within its Operating Area in Tallinn before December 31st 2005.

2.3. Wastewater Treatment

The Wastewater Treatment Plant of the Company is responsible for cleaning the sewage generated by Tallinn and its suburbs. In the treatment process, mechanical, chemical and biological cleaning technologies are utilized. The biological treatment capacity of the Treatment Plant is 350,000 m³ per day. In 1999, the amount of wastewater treated at the Treatment Plant was 56.3 million m³, or approximately 154,264 m³ per day.

The wastewater is collected from the Company's Operating Area and other Operating Areas in Tallinn, as there can be no more than one wastewater treatment plants within the Tallinn Administrative Territory, according to the Tallinn General Plan. Currently, the Company's Wastewater Treatment Plant is also receiving wastewater from Harku, Viimsi, Saku and Saue counties and the City of Saue. In addition, Jõelahtme and Rae counties, along with the City of Maardu will also start forwarding wastewater to the Wastewater Treatment Plant of the Company in future.

2.3.1. Wastewater Treatment Process

The wastewater treatment process can be divided into five major steps, including (1) wastewater collection from the sewage network, (2) mechanical treatment, (3) chemical treatment, (4) biological treatment, and (5) wastewater disposal.

The treatment process begins in the Main Pumping Station that is located at the southern part of the Paljassaare peninsular and where all the sewage from the city is collected. The accumulated sewage is then pumped via three pressure pipes into the input reservoir for preliminary aeration. Next, the wastewater is cleaned mechanically inside a treatment block with six nets, where the solid particles are separated from the water. The treatment process is continued in twelve aerated sand clarifiers.

The mechanical treatment is followed by the chemical treatment, when the water is mixed with the coagulant in order to improve the sedimentation and remove phosphorus and then channeled to the first level septic tanks. Here, the oils are removed from the surface of the water and the raw sludge is pumped into a separate reservoir after settling down at the bottom of the tank. After this process and prior to the biological treatment, the wastewater is automatically tested for the efficiency of the mechanical and chemical treatment.

The biological treatment is conducted in the biological treatment block, equipped with six aerotanks with 10,500 m³ of capacity each and six different aeration zones. After the biological treatment the process is concluded at the second level of sedimentation, with the operation similar to the one performed in the first level septic tanks.

After the treatment process the wastewater is directed to the pumping station, where it is automatically tested for the efficiency of the biological treatment. Next, the water is pumped into the pipeline that extends three kilometers into the sea, where it is discharged.

The active sludge, received after the biological treatment of the wastewater, contains less than 1 percent of dry substance. The large portion of the active sludge is pumped back into the aeration tanks and mixed with the mechanically cleaned water. The remaining active sludge is combined with the raw sludge and subsequently stored in the methane tanks, where the mixture is stabilized through anaerobic fermentation. The methane gas is produced as a result of the sludge stabilization, that is used as a fuel for the Company's heating plant and aerotank gas motors.

From the methane tanks, the sludge is transported to the sludge processing station. The sludge is pressed to eliminate excess water and, after the addition of flocculant, the amount of dry substance in the sludge increases to up to 30 percent. The sludge is either dumped to a waste disposal site or processed to prepare a compost usable for the agricultural needs. The further information on sludge disposal is presented in the part 2.3.3 of Section II.

2.3.2. Treated Effluent

The quality of the treated effluent discharged from the Company's treatment plant during 1999 is shown in the Table 18. The table shows that on the basis of maximum average weekly pollution recorded in 1999, the treated effluent was in compliance with the existing emission standards in suspended solids and BOD₇, while nitrogen, phosphorus and oil emissions exceeded the standard requirements. On the basis of average records for 1999, however, all the standards were met.

Table 18: Quality of Treated Effluent 1999

	Concentration of pollutants in the treated effluent (mg/liter)			
	Annual average	Monthly max.	Weekly max.	Existing standard
Suspended solids	9	11	15	15
BOD ₇	4	4.8	6.9	15
Total phosphorus	1.41	1.73	1.96	1.5
Total nitrogen	13.7	17.8	19.2	15
Oil products	0.64	0.88	1.4	1

The allowed concentration of phosphorus will be decreased to 1 mg/liter beginning from 2001. In addition, the concentration of nitrogen will be decreased to 10 mg/liter beginning from 2003.

The current requirements towards wastewater quality have been enacted by the Decree of the Government of Estonia No. 11 on January 20th 1998. The requirements are based on the Estonian Water Law, European Council directive No. 91/271/EEC, recommendations of the Ministry of Environment of Estonia and the Helsinki Convention on Baltic Sea Environmental Protection (HELCOM agreement).

The Pollution Compensation Act and the Decree of the Government of Estonian No. 228 "Pollution compensation tariffs for 1999-2001" stipulates the pollution compensation rates that should be paid by the Company in case of exceeding the allowed concentration of harmful substances.

Table 19: Pollution Compensation Tariffs 1999-2001

	Pollution compensation tariffs (EEK/ton)		
	1999	2000	2001
Suspended solids	952	1,142	1,370
BOD ₇	1,882	2,258	2,710
Total phosphorus	2,834	3,401	4,082
Total nitrogen	1,636	2,045	2,557
Oil products	3,306	3,606	4,327

The measurement of the wastewater quality of the Company is conducted by the Tallinn Environmental Agency that is reporting both to the City of Tallinn and Ministry of Environment of the Republic of Estonia. The measurements occur on a weekly basis, and the maximum average weekly pollution levels recorded for that period are applied to determine the basis for environment compensation to be paid by the Company for three months of its operations.

The tariffs paid by the Company for excessive pollution amounted to EEK 1.36, 1.74 and 1.92 million in the years 1997, 1998 and 1999 respectively.

The change of the wastewater quality measurement standards is currently under discussion by the Ministry of Environment. According to the proposed quality measurement standards, the pollution compensation tariffs shall be calculated based on the average annual level of pollution, instead of maximum average weekly level. The effect of the change in the wastewater quality measurement standards will be beneficial to the Company, as the existing pollution standards in 1999 were met on the average annual measurement and not met on the maximum average weekly measurement basis. The implementation of the new pollution measurement standard is not expected before the end of 2000.

2.3.3. Sludge Disposal

Large volumes of sewage sludge are produced at the Wastewater Treatment Plant. Approximately 60,000 m³ of sludge is generated by the Company wastewater treatment plant annually, containing from 17 to 26 percent of dry matter.

In 1999, 58.3 tons of sludge were generated by the Wastewater Treatment Plant of the Company. 85 per cent of the generated sludge was dumped as a waste at the municipal waste disposal site at Pääsküla, 18 kilometers from the treatment works.

According to the Pollution Compensation Act, the tariff for sludge disposal are EEK 1.9 per ton in 2000, that will be increased to EEK 2.3 per ton in 2001. Disposal of the wastewater sludge in Tallinn is allowed on the Pääsküla waste disposal site exclusively, in which case the sludge disposal tariff is increased 6-fold. In addition, the waste disposal site is charging EEK 40 for sludge dumping.

The Company has recently started generating sludge with relatively high content (26 percent on average) of dry matter. The amount of sludge generated by the wastewater treatment plant will, therefore, decrease to approximately 40 tons in 2000 and approximately 50 percent of total sludge will be dumped at the waste disposal site. The remaining sludge will be turned into compost suitable for agricultural use and sold, after being processed with peat, sand and manure. The Company has generated EEK 215 thousand from sales of the composted sludge in 1999, as only limited quantities of sludge were composted mainly as samples.

2.3.4. Consumables for Wastewater Treatment

The primary consumables used in the wastewater treatment process are chemicals – coagulant and flocculant – and energy. The chemicals are used primarily for improved sedimentation of the wastewater, while energy is used throughout the treatment process.

In 1999, the total cost of consumables for wastewater treatment amounted to EEK 13.2 million. Energy costs represented 79 percent (EEK 10.4 million) of this amount, while coagulant and flocculant contributed 4 and 17 percent (EEK 0.5 and 2.3 million) respectively.

In total, 16.3 million KWh of energy was used in the wastewater treatment process, approximately 0.29 KWh per cubic meter of treated effluent.

2.4. Asset Condition

2.4.1. General

The extent of the above and below ground assets in the ownership of the Company together with details of the environmental performance of the Company are described in the latest (1999) Annual Report of the Company enclosed to this Information Memorandum. In addition, an independent overview of the extent, condition, and performance levels of both above and below ground assets resulting from the recent EBRD investment project (including the environmental performance of the assets) will be provided in the 1999 EBRD Report included in the Data Room.

2.4.2. Above Ground Fixed Assets

The extent and condition of the above ground fixed assets shall be determined by the Bidders during the Due Diligence procedure. The detailed information regarding all above-ground assets will be provided to the Strategic Investors in the Data Room.

The main above-ground fixed assets in the ownership of the Company comprise:

- Raw water facilities (i.e. impounding and storage reservoirs, canals, pipelines and control structures)
- Raw water intake and water treatment facilities
- Wastewater treatment works and sludge treatment facilities
- Various sewer and water booster pumping stations, and
- Several groundwater supply and storage facilities

The Company's offices and workshops are located at the Water and Wastewater Treatment Works sites and at the Company's headquarters at Ädala 10, Tallinn. However, the current headquarters of the Company will be transferred to the site of the Water Treatment Works in the near future.

These assets are generally in good operational condition following the recently completed (1999) EBRD funded investment program which also included Finnish and EC Phare Grant Aid assistance as well as earlier investment projects funded directly by Tallinn Water (e.g. the ozonation plant).

2.4.3. Underground Fixed Assets

2.4.3.1. General

Information on the condition of the underground fixed assets is limited. For this reason, and in order to spread the capital investment program over a reasonable (i.e. 10 year) period, the major investments in underground assets necessary to achieve the required improved Levels of Service have largely been deferred until the second 5 year period i.e. from 2006-2010.

Below ground assets comprise:

- Water distribution network
- Sewerage network (including both separate foul sewers and combined foul and surface water sewers particularly serving the older parts of Tallinn)
- 3 kilometer long sewage effluent discharge pipeline and marine outfall into the Baltic sea
- Surface water sewers draining public highways and other impermeable areas

Relatively small scale rehabilitation and replacement of both water distribution and sewerage networks has been initiated by the Company during the last few years.

The Details of the locations, sizes and materials of most of the underground assets are included on the 1:25000 scale plans to be provided by the Company in the Data Room.

2.4.3.2. Water Distribution Network

Information on the condition of the water distribution network and the reasons for water quality problems in distribution as well as the recommendations for both short term and longer term are presented in the Parkman 1998 Stage 1 Report on Water Quality in Distribution included in the Data Room. Estimated budget costs associated with structural and non-structural rehabilitation of the water distribution network are included in Appendix N of the Parkman report. However these costs are very provisional pending further more detailed investigations. An Executive Summary of the Parkman report will also be made available in the Data Room.

2.4.3.3. Sewerage Network

The Company possesses a large number of Closed Circuit Television (CCTV) tapes indicating the internal condition of the sewerage network. These tapes will be available in the Data Room.

No further independent information is available for the asset condition of the sewerage network and no computer models exist.

2.4.3.4. Effluent Treatment Pipeline and Long Sea Outfall

Limited information is available concerning the condition of the pumped effluent discharge pipeline which discharges some 3 kilometers from the shore into the Baltic Sea.

2.4.3.5. Surface Water Drainage

The surface water drainage network is of recent construction and is generally in good condition requiring routine maintenance only.

2.5. Tariff Structure

2.5.1. Legal Framework

The legal framework for tariffs and charges is established in the Public Water Supply and Sewerage Act adopted on February 10th 1999. There are three relevant sections dealing with:

- Charges for connection to the system
- Charges for supplying water and dealing with wastewater
- Measurement of volumes

The requirements for charges for connection to the public water supply and sewerage system are set out in Section 6 of the Act. The charges shall ensure:

- Development of the public water supply and sewerage system
- Conformity of the structures and equipment of the public water supply and sewerage system to the requirements
- Compliance with environmental protection requirements
- Justified profitability

The charges for supplying water and dealing with wastewater are contained in Section 14 of the Act. The tariffs are to be set such that the water undertaking can:

- Cover production costs
- Comply with quality and safety requirements
- Comply with environmental protection requirements
- Operate with justified profitability

According to the Public Water Supply and Sewerage Act, the tariff shall include three elements:

- A fixed fee
- A charge for water supply
- A charge for sewerage

The tariffs are to be set so that they are not discriminatory with regard to different clients or groups of clients.

The requirements of the Public Water Supply and Sewerage Act in respect of measurement are set out in Sections 15 and 16:

- Section 15 (1) - Water sold to a client from a public water supply shall be measured by a water meter installed by the water undertaking in the public supply facilities of the registered immovable unless the water undertaking and the client agree otherwise
- Section 15 (2) - The amount of wastewater, rainwater drainage water and other soil and surface water conducted to the public sewerage system shall be calculated or measured in accordance with the rules on use of the public water supply and sewerage system
- Section 16(2) of the Act requires that water meters are installed in all properties by December 31st 2001. Section 16(3) requires that contracts are in place between all clients and water undertakings by this date. Where there are existing contracts, these will need to be amended to take account of the new Act for example in respect of new meters and the fixed fee element of the tariffs.

2.5.2. Scheme of Charges

2.5.2.1. System Connection Charges

Connection fees are charged by the Company from its clients according to framework set forth by the Decree No. 24 of the Tallinn City Council of June 15th 2000. The Decree establishes different connection fees for properties in the locations with existing water supply and sewage collection system coverage from properties with no existing network coverage. According to the Decree, the payment for the network connection occurs according to the following framework:

- 10 per cent of the fee no later than 14 days after signing the connection agreement
- 90 per cent of the fee after the completion of the connection works

The decree also established the maximum rate to be charged for the sewerage network connection. Such rate was set at EEK 40 per square meter of the connecting property's area. No such restrictions were set upon water distribution network connection.

Subsidies of the connection charges by the City are regulated by the Decree No. 25 of the Tallinn City Council of June 15th 2000. According to this decree, 50 to 80 per cent of the connection fee will be subsidized by the City of Tallinn, depending on the time of connection.

2.5.2.2. Water and Wastewater Charges

The historical tariff structure and of the Company for both domestic and non-domestic consumers is presented in the Table 20 below.

Table 20: Historical Water and Wastewater Tariffs (EEK per m³)

	Water		Wastewater	
	Domestic	Non-Domestic	Domestic	Non-Domestic
Mar 93-Mar 94	0.50	4.35	0.80	3.40
Mar 94-May 95	1.36	8.21	1.83	5.44
May 95-Feb 96	2.10	10.20	2.80	9.15
Feb 96-Apr 97	3.60	14.10	4.40	13.68
Apr 97-Dec 97	5.84	16.07	6.16	15.73
Jan 98-Sep 99	8.30	20.10	6.70	14.90
Oct 99-Nov 99	7.30	20.10	6.70	14.90
Dec 99 -	8.30	20.10	6.70	14.90

The section of the Public Water Supply and Sewerage Act relating to the fixed fee has not yet been implemented.

The proposed tariffs rebalance the water and sewerage tariffs so that they are the same for domestic and non-domestic customers and there is no discrimination between these two groups of clients. Without the introduction of the fixed fee element, the rebalanced tariff would have been EEK 19.5 per cubic meter.

The customers pay for sewerage services according to the main tariff of their pollution group. In addition they have to pay compensation for pollution damage and overpollution tax if the permissible peak concentrations are exceeded

One covenant of the EBRD loan was to ensure that the tariffs from March 1st 1995 are maintained at levels at least equal to in real terms to 1.3 times those applicable on March 1st 1994. Tariffs had not been increased since 1998 which is in breach of that covenant. The levels of inflation since the last tariff increase have been:

- 1998 - 8.2 per cent
- 1999 - 3.3 per cent
- 2000 - 4.5 per cent (Estimated)

2.5.3. Metering

The water sales of the Company are measured by three primary methods - (i) metered water, (ii) average consumption, and (iii) normal consumption.

Metering is by far the most widely used method of water measurement (see Table 21 below). The meters are located at the point of entrance of the Company pipeline into the internal water supply or sewerage networks of the Company's customers (typically residential complexes and commercial/industrial consumers). 100 percent of water supplied to the Company's customers is required to be metered beginning from 1 January 2002, according to the Decree of Tallinn City Council on Tallinn Water and Sewerage Network Operating Order, in force from October 1st 1999.

As of December 31st 1999, the Company had 15,610 water meters installed (including 78 water meters in Saue). During 1999, 130 new water meters were installed (16 in Saue), 4,590 existing water meters were replaced and 10,420 were calibrated.

Average consumption method of water sales measurement is employed in case the water pipe entering the customer's premises is equipped with a meter, but the meter reading for a single month is not available. In that case, the water consumption is estimated by the average consumption for the previous periods.

Norm consumption method of water sales measurement is employed in case the water pipe entering the customer's premises is not equipped with a meter. The water consumption, in that case, is estimated according to the norms established by the Tallinn City Government in the Tallinn Water and Sewerage Network Operating Order. The Order regulates, among other things, the "normal" consumption of water for different types of buildings.

Table 21: Water Measurement by Method 1996-1999 (%)

	1996	1997	1998	1999
Metered consumption	82.3	89.0	92.1	96.5
Average consumption	11.2	8.8	6.9	0.5
Norm consumption	6.5	2.2	1.0	3.0
Total:	100%	100%	100%	100%

Sewage is typically equated to the amount of the consumed clean water or, alternatively, measured by a separate meter.

2.6. Clients and Customer Service

2.6.1. Client Statistics and Coverage

The Company supplied drinking water and sewage collection services to 15,911 clients as of January 1st 2000, including 3,598 industrial clients (non-domestic) and 12,313 residential (domestic) clients. The clients are located both in the Company's Operating Area in Tallinn and outside of Tallinn. Industrial clients include also apartment unions, established for collective management of residential properties, while residential clients are represented by the individual residential households.

In total, the Company supplies approximately 411,000 Tallinn consumers with drinking water. The coverage equates to approximately 99 per cent of the population within the Company's Operating Area.

Similarly, the Company's wastewater and sewage collection systems in Tallinn cover approximately 394,500 consumers, resulting in the coverage of approximately 95 per cent of the Company's Operating Area.

The split of sales between domestic and non-domestic customers is analyzed in the Table 22. The drop in sales of both water and sewerage of 46 and 47 per cent respectively has occurred, compared to the base year 1995. This can be attributed mainly to the shift in demographic profile of the Company's customers. The proportionate split of sales between non-domestic and domestic customers has stayed relatively stable during same period for both water and sewerage (Table 23).

Table 22: Sales by Customer Groups 1995-1999 (thousand m³)

	Domestic		Non-Domestic	
	Water	Sewerage	Water	Sewerage
1995	33,540	33,931	9,922	12,262
1996	32,802	33,825	8,638	10,156
1997	27,838	27,611	7,336	8,767
1998	20,951	20,467	6,353	7,718
1999	18,048	17,569	5,634	6,943

Table 23: Proportionate Sales Breakdown by Customer Groups 1995-1999 (%)

	Water		Sewerage	
	Domestic	Non-Domestic	Domestic	Non-Domestic
1995	77.2	22.8	73.5	26.5
1996	79.2	20.8	76.9	23.1
1997	79.1	20.9	75.9	24.1
1998	76.7	23.3	72.6	27.4
1999	76.2	23.8	71.7	28.3

2.6.2. Consumption Patterns

The levels of per capita consumption of drinking water has decreased as a result of the changes in the economy and the demographic situation in Tallinn. Sales and consumption statistics for the last five years are presented in the Table 24.

Table 24: Per Capita Consumption 1995-1999

	Sales Million m ³	Per Capita Consumption Liter/day
1995	43.5	213
1996	41.4	211
1997	35.2	183
1998	27.3	139
1999	23.7	120
2000 (Estimate)	22.4	116

The Company's forecasts for water sales and per capita consumption are presented in the Table 25 below. The forecasts project the continuation of decline in water consumption until the year 2003, after which the per capita consumption is expected to grow. Beyond 2005, the per capita consumption is expected to grow to approximately 116 liters per day on average by 2010.

Table 25: Forecasted Water Sales and Per Capita Consumption 2001-2005

	Sales Million m ³	Per Capita Consumption Liter/day
2001	21.6	110
2002	21.0	108
2003	20.9	107
2004	20.6	108
2005	20.4	109

2.6.3. Customer Service

The Company's customer service, billing and collection functions rest with the Customer Service Department. The department, established originally under the Finance Division of the Company, carried only the billing and collection functions initially. It has been transferred into the Water Supply and Sewerage Networks Division at the beginning of 2000 and took on the responsibility for water measurement. It is the intention of the Company's management to transfer the department into the separate Division, with its head reporting directly to the Chairman of the Management Board of the Company.

Bills are sent out to clients at intervals of 1,3 or 6 months dependent on consumption. A new IT System for billing and collection was introduced by the Customer Service Department of the Company in November 1999.

2.7. Environment

The environmental aspects of the Company's operations are regulated by a number of legal acts and regulations of the Republic of Estonia and Tallinn authorities.

Authorization of Water Usage TKA-19, issued by the Tallinn Environmental Agency for a period from April 1st 1998 to January 1st 2001, regulates:

- Environmental aspects water resources management, including the surface water catchment and ground water boreholes
- Environmental aspects of raw water intake, both from ground water boreholes and Lake Ülemiste
- Requirements towards the quality of the effluent discharged into the Baltic Sea from the Company's Wastewater Treatment Plant

The Authorization of Water Usage for the period from 2001 to 2005 will be issued to the Company by the Tallinn Environmental Agency before the end of the year 2000.

The maximum allowed pollution level resulting from the effluent discharge is set forth in effluent discharge standard adopted by the Decree No. 11 of the Government of Estonia, on January 20th 1998.

The environmental aspects of the Company's operations have been reviewed in the Environmental Audit prepared by an independent consultants OÜ Keskkonna Konsult on February 28th 2000. The full copy of the Environmental Audit will be provided in the Data Room.

The recommendations of the Environmental Audit include, among other propositions:

- Improvement in sanitary protection of ground water reservoirs
- Improvement in sanitary protection of lake Ülemiste
- Decreasing the excess water in the water distribution network
- Completion of the sewerage network construction in the unconnected areas of the Company's operating region
- Completion of the computerized network model
- Improvement in the wastewater treatment technology
- Providing the emergency energy resources for the Company activities
- Improving the sludge processing
- Finding opportunities for decreasing the sludge storage at the waste storage sites
- Improving the health and safety conditions of the Company operations

According to the Auditor's Report included in the Environmental Audit, the environmental management system of the Company and its operations correspond to the criteria established by ISO 14000 series standards. The Company is targeting for ISO 14000 accreditation before the end of the year 2002, following the achievement of ISO 9001 accreditation in 2001.

2.8. Health and Safety

The health and safety requirements of the Company's operations are regulated by the Law on Safety of Working Conditions, approved by the Parliament of the Republic of Estonia on June 16th 1999. Currently, the Company has several areas of operations not meeting the requirements of the Law on Safety of Working Conditions entirely. These areas include:

- Liquid chlorine dosing
- Ozonation facilities
- Confined spaces in the sewerage network

According to the Environmental Audit of the Company operations prepared by OÜ Keskkonna Konsult on February 28th 2000, the existing health and safety issues are being handled by the specially established Working Environment Council. The progress of resolving existing health and safety problems is satisfactory.

No new health and safety problems not known to the Company and its management have been detected during the course of the Environmental Audit.

2.9. Research and Development

The research and development efforts of the Company have shifted from searching for the opportunities to increase production capacities ten years ago to improving the quality of water more recently. For the last eight years, the consumption of water has decreased by more than 50 percent. Accordingly, the water treatment plant, wastewater treatment plant and water and sewerage networks are over dimensioned, resulting in the stale water in the network and decreased water quality.

The objective of the research and development efforts of the Company is, therefore, to achieve an increase in the quality of water supplied to the clients, improve the efficiency and quality of raw water treatment plant and wastewater treatment plant. The research of the water supply and sewerage network expansion is also conducted, focusing primarily on the regions not covered by the current Company activities.

The research and development expenditures of the Company are shown in the Table 26 below.

Table 26: Research and Development Expenditures of the Company 1995-1999

	EEK '000	% of Sales
1995	2,273.5	0.78
1996	3,597.5	0.81
1997	762.9	0.16
1998	1,398.1	0.29
1999	4,149.7	0.97

2.10. Information Technology

The IT strategy of the Company is currently at the stage of formulation. The IT services are provided by the designated department that is responsible support and maintenance of the existing information technology systems and infrastructure. Additional services, such as consulting and new IT project development, are also purchased from the local information technology companies.

The following priorities have been identified as a part of the future IT strategy of the Company:

- Standardization of the hardware and software used by the Company
- Unification of all the structural entities of the Company with a single computer network (LAN and WAN)
- Upgrading the information technology system of the Client Service Center
- Creation of groupware solutions for intra-Company communications

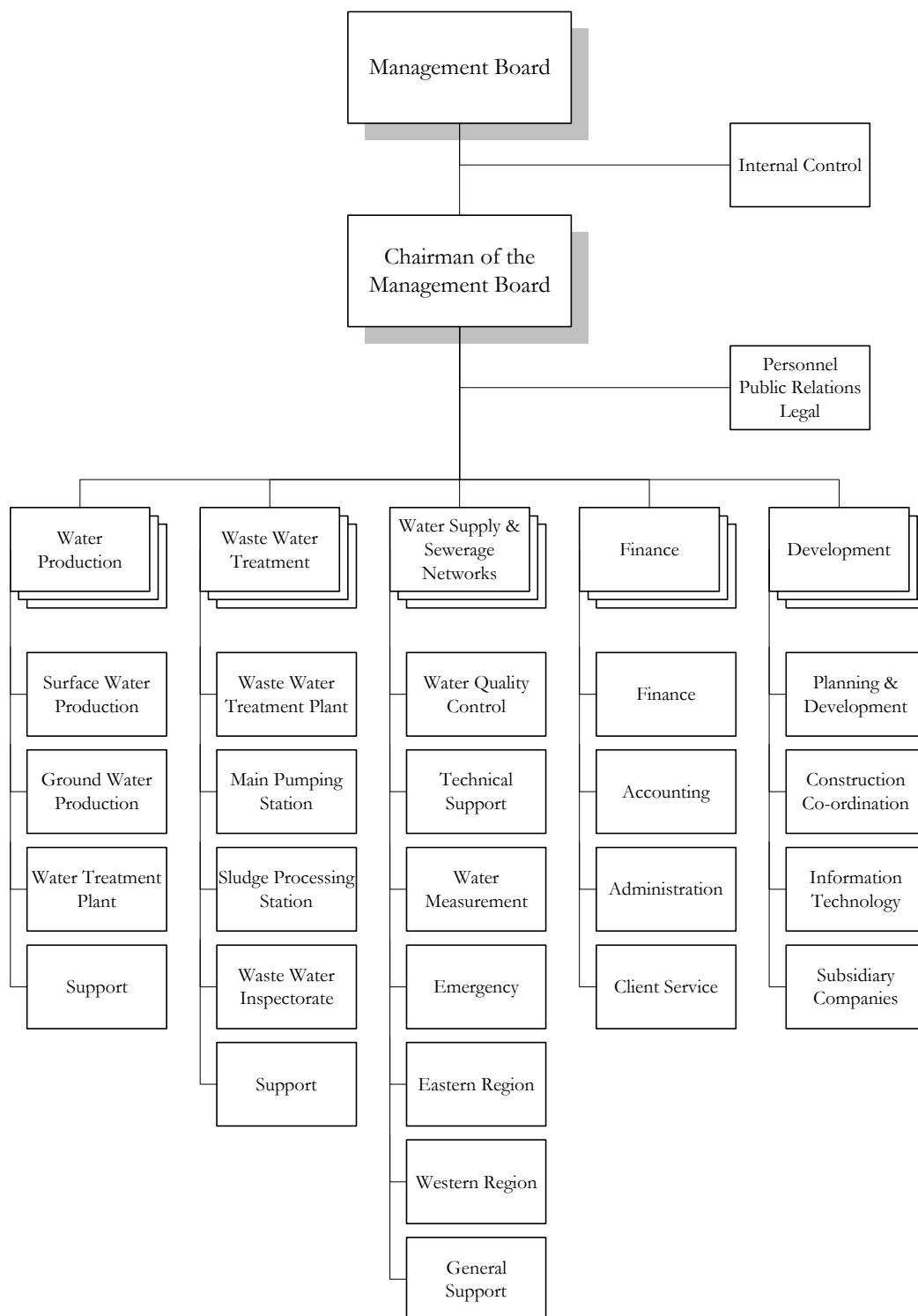
Utilization of the "paperless office" concept and establishing IT system for document administration.

3. ORGANIZATIONAL STRUCTURE AND HUMAN RESOURCES

3.1. Basic Organizational Structure

The basic organizational structure of the Company as of January 1st 2000 consisted of a Management Board with five members, Chairman of the Management Board and five main functional divisions - Water Production, Wastewater Treatment, Water Supply and Sewerage Networks, Finance and Development.

Figure 3: Organizational Structure of the Company



3.2. Functional Divisions of the Company

3.2.1. Water Production Division

The Water Production Division includes four departments - Surface Water Production, Ground Water Production, Water Treatment Plant and Support department. The division is lead by the Director of Water Production, who supervises the activities of department heads and reports to the Chairman of the Management Board of the Company.

The Surface Water Production department is responsible for maintenance of the surface water reserves of the Company, spreading over 2,000 square kilometers or 4 percent of the territory of Estonia. The department functions include support of the territory, monitoring the water regime, controlling raw water quality and preservation of the restricted access area adjacent to lake Ülemiste. Surface water supply system of the Company includes the Paunküla, Soodla, Aavoja, Kaunissaare and Vaskjala artificial water reservoirs, along with multiple connecting channels and pipelines, Pirita and Jägala rivers and lake Ülemiste.

The Ground Water Production department is responsible for maintenance ground water pumping stations and ground water wells of the Company in both Tallinn and Saue. In future, the maintenance of new supply areas of the water supply system will be included in the responsibilities of the department.

The Water Treatment Plant of the Company is responsible for treatment of the raw water received from the surface water system before pumping it into the water supply network of Tallinn. The Treatment Plant performs several stages of water treatment, water testing and regulation of the city water supply.

The Support department of the Water Production Division provides the functions of financial reporting, accounting personnel management and general administration to the division and transfers the information obtained to the corresponding supervising departments of the Company.

3.2.2. Wastewater Treatment Division

The Wastewater Treatment Division consists of five departments, including Wastewater Treatment Plant, Main Pumping Station, Sludge Processing Station, Wastewater Inspectorate and Support. The division is managed by the Director of Wastewater Treatment, who coordinates the work of the division's departments and reports to the Chairman of the Management Board of the Company.

The main responsibility of the Wastewater Treatment Plant is the mechanical, chemical and biological treatment of the wastewater channeled through the plant, according to the norms of the environmental protection regulators, and disposal of the treated wastewater.

The main function of the Main Pumping Station is to organize the reception of the wastewater from the clients of the Company and pump it over to the Waster Water Treatment Plant.

The functions of the Sludge Processing Station include collection of the sludge from the Wastewater Treatment Plant, its storage, processing and disposal.

The Wastewater Inspectorate is responsible for the control of the wastewater network and the quality of treated wastewater produced by the Wastewater Treatment Plant.

The Support department of the Wastewater Treatment Division provides the functions of financial reporting, accounting personnel management and general administration to the division and transfers the information obtained to the corresponding supervising departments of the Company.

3.2.3. Water Supply and Sewerage Networks Division

The Water Supply and Sewerage Networks Division consists of seven departments, including Water Quality Control, Technical Support, Water Measurement, Emergency department, Eastern and Western Region departments and General Support department. The division is managed by the Director of Water Supply and Sewerage Networks, who supervises the work of the structural entities and reports to the Chairman of the Management Board of the Company.

The Water Quality Control department is responsible for the quality of water, supplied by the Company, including:

- Resolving the customer complaints
- Coordinating the cleaning of the water network
- Regulating the pressure in the network
- Working towards the decrease of leakage
- Analyzing the water distribution network and developing the solution for increasing the quality of the network and supplied water

The Technical Support department is responsible for the technical expertise of the Company expansion or reconstruction plans and technical support in the implementation of these plans. The separate area of the department operations is a work with new clients of the Company.

The main functions of the Water Measurement department include:

- Overseeing the installation of water meters in Tallinn and Saue
- Meter regulation and maintenance
- Meter support

The responsibilities of the Emergency department include:

- Providing a 24-hour support and liquidating the possible network damages
- Inspecting the network of the Company
- Transporting water to the consumers if it is unavailable through the network

The main responsibility of the Western and Eastern Region departments is to ensure the supply of an adequate service to the clients of the Company. The functions of the departments include water and sewerage network maintenance, servicing, construction and control over investments in their designated region. The Eastern Region department includes Pirita, Lasnamäe and Kesklinn regions of Tallinn, while Western Region department is operating in Kristiine, Põhja Tallinn, Haabersti, Nõmme, Mustamäe and Saue.

The General Support department of the Water Supply and Sewerage Networks Division provides the functions of financial reporting, accounting personnel management and general administration to the division and transfers the information obtained to the corresponding supervising departments of the Company.

3.2.4. Finance Division

The Finance Division consists of four departments - Finance, Accounting, Administration and Client Service. The division is lead by the Director of Finance, who coordinates the work of the department managers and reports to the Chairman of the Management Board of the Company.

The primary function of the Finance department is managing and planning the financial activities of the organization, according to the overall strategic objectives of the Company. The detailed responsibilities of the Finance department are:

- Developing the financial reporting system of the Company
- Designing and preparing the management accounting reports, reflecting the needs of Management Board, division heads and department heads
- Preparation of the short- and long-term financial forecasts
- Preparing the budgets for individual divisions and the Company as a whole
- Developing the financing strategy of the Company

- Managing cash flows of the Company

The function of the Accounting department is to ensure the adequate Company reporting, according to the local and international accounting standards.

The function of the Client Service department is to service both the corporate and private clientele of the Company. The department is responsible for billing the clients, responding to complaints and providing general information regarding the operations of the Company. The department was transferred from Finance Division under the Water Supply and Sewerage Networks Division in early 2000. It is currently under discussion to transfer the department into a separate division, reporting directly to the Chairman of the Management Board of the Company.

The function of the Administration department is to provide support and asset maintenance to the general operations of the Company.

3.2.5. Development Division

The Development Division consists of four further departments, including Planning and Development, Construction Co-ordination, Information Technology and control mechanism over Subsidiary Companies. The division is lead by the Director of Development, who supervises the work of the department managers.

The primary responsibilities of the Planning and Development department are:

- Developing the overall strategy of the Company
- Performing and coordinating research studies for all of the Company's functional divisions
- Coordinating the preparation of the Company's operating and investment budgets
- Comparison of the Company's performance with forecasts and analysis
- Advising the Finance Division and support groups in technical matters
- Controlling the compliance of the Company to the existing legal and technical regulations
- Assisting the production units of the Company in the preparation of the internal technical and operating guidelines and forms
- Forecasting the development of the market for the Company's services
- Forecasting the water production and sales
- Coordinating the development of the Company's quality control system and its implementation
- Collecting the information regarding the innovation in the water and sewerage industry (legal regulations, new technologies) and researching its applicability to the activities of the Company
- Coordinating the environmental effects of the operations of all the functional divisions of the Company
- Communicating with the international aid organizations

The main responsibilities of the Construction Co-ordination department are to manage the construction activities of the Company, and provide procurement and control over the investments approved by the Management Board.

The responsibilities of the Information Technology department are:

- Providing support and maintenance to the existing information system and IT infrastructure
- Consulting all structural entities of the Company
- Providing the IT education opportunities to the Company employees
- Proposing new technological solutions for the Company development

- Leading existing developmental projects
- Controlling the activities of the IT support firms servicing the Company

3.2.6. Non-core departments

In addition to the five main functional divisions described above the Company has additional non-core departments, including Internal Control, Personnel, Public Relations and Legal departments. The Internal Control department reports to directly to the Management Board of the Company. The functions of the Internal Control department are:

- Controlling the operations of the Company according to existing legislature, norms and other regulations
- Ensuring the preservation of the Company's assets
- Controlling the compliance of the financial reporting with existing laws and regulations
- Controlling the effective usage of resources in the organization
- Ensuring the accuracy supplied to the management of the Company by the structural units

The Personnel, Public Relations and Legal departments report directly to the Chairman of the Management Board of the Company, reflecting mainly their relatively small size.

3.3. Management Structure

The Company has a "two-tiered" board structure consisting of a Supervisory Board and a Management Board. The powers and duties of the two boards are defined in the Articles of Association of the Company and follow the Estonian Commercial Code.

3.3.1. Supervisory Board

The Supervisory Board is responsible for planning the activities of the Company, organizing the management of the Company and supervising the activities of the Management Board. The Supervisory Board of the Company consists of seven members, who are signed by the General Meeting of Shareholders. No member of the Supervisory Board can be a member of the Management Board, the Chairman of the Management Board or a person who is entered into the Commercial Register as a person authorized to act on behalf of the Company. The term of the office of the Supervisory Board is 2 years. The Supervisory Board must meet at least once every three months. Supervisory Board of the Company currently has the following ten members:

Toomas Annus - Chairman of the Supervisory Board

Jüri Kõo - Member of the Supervisory Board

Peeter Lepp - Member of the Supervisory Board

Vladimir Masterov - Member of the Supervisory Board

Tarmo Mölder - Member of the Supervisory Board

Priit Põldoja - Member of the Supervisory Board

Kuno Raude - Member of the Supervisory Board

Leonid Tsingisser - Member of the Supervisory Board

Ülo Tärno - Member of the Supervisory Board

Ivar Virkus - Member of the Supervisory Board

3.3.2. Management Board

The Management Board is the directing body of the Company which manages the Company's activities and acts on the Company's behalf. The Management Board is signed by the Supervisory Board for a period of three years and consists of five members. The current Management Board of the Company was appointed by the decision of the Supervisory Board on June 1st 1999. The Management Board of the Company currently consists from the following five members:

Kalle Tiiter - Chairman of the Management Board and Director of Development

Mr. Tiiter holds a diploma in Construction of Plumbing Equipment from Tallinn Technical University. He has additionally participated in numerous training seminars and courses in economics, management, strategic planning and sector-specific subjects. Mr. Tiiter has over 16 years of work experience, all with the Company. He started his career in 1984 as an engineer and achieved a position of the Director of Water and Sewerage networks in 1996. In 1997 Mr. Tiiter joined the Management Board of the Company and in 1999 became the Chairman of the Management Board. Beginning from June 1999 Mr. Tiiter occupies a position of the Company's Chairman of the Management Board, and Director of Development. He is proficient in Estonian, Russian, Finnish and English languages.

Urmo Raiend - Director of Finance

Mr. Raiend holds a degree in Finance from Tartu University, complemented by the numerous training seminars and courses in finance, general management, human resource management and sector-specific subjects. Mr. Raiend has over 10 years of work experience in the financial services sector of Estonia, including banking. He joined the Company in 1994 as a Director of Finance and a Member of the Management Board. Mr. Raiend is proficient in Estonian, English, Finnish and Russian languages.

Toivo Eensalu - Director of Water Production

Mr. Eensalu holds a diploma in Engineering of Chemical Processes and Equipment from Tallinn Technical University. Mr. Eensalu has over 15 years of work experience, all at various positions within the Company. He has joined the Company in 1985 as a mechanic and has progressed steadily to the position of the Director of Water Production and Member of the Management Board. Mr. Eensalu is proficient in Estonian, Finnish, Russian and German languages.

Raivo Uukkivi - Director of Water Supply and Sewerage Networks

Mr. Uukkivi holds a degree in Mechanical Engineering from the Estonian Agricultural Academy, complemented by the numerous courses in organizational management and foreign languages. Mr. Uukkivi has joined the Company in 1995 and was promoted to the position of Director of Water Supply and Sewerage Networks in 1999. He has over 13 years of experience in various Estonian industrial companies and is proficient in Estonian, Russian, English and Finnish.

Peep Pärtel - Director of Wastewater Treatment

Mr. Pärtel holds a degree in Construction of Plumbing Equipment from Tallinn Technical University. He has over 43 years of work experience, including 41 year at various positions within the Company, including the Director of Wastewater Treatment. Mr. Pärtel is proficient in Estonian, Russian and Finnish languages.

3.4. Employees

As of January 1st 2000, the Company employed a total of 685 people. The number of the Company's employees has declined from 989 people (31 per cent) on January 1st 1997. The largest decline in employed personnel has occurred in the Water Supply and Sewerage Networks Division, where the number of employees dropped 40 per cent since 1997.

Table 27: Employee Dynamics 1997-2000 (as of January 1st)

Division	1997	1998	1999	2000
Center (Development and Finance Divisions)	104	87	89	81
Water Production Division	200	179	159	155
Water Supply and Sewerage Network Division	454	388	339	271
Wastewater Treatment Division	231	197	186	173
Total	989	851	773	685

The average age of the Company's employees is 48 years. The average age of Company employees by division varies from 43.8 years (Center) to 50 years (Wastewater Treatment). The average age of Water Production employees is 47.9 years and Water Supply and Sewerage Network - 48.8 years.

The average experience of the Company employees is 10.68 years, ranging from 9 to 13 years between different divisions.

Table 28: Employee Work Experience as of January 1st 2000 (years)

Division	Specialists	Non-specialists	Average
Center (Development and Finance Divisions)	N/A	N/A	9.60
Water Production Division	13.19	9.17	12.71
Water Supply and Sewerage Network Division	13.94	8.46	9.93
Wastewater Treatment Division	14.73	8.40	10.47
Total	13.19	9.17	10.68

The Company does not have any history of strike or work stoppage and no material labor-related claims are pending. The Company believes that relations with its employees are good.

3.5. Employee Compensation and Motivation

The Company has an established policy for employee compensation and motivation, developed in accordance with Estonian legislature and existing international compensation programs (methodology of HAY and JOB-SCALES programs).

All of the employee positions of the Company are divided among 17 salary groups, reflecting their level and value to the organization. The compensation scheme of the Company consists of two main components - base salary and bonus - different for every salary group.

Base salary is the foundation of the Company's compensation system, which is paid to every employer in exchange for adequate completion of job functions. The job functions of employees are regulated by the job description for every position within the Company. There can be up to 5 different base salaries in any given salary group of the Company.

Bonus is awarded to the Company employees for exceptionally good work results, initiative, work discipline and other qualitative factors. The size of the bonus for employees of every department is regulated by the department head, who awards the bonuses for a six-month period based on the size of the existing bonus pool, Company performance and employee performance.

The evaluation of the employee performance and granting of bonuses is conducted twice a year, in April and October. Before awarding bonuses to employees, their effort, result of their work during the last six months and contribution to the overall development of the Company are evaluated. The specific evaluation forms are prepared while analyzing the work performance of specialists and management.

The additional element of the Company compensation scheme - management fund - is established for stimulating the performance of the Company employees. The separate management funds is established for every division of the Company and it is administered by the director of the respective division. The contributions to the management funds are made in the following amounts:

- For the management funds of the Directors of Water Production, Water Treatment and Water Supply and Sewerage Networks - 4 percent of the compensation pools of the divisions after the payment of base salaries
- For the management fund of the Director of Development - 4 percent of the compensation pool of Development Division and Finance Division, except for Client Service department, after the payment of base salaries
- For the management fund of the Director of Finance - 4 percent of the compensation pool of Client Service department after the payment of base salaries
- For the management fund of the Chairman of the Management Board - 2 percent of the compensation pool of all the Company employees after the payment of base salaries; the fund is targeted for the support of the retired employees of the Company

Directors have an authority to delegate the use of the management fund's proceeds to the middle management of their division. The control over the use of management funds is performed by the Management Board and Internal Control department. The payments made to the Company employees from the management fund can include project fee, replacement fee, tutoring fee, one-time fee and other types of support.

The project fee is paid to the employees in case of successful execution of a complicated projects, important to the development of the Company, where results of the project depend to the large extent on the performance of a single person. The replacement fee is paid to employees replacing their colleagues in time of their absence. The replacement fee cannot exceed 30% of the employee's base salary. The tutoring fee is paid to the employees of the Company participating in the teaching of the new employees in the organization. In addition, the Company may pay one-time reimbursements to its employees reflecting their tenure with the Company or compensating its employees for working in conditions dangerous to their health.

Additional benefits are available to the employees of the Company, including:

- Loan guarantees
- Health improvement support for employees from selected salary groups
- Support for employees on maternity leave
- Representative clothing for employees working with clients
- Insurance for selected employees
- Representative expense reimbursement for top management
- Auto rent expense reimbursement for top management

3.6. Personnel Planning and Development

The number of employees of the Company has been decreasing steadily during the last 5 years, from 1246 employees in 1994 to 685 at the beginning of 2000. Further decrease in the number of employees of the Company is anticipated, influenced mainly by the restructuring of the organization and increased employee productivity. The individual proposed measures that will lead to personnel decrease are:

- Unification of several functions of Development, Finance and Water and Sewerage Networks Divisions, resulting in the elimination of approximately 50 positions within the Company
- Merging of the mechanical support for Water Production, Water Treatment and Water and Sewerage Networks into one functional unit
- Radical automation of the Pumping Stations
- Merger of selected functions of IT, Accounting, Human Resource and Administration departments

The new employees will be hired by the Company only in the cases when internal promotion or relocation from within the organization is not feasible. In general, only the hiring of well educated professionals with experience in engineering, information technology, construction, law and finance is planned.

The development of the Company's personnel occurs mainly through on-the-site education and support in financing of the employee's university studies. The extent of the personnel development is decided by the Division Directors and the Management Board. The education budget of the Company for 2000 amounts to EEK 922 thousand.

4. FINANCIAL PERFORMANCE

4.1. Financial Statements

4.1.1. Income Statement (EEK)

	1997	1998	1999
Net sales	476,839,234	482,100,149	426,802,804
Cost of sales	287,716,327	317,718,708	336,374,859
Gross Profit	189,122,907	164,381,441	90,427,945
Selling expenses	10,021,736	12,150,387	5,301,313
Administrative expenses	27,707,881	25,356,106	25,254,201
Other revenues	11,944,042	7,841,884	5,788,057
Other expenses	15,054,088	8,476,132	19,689,604
Operating Profit	148,283,244	126,240,701	45,970,884
Financial revenues	3,614,485	1,469,023	2,029,527
Revenues from associates	2,568,904	436,549	1,004,946
Foreign exchange gain	849,925	87	-
Other interest and financial revenues	195,656	1,032,387	1,024,581
Financial expenses	30,012,122	41,494,922	43,012,294
Expenses related to associates	-	299,166	-
Interest expense	26,567,112	39,468,555	35,815,338
Foreign exchange loss	1,158,112	97,587	152,788
Other financial expenses	2,286,454	1,629,615	7,044,168
Profit from Normal Operations	121,885,607	86,214,802	4,988,117
Income tax	5,242,308	-	-
Deferred income tax	27,917,866	38,853,981	-
Net Profit	88,725,433	47,360,821	4,988,117

4.1.2. Balance Sheet (EEK)

ASSETS	1997	1998	1999
Current Assets			
Cash and bank	10,048,873	4,811,820	853,953
Marketable securities	-	-	12,002,000
Accounts receivable	75,256,795	61,852,553	59,048,022
Trade debtors	82,023,594	65,966,587	61,842,278
Less trade debt provisions	-6,766,799	-4,144,034	-2,794,256
Other receivables	4,729,041	7,288,159	15,193,087
Accrued income	81,039	4,478,532	267,901
Prepaid expenses	3,580,064	27,940,123	1,057,546
Prepaid/refundable taxes	2,561,292	27,550,591	3,724
Other prepaid expenses	1,018,772	389,531	1,053,822
Stocks	6,655,922	5,834,484	6,807,331
Raw materials and spare parts	6,192,953	5,347,616	6,321,171
Fuel	117,176	108,725	102,473
Purchased goods for resale	261,522	272,217	232,073
Prepayments to suppliers	84,271	105,926	151,614
Total Current Assets	100,351,734	112,205,672	95,229,840
Fixed Assets			
Long-term financial investments	11,868,868	11,614,927	10,548,351
Investments in associates	5,666,826	9,487,222	10,492,168
Other shares and securities	55,390	14,382	14,382
Miscellaneous long-term receivables	111,804	78,475	41,801
Long-term accounts receivable	6,034,848	2,034,848	-
Tangible fixed assets	1,460,612,646	1,666,459,149	1,691,934,645
Land and buildings	205,665,167	256,752,289	264,333,907
Structures	1,109,073,139	1,457,012,453	1,569,336,650
Machinery and equipment	248,658,125	354,794,882	380,615,601
Other equipment and fittings	8,810,059	8,562,409	8,267,432
Accumulated depreciation	-372,442,500	-472,563,113	-594,408,593
Uninstalled fittings	24,809,018	10,317,918	4,915,140
Construction in progress	231,246,549	46,601,911	53,048,559
Prepaid fixed assets	4,793,089	4,980,400	5,825,949
Intangible fixed assets	5,314,918	145,069	984,728
Total Fixed Assets	1,477,796,432	1,678,219,146	1,703,467,724
TOTAL ASSETS	1,578,148,166	1,790,424,818	1,798,697,564

LIABILITIES AND EQUITY	1997	1998	1999
Current Liabilities			
Debt obligations	192,332,273	273,835,950	91,733,423
Debentures	165,785,116	210,136,394	2,408,082
Current portion of long-term debt	24,260,400	43,120,800	89,325,341
Short-term loans from financial institutions	2,286,757	20,578,756	-
Prepayments	17,000,998	301,605	10,095,033
Customer prepayments	17,000,998	301,605	1,442,209
Other prepayments	-	-	8,652,824
Accounts payables	62,441,720	31,180,139	33,195,154
Trade payables	62,441,720	31,180,139	31,966,786
Payables to associates	-	-	1,228,368
Tax liabilities	6,433,290	6,382,361	13,180,197
Accrued expenses	8,348,326	7,551,282	8,694,233
Salary-related liabilities	3,137,174	3,296,125	4,463,479
Vacation payment liability	1,888,770	2,703,478	2,809,259
Interests payable	2,543,720	1,107,599	953,802
Other accrued expenses	778,572	444,080	467,693
Total Current Liabilities	286,556,517	319,251,336	156,898,040
Long-Term Liabilities			
Loans from banks	283,294,956	371,374,156	521,728,068
Other borrowings	2,610,337	6,848,394	-
Non-convertible long-term debt	2,687,160	3,736,933	5,507,363
Other long-term debt	27,917,866	66,771,847	20,361,977
Total Long-Term Liabilities	316,510,319	448,731,330	547,597,408
TOTAL LIABILITIES	603,066,836	767,982,666	704,495,448
SHAREHOLDER'S EQUITY			
Share capital	850,000,000	850,000,000	850,000,000
Reserves	36,355,897	125,081,331	172,442,152
Legal reserve	36,355,897	40,792,170	43,160,211
Investment reserve	-	84,289,161	129,281,941
Retained earnings	-	-	66,771,847
Net profit for the year	88,725,433	47,360,321	4,988,117
TOTAL SHAREHOLDER'S EQUITY	975,081,330	1,022,442,151	1,094,202,116
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	1,578,148,133	1,790,424,818	1,798,697,564

4.2. Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company

The following discussion shall be read in conjunction with the Financial Statements of the Company included elsewhere in this Information Memorandum and the Notes thereto enclosed in the Annual Reports of the Company for 1997, 1998 and 1999. The Company's Financial Statements and the selected financial information have been prepared in accordance with the International Accounting Standards for the years ended December 31st 1997, 1998 and 1999. The following financial information of the Company for the years ended December 31st 1997 and 1998 has been audited by AS PriceWaterhouseCoopers. The financial information of the Company for the year ended December 31st 1999 has been audited by AS Deloitte & Touche Estonia.

4.2.1. Results of Operations

4.2.1.1. Revenues

Over 95 per cent of the Company's Total Revenues in previous years were generated by sales of water supply and sewage collection services. Decline in Total Revenues of 11 per cent in 1999 in comparison to 1998 occurred mainly due to the decrease in water consumption. Revenues of the Company from main business activities in future will depend strongly on the tariff levels, as the gradual decrease in water consumption is expected to continue in the next 2-3 years. The major items among other Company's revenue sources are connection and construction fees and services carried out by the networks. The latter are primarily maintenance services for the water systems of other companies. Connection and construction fees are expected to increase in accordance with the rollout of sewerage network during the next six years.

Table 29: Revenue Structure of the Company 1997-1999 (EEK)

	1997	1998	1999
Water supply	218,090,804	209,123,452	185,140,552
Sewage collection	244,570,398	258,651,511	220,295,049
Total income from main activities	462,661,202	467,774,963	405,435,601
Connection fees	9,896,438	8,466,804	8,152,414
Construction fees	-	1,000,612	10,278,646
Other services by the networks	2,881,668	2,074,712	547,131
Other	1,399,925	2,783,058	2,389,012
Total other revenues	14,178,031	14,325,186	21,367,203
Total revenues	476,839,233	482,100,149	426,802,804

Additional revenues of the Company, on top to those mentioned in the Table 29, include technical inspection services, repairs and maintenance carried out for other parties and sales of sludge. Sales of sludge are expected to increase, as the new disposal technology is utilized beginning from 2000.

In 1999 the revenue recognition method was changed by the Company. Prior to this period monthly sales of the Company were recorded on the basis of bills sent to the clients during the calendar month. According to the new methodology in place from November 1999, sales are recorded on the basis of bills sent to the clients from the 7th day of the current month until the 7th day of the next month. Recognition of the construction revenue is based on the actual construction cost of the pipeline. In 1998 the construction fees were recorded under net sales, but the costs of the purchase of pipes were capitalized and were recorded under fixed assets at acquisition cost. In 1999 the cost of pipes was expensed under operating expenses and sewerage networks were capitalized to fixed assets at zero cost.

4.2.1.2. Operating Expenses

The Table 30 shows the Operating Expenses distribution of the Company for the last two years.

Table 30: Operating Expenses of the Company 1998-1999 (EEK)

	1998	1999	change
Goods and materials	30,027,329	28,171,130	-6%
Fuel and energy	32,158,537	29,011,573	-10%
Repair and maintenance	41,167,701	32,851,934	-20%
Transport	45,412,654	29,903,916	-34%
Wages and salaries	73,973,256	60,726,120	-18%
Other personnel expenses	2,893,377	1,825,626	-37%
Taxes and insurance	7,903,898	11,150,512	41%
Research and development	1,400,648	1,707,950	22%
Other services	15,634,141	10,155,126	-35%
Other operating expenses	8,476,132	10,100,673	19%
Total expenses	259,047,673	215,604,560	-17%

Operating Expenses declined in 1999 in all major categories, reflecting mainly the decline in water production and cost-cutting measures implemented by the management of the Company. Increase in Other Operating Expenses was caused primarily by the changes in accounting policies and categorization of construction costs under the Operating Expenses. The outlook for 2000 shows that the Operating Expenses are forecasted to decline further, although not as significantly as in 1999.

4.2.1.3. Other Operating Revenues and Expenses

Sources of Other Operating Revenues and Expenses of the Company are primarily rental income and sale of fixed assets. The Company is presently finding a solution for more efficient utilization of its real estate. The strategies contemplated include both sale and letting of the premises and additional income from rental and/or sale of fixed assets is expected in a period of 2000-2001.

4.2.1.4. Operating Profit

Operating Profit of the company in the last 3 years as a percentage of sales has declined from 31 per cent in 1997 down to 11 per cent in 1999. The main reason behind the decline in profitability has been decreasing water consumption and stagnant tariffs from the beginning of 1998. In the upcoming years, decline in water consumption is expected stop and rebalancing of the tariff levels is expected to provide for increase in revenues. The Company has already started improvement in operating efficiency through an extensive cost-cutting program, which is expected to ensure higher profitability levels.

4.2.1.5. Financial Revenues and Expenses

During the last three financial years the Company has incurred significant financial expenses, mainly due to the debt service. The outlook for the future will depend on the financing decisions and interest rate environment. It can be expected that the Company will raise additional debt for the purpose of financing its investment programs.

Table 31: Financial Revenues and Expenses 1997-1999 (EEK)

	1997	1998	1999
Financial revenues	3,614,485	1,469,023	2,029,527
Revenues from associates	2,568,904	436,549	1,004,946
Foreign exchange gain	849,925	87	-
Other interest and financial revenues	195,656	1,032,387	1,024,581
Financial expenses	30,012,122	41,494,922	43,012,294
Expenses related to associates	-	299,166	-
Interest expense	26,567,112	39,468,555	35,815,338
Foreign exchange loss	1,158,112	97,587	152,788
Other financial expenses	2,286,454	1,629,615	7,044,168

Financial revenues of the Company depend mainly on the cash funds available for short-term financial investments, which are closely linked to key financing and capital expenditure programs.

4.2.1.6. Income Tax

In the past 3 years the income tax paid by the Company has been lower than the statutory 26 per cent rate on taxable profit due to utilization of tax depreciation. In 1998 and 1999 the tax depreciation rates were 8 per cent for the "group one" fixed assets and 40 per cent for the "group two" fixed assets. Income tax was paid by the Company only in 1997 in the amount of EEK 5.2 million or 4.3 per cent of taxable income, whereby a deferred tax provision of EEK 27.9 million was made.

According to the new Law on Income Tax in force from January 1st 2000, business entities registered in Estonia are not taxed according to the income earned, but according to the profits distributed.

4.2.2. Financial Condition

4.2.2.1. Fixed Assets and Depreciation

The dynamics of the Company's Tangible Fixed Assets is shown in the Table 32 below.

Table 32: Tangible Fixed Assets of the Company 1997-1999 (EEK)

	1997	1998	1999
Land and buildings	205,665,167	256,752,289	264,333,907
Constructions	1,109,073,139	1,457,012,453	1,569,336,650
Machinery and equipment	248,658,125	354,794,883	380,615,602
Fixtures and other assets	8,810,059	8,562,409	8,267,432
Fixed asset prepayments	260,848,655	61,900,229	63,789,649
Intangible assets	6,460,202	145,069	984,728
Accumulated depreciation	(372,442,500)	(472,563,113)	(594,408,593)
Net book value	1,467,072,847	1,666,604,219	1,692,919,375

The investment levels of the Company have decreased from EEK 434 million in 1997 down to 167 million in 1999 due to conclusion of major investment projects in water production and wastewater treatment. Low tariff levels and conservative utilization of debt capital has forced for postponement of major investment projects targeted for renovation and extension of networks. Accordingly, the amount of fixed assets prepayments, work in progress and uninstalled equipment as a share of total fixed assets decreased strongly compared to 1997. The existing investment plans foresee significant investments into the water supply and sewerage networks, whereby the account of constructions is expected to increase strongly.

Depreciation is calculated by linear method according to the following annual rates:

- Buildings 1.8-2.0%
- Constructions 2.0-8.0%
- Machinery and equipment 10-50%
- Communication and measurement equipment 20-25%
- Information technology 30-50%

In addition, construction in progress and uninstalled equipment are recorded under tangible assets, but depreciation charge on these items is not calculated. Assets with acquisition value of less than EEK 10,000 are not recorded as tangible fixed assets and are expensed.

Depreciation charges during the last three years have increased due to extensive investments.

Development of depreciation charges will be dependant on the investment projects undertaken by the Company. Considering the current outlook for the Company's investment needs, it can be assumed that depreciation charges will increase by approximately 30 per cent by application of current annual rates.

4.2.2.2. Long-Term Financial Investments

Legal entities with 20 to 50 per cent of share capital owned by the Company are classified as affiliated companies. The shares of affiliates are consolidated according to the equity method, whereby the initial investments are adjusted with the proportionate share of the affiliate company's profit. The Company had two affiliated companies as of January 1st 2000 - Vesimer Investeeringute AS and AS Kemivesi - with the shareholding of 50 per cent and 33.25 per cent respectively. In 1999 the total

book value of these investments was EEK 10.5 million and both companies were profitable. In the following years, increase in value of Long-Term Financial Investments is expected, reflecting the estimated growth in profitability of the affiliate companies.

4.2.2.3. Working Capital

Current Assets, excluding cash and equivalents, and Net Working Capital of the Company have historically moved in line with Total Revenues. Development of the Working Capital of the Company between 1997 and 1999 is shown in the following table.

Table 33: Working Capital of the Company 1997-1999 (EEK)

	1997	1998	1999
Accounts receivable (net)	75,256,795	61,852,553	59,048,022
Other claims	4,729,041	7,288,159	15,193,087
Accruals	81,039	4,478,532	267,901
Prepaid expenses	3,580,064	27,940,124	1,057,546
Inventory	6,655,922	5,834,484	6,807,331
Total	90,302,861	107,393,852	82,373,887
Customer prepayments	17,000,998	301,605	1,442,209
Accounts payable	62,441,720	63,908,802	31,966,786
Payables to subsidiaries	-	-	1,228,368
Taxes payable	6,433,290	6,382,361	13,180,197
Accruals	8,348,236	7,551,282	8,694,233
Other prepaid revenues	-	-	8,625,824
Total	94,224,244	78,144,050	65,137,617
Net working capital	(3,921,383)	29,249,802	17,236,270

Accounts Receivable Turnover has stayed relatively stable, declining from 57 days in 1997 down to 46 in 1998 and bouncing back to 50 in 1999. Inventory Turnover has decreased down to 7 days in 1999, compared to 11 days in 1997. Accounts Payable Turnover has decreased from 78 days in 1997 down to 34 days in 1999. Movements in Inventories and Accounts Payable have been the main drivers for growth in net working capital from EEK -3.9 million in 1997 up to EEK 29.2 million in 1998. Decline in Net Working Capital in 1999 can be explained by the decrease in Prepaid Expenses and Accruals, along with increase in Taxes Payable and Prepaid Revenues.

4.2.2.4. Provisions for Bad and Doubtful Receivables

Provisions for Bad and Doubtful Receivables are recorded on the Balance Sheet of the Company based on the assessment of recoverability of receivables. Each receivable is treated separately and bad or doubtful accounts are expensed. The Provisions for Doubtful Accounts Receivable as of December 31st 1997, 1998 and 1999 were EEK 6.8 million, 4.1 million and 1.8 million respectively. The decline in Provisions coincided with the decrease in Accounts Receivable during the same period.

4.2.2.5. Long-Term Debt

The Company has long-term borrowings from EBRD and DePfa Investment Bank Ltd. Loan facility provided by EBRD was granted by the agreement dated September 15th 1994. The total amount borrowed was DEM 44.4 million at the interest rate of DEM 6-month LIBOR plus 1 per cent. The loan is currently backed by the Estonian State Guarantee. After the Transaction is concluded and the controlling stake in the Company is transferred to the private Investor, the State Guarantee will be removed and the loan will be refinanced.

Term loan agreement with DePfa was concluded on April 1st 1999 for a total amount of EUR 19.4 million at the interest rate of LIBOR plus 3 per cent. The following table summarizes the long-term loan facilities outstanding at the end of 1999.

Table 34: Long-Term Debt Summary as of January 1st 2000 (EEK)

Lender	Amount	Short-term	Long-term	Interest rate	Date due
EBRD	307,039,971	32,322,821	274,717,150	LIBOR +1%	06.2009
DePfa	304,013,438	57,002,520	247,010,918	LIBOR +3%	04.2004

Interest payable by the Company varied in the range from 3.65 per cent to 4.25 per cent for EBRD facility and 5.56 per cent to 5.91 per cent for DePfa loan in 1999. Interest levels in the upcoming years will be dependant on the underlying base rates. No additional debt capital raising was negotiated recently by the management of the Company, although this remains a feasible option for financing of the investment projects.

4.2.2.6. Long-Term Debt Covenants

Both EBRD and DePfa loan agreements include a number of specific financial and operational covenants. The indicative list of the applicable key requirements and covenants is presented in the following table.

Table 35: Key Loan Agreement Covenants

EBRD	DePfa
Draw downs and Special Account	Maintenance of Legal Validity
Enterprise Account	Insurance
Project Implementation Unit	Environmental Compliance
Consultants	Environmental Claims
Procurement	Notification of Events of Default
Project Studies	Claims Pari Passu
Environmental Covenants	Negative Pledge
Reporting Frequency and Submission Requirements	Loans and Guarantees
Financial Records and Reports	Disposals
Accounting and Cost Control System	Mergers
Cash Generation Covenant	Dividends
Debt Service Coverage Ratio based on Future Earnings	Year 2000 Compliance
Tariffs	Consents and Approvals
Collection of Tariffs	Conduct of Business
Negative Pledge	Financial Indebtness
Negative Covenants	Change of Business

4.2.2.7. Other Long-Term Liabilities

Other Long-Term Liabilities of the Company include Capital Leases, Factoring agreements and Payment by Installment for technical equipment. At the end of 1999, the amount of Other Long-Term Liabilities totaled EEK 41.4 million, of which EEK 7.9 million was allocated to Capital Lease Obligations, EEK 30.0 million to Factoring and EEK 5.5 million to Payment by Installment for technical equipment.

SECTION III: LEGAL AND REGULATORY FRAMEWORK

All the information provided in this Section is partly based on unofficial translation of the Estonian originals. The Advisors emphasize that none of the information contained in this chapter has been verified by Tallinn Water (the Company), representatives of the City of Tallinn, Suprema Securities, Severn Trent Water International or Luiga & Mugu Law Office (the Advisors) or any of their connected persons. Neither the Advisors, nor the Company, nor the City of Tallinn nor any of their respective connected persons accept any liability or responsibility for the accuracy or completeness of, nor make any representation or warranty, express or implied, with respect to, the information contained in this chapter or on which this chapter is based or any other information or representations supplied or made in connection with the acquisition of Shares in the Company. The Bidders are encouraged to conduct their own legal Due Diligence.

1. KEY REGULATORY ACTS

Pursuant to Article 6 the Local Government Organization Act, passed by the Parliament of the Republic of Estonia on June 2nd 1993, the functions of a local government include the organization of utilities and the supply of water and sewerage. On the basis of this Act, Tallinn City Council has enacted Regulation No. 27, dated October 10th 1996. According to Article 6 Section 1 Subsection 4 of this Regulation, the main function of the Company is to organize the supply of water and sewerage, unless this functions has been legally delegated to any other person.

1.1. Public Water Supply and Sewerage Act (PWSSA)

Public water supply and sewerage services are regulated by the Public Water Supply and Sewerage Act passed by the Riigikogu on February 10th 1999. This Act governs rights and obligations of the state and local governments to supply water to and treat wastewater from “registered immovables”.

The competence of a local government (such as the City of Tallinn) for water supply and sewerage is as follows:

- Article 4 Section 1 PWSSA states that the Tallinn City Council shall approve a public water supply and sewerage system development plan for a period of 12 years. The water supply and sewerage system shall be developed and established according to such a plan. By the time of writing no such plan has been approved.
- Under Article 6 Section 1 PWSSA Tallinn City Council shall establish rules for connections to the public water supply and sewerage system. Such rules were established by the Decree No. 24 of the Tallinn City Council dated June 15th 2000.
- Article 6 Section 1 PWSSA Tallinn City Council can determine a maximum rate for connections. Such rate for sewerage network connection was set at EEK 40 per square meter of the connecting property's area by the Decree No. 24 of the Tallinn City Council dated June 15th 2000. No such rate was set for the water distribution network connection.
- Article 7 Section 1 PWSSA gives the Tallinn City Council the power to appoint water companies for Tallinn.
- Under Article 8 Section 4 PWSSA, Tallinn City Council has enacted Regulation No. 25, dated August 26th 1999 which approved the Rules on Use of Tallinn Public Water Supply and Sewerage System. These Rules regulate the legal relations between a water company and connected customers.

1.2. Water Act (WA)

On May 11th 1994, the Riigikogu of the Republic of Estonia passed the Water Act that regulates the use and protection of water and relationships between landowners and consumers.

Article 6 of the WA, a “special authorization” is required for the following:

- 1) if water is abstracted from a body of surface water and if ice is taken in quantities that exceed 30 cubic meters per day;
- 2) if ground water is abstracted in quantities exceeding 5 cubic meters per day;
- 3) if mineral water is abstracted
- 4) for wastewater discharge
- 5) and others

These “special authorizations” are issued by the Tallinn Environment Board. The authorization for special use of water is generally granted for 5 years.

Pursuant to Article 11 Section 9 of the WA the rates for the “special use of water” shall be established by the Government of the Republic of Estonia.

Under Article 11 Section 9 of the WA the Government of the Republic of Estonia has established the rates for special use of water.

According to Article 3 of the WA, the local government (City of Tallinn) shall perform the following functions in its administrative territory:

- 1) grant a consent for special use of water
- 2) organize administration of the bodies of water belonging to local governments
- 3) and others

There is a significant amount of other laws and regulations governing the water and wastewater sector. An indication of these legal instruments is provided in the Appendix IV of this Information Memorandum.

SECTION IV: THE TRANSACTION STRUCTURE

1. THE PROPOSED TRANSACTION

1.1. Introduction

The Company is the largest water and wastewater company in Estonia, serving the majority of the City of Tallinn. The Company's issued share capital currently amounts to EEK 850,000,000 and comprises of 85,000,000 registered ordinary A-shares with a par value of EEK 10 per share each. As of the date of this Information Memorandum, the sole shareholder of the Company is the City of Tallinn. The City of Tallinn has been the sole shareholder of the Company since its reorganization from a municipal enterprise in 1997.

In preparation to the Transaction and the introduction of a Strategic Investor, Tallinn City Council has resolved the amendment of the by-laws of the Company and the issue of a single preferred B-share with a nominal value of EEK 1,000, to be subscribed by the City of Tallinn, and the issue of 30,000,000 new A-shares to be subscribed by the Strategic Investor.

The principal objective of the City of Tallinn for the Transaction is to invite a Strategic Investor for the management and financing of the Company in order to achieve the quality and service standards set by National and European regulations. In light of this, the City of Tallinn has decided to seek a Investor through the sale of a majority stake in the Company. It is envisaged that the Strategic Investor will have management and operational control in the Company, whilst some limited number of matters being subject to veto by the City of Tallinn.

The City wishes to attract an Investor who is fully committed to the development of the Company, and has the necessary technical, operational and financial capability to meet the established levels of service, as well as relevant international experience in the provision of water and wastewater services.

1.2. The Sale Process

The Transaction will be carried out in conformity with the Tallinn Procedure of the Transfer of Municipal Property, and Resolution of Tallinn City Council No. 210 as of June 15th 2000. The Transaction will be arranged as one-stage tender with pre-qualification.

Based on the Resolution No. 210 of the Tallinn City Council of June 15th 2000, the Tallinn City Council has resolved:

- (a) according to item 5 thereof, to sell 28,000,000 Shares of the Company at a minimum price of EEK 280,000,000, and
- (b) according to item 4 of the same document, the issue of 30,000,000 new Shares by the Company and the arrangement of subscription for the Shares at a minimum price of EEK 300,000,000.

The Shares will be sold and issued to a single Investor, who will be selected via the tender process and approved by the Tallinn City Council as the selected bidder. The selection criteria are specified elsewhere in Section IV of this Information Memorandum. Only Qualified Bidders meeting the criteria specified in Section IV of this document and short-listed by the Tallinn City Government will be eligible for submission of the final bids for the purchase and subscription of the Shares in the Company.

As a result of the Transaction, the Investor will hold 58,000,000 A-shares of the Company, representing 50.4 per cent of the outstanding share capital of the Company (after the issuance of the above 30,000,000 new A-shares). This will give the Investor management control in the Company via majority in the Supervisory Board and the right to appoint the members of the Management Board of the Company. The City of Tallinn, as the owner of the preferred B-share and a party to the Shareholders' Agreement, will retain control over certain matters relating to the Company's management.

Following the sale and subscription of the Shares by the Investor, the ownership interests in the Company will be as follows:

Table 36: Post-Transaction Shareholder Structure of the Company

Shareholder	Number of Shares	Nominal Value (EEK)	% Interest
City of Tallinn	57,000,000 A-shares 1 B-share	570,000,000 1,000	49.6
Investor	58,000,000 A-shares	580,000,000	50.4
Total	115,000,000 A-shares 1 B-share	1,150,000,000 1,000	100.0

The Investor will be required to enter into a Shareholders' Agreement with the City. The agreement will cover certain aspects of their relationship, including, *inter alia*, Investor's management control over the Company, subject to the veto right of the City in a limited number of issues considered fundamental to the City's and its citizens' interests, and approvals by the City to any changes in shareholder structure of the Company, including Investor's share transfers.

2. TIMETABLE

Set out below is an indicative timetable for the Transaction. The process described herein and the timetable may be changed by the City of Tallinn at any time at its sole discretion.

Table 37: Transaction Timetable

Event	Date
Transaction announcement	June 26 th 2000
Registration of Bidders/ distribution of information package	June 26 th - July 14 th 2000
Deadline for submission of qualification applications	July 17 th 2000
Qualified Bidders selected	July 24 th 2000
Technical and environmental reports and transaction legal documents made available	July 24 th - August 2000
Company visits, data room period, discussion with the management and meetings with respective authorities	July 26 th - September 29 th 2000
Discuss comments on legal documentation	August - September 2000
Final addendum / legal documentation available	October 10 th 2000
Final bid date	October 27 th 2000
Closing	End of 2000

The Invitation to a tender offer with pre-qualification for subscription of 30,000,000 A-shares and sale of 28,000,000 A-shares owned by the City of Tallinn, as announced by the Board of Municipal Property of the City of Tallinn on June 26th 2000 is the basis for the qualification of potential Investors. In this stage the potential Bidders will be asked to fulfill certain technical, financial and legal requirements before being qualified to progress to the next stage.

Qualified Bidders will be given the draft transaction documents, relevant reports and will be invited to conduct their Due Diligence of the Company. In addition, they will be invited to comment on the draft transaction documents. The best Bidder will be selected based on the Final Offer according to the specified criteria, and will be set for approval by the Tallinn City Government and City Council. It is the intention of the City of Tallinn to close the transaction prior to the end of the year 2000.

3. SELECTION PROCEDURE

3.1. The Transaction Committee

A Transaction Committee has been established by the City of Tallinn to co-ordinate the sale and subscription of the shares in the Company. The Transaction Committee includes representatives of Tallinn City Government and respective municipal authorities. The Transaction Committee will represent the City of Tallinn during the tender process, including the negotiations on the transaction documents.

The Advisors to the Transaction Committee include representatives of AS Suprema Securities, Severn Trent Water International Ltd. and Luiga & Mugu Law Office.

This Transaction Committee and the Advisors will evaluate the requested legal, technical and financial qualification criteria and produce a list of recommended Qualified Bidders to the Tallinn City Government for approval. After such approval by the City Government the Bidders will be notified about their qualification or non-qualification.

3.2. Criteria for Qualification

Qualified Bidder status will be awarded subject to satisfactorily meeting the following criteria:

- international experience in the water and wastewater sector
- financial standing
- submission of information and documentation as set forth below

The Transaction Committee and the Advisors will evaluate the Bidders with respect to these criteria on a pass/fail basis and Bidders will be required to receive a pass evaluation on all criteria in order to qualify.

To avoid unduly restricting formation of consortia, the Bidder will also be qualified in the event that at least one of the direct shareholders of the Bidder singly complies with all the legal, financial and technical requirements as set out for Bidders below. This particular shareholder, the Designated Parent of the Bidder is required to hold at a minimum 1/3 of all voting shares of the Bidder. The Designated Parent will also be required to guarantee the obligations of the Bidder to the City of Tallinn. If more than one shareholder of the Bidder meets the qualification requirements, the shareholders will be required to specify one of the shareholders as the Designated Parent.

No Bidder may hold any interest in any other Bidder, no Designated Parent shall hold any interest in more than one Bidder. No entity may be a Designated Parent of more than one Bidder.

In the event that the Bidder is seeking qualification based on the experience of its Designated Parent, both the Bidder and the Designated Parent, are required to submit the information and documents set forth below, indicating whose experience shall be evaluated for qualification.

According to Tallinn Procedure of the Transfer of Municipal Property, the Bidder submitting the Final Offer must be the same entity who has submitted the Qualification Application and has been approved as the Qualified Bidder by the Tallinn City Government.

Criteria 1 - Water and Wastewater Experience

Bidders shall demonstrate international experience in the management, operation and maintenance of water and wastewater systems. The following minimum criteria will need to be adequately demonstrated as of the official date of submission of the Qualification Application by the Bidder or the Designated Parent:

- 1) Exercises management control in a company (or itself is a company) supplying water and sewerage services to at least 500,000 inhabitants

- 2) Exercises management control in water and/or wastewater companies in at least four (4) different countries, whereas at least in one of these companies the period of management control must have been minimum three (3) years
- 3) Has had average annual turnover from provision of water services or from activities directly related to water services of at least EEK 300,000,000 (three hundred million), or the equivalent amount thereof in local currency over the last three (3) years

For the avoidance of doubt “Management Control” signifies that the Bidder or its Designated Parent has direct or indirect actual control of the operational and investment decisions related to water and sewerage services of the company(ies) that provide(s) the credentials above.

An overview of principal business interests in water and wastewater companies to evidence meeting management control criteria must be submitted in the format provided as Annex V of this Document.

Criteria 2 - Financial Capability

To demonstrate financial capability, the Bidder or its Designated Parent, must have had average annual turnover from provision of water services or from activities directly related to water services of at least EEK 300,000,000 (three hundred million), or the equivalent amount thereof in local currency over the last three (3) years.

An overview of the relevant turnover should be provided in the format specified in Appendix V of this Document.

Criteria 3 – Legal Documentation Requirements and Qualification Application contents

For the purpose of Qualification, the Bidder will be required to have purchased the Information Memorandum (at a price of EUR 15,000) and returned the signed Confidentiality Agreement. This documentation fee is non-refundable.

In the event that instead of the Bidder one of the shareholders of the Bidder has paid the documentation fee and returned the Confidentiality Agreement, the Bidder applying for qualification must return signed Confidentiality Agreement with the Qualification Application in order to qualify.

Each Bidder seeking Qualification must nominate a legal representative by submitting a notarized Power of Attorney of such representatives (no less than 2 and no more than 4). In addition, each bidder will be required to submit the name, position in the company, address, email, telephone and fax number of the contact person to whom the correspondence will be sent. This person will be the sole official contact for all communications relating to this transaction.

Qualification Applications containing the information set forth in this chapter shall be submitted by the Bidders with an accompanying letter signed by the legal representative(s) of each party seeking qualification.

The Bidder seeking qualification, or in the event that the Bidder is seeking Qualification through the Designated Parent's experience, both the Bidder and the Designated Parent, is required to submit the following information and documents:

- a) Complete legal name, country of incorporation and registration data
- b) Copies of effective by-laws and articles of incorporation or equivalent documents
- c) Certificate of corporate existence, or equivalent document
- d) Identification and description of the shareholders of the Bidder and its Designated Parent, if any with names of major shareholders and their respective holdings in shares and votes
- e) Notarized power of attorney of legal representatives (no more than four and no less than two)
- f) Audited financial statements (balance sheet, income statement and cash flow statement) with notes for the last 3 years

- g) An overview of principal business interests in water and wastewater companies to evidence meeting management control criteria set forth in the paragraph above (in the format provided as Annex V of this Document)
- h) Written statement confirming that the Bidder does not hold any interest either commercial or otherwise in any other Bidder seeking qualification for this process.
- i) Contact data of relevant partners or advisors.
- j) Description of law suits or any other legal actions (occurrences of default, disqualification from a Private Sector Partnership, conviction, etc.), arising from projects undertaken by the Bidder or any affiliate of the Bidder during the last five (5) years.

The application should contain Bidder's appropriate documentation to enable verification of the submitted data, and the names and contact numbers/addresses of referees who could verify the truthfulness of such data, shall also be submitted.

The Bidder is required to inform the City of Tallinn of any material change in the submitted information, including but not limited to changes in the shareholder structure of the Bidder. The City of Tallinn shall be entitled to remove from the bidding process any Bidder that has submitted false, untrue or misleading information during the bidding process.

3.3. Submission of Qualification Applications

Each Bidder should submit the Qualification Application in a closed envelope marked "AS Tallinna Vesi aktsiad" no later than 12:00 noon local time on July 17th 2000 to Tallinn Board of Municipal Property at the following address:

Tallinna Linnavaaramet
Vabaduse väljak 10, 4th floor
Tallinn
Estonia

The Bidder is requested to submit the Qualification Application in Estonian or English. Late submissions and fax copies will not be accepted. A notice will be issued to all Bidders by the Board of Municipal Property of the City of Tallinn confirming receipt of the qualification application.

3.4. Selecting and Informing qualified Candidates

The Advisors and the Transaction Committee will evaluate all applications for qualification and will recommend a list of qualified parties to the City of Tallinn for approval as Qualified Bidders. On the date specified in the Transaction Timetable the City of Tallinn will announce and make public a list of Qualified Bidders.

3.5. Distribution of Technical/Environmental Reports and Legal Documentation

Additional information will be provided to the Qualified Bidders as soon as possible after the announcement of the list of Qualified Bidders. This will include a copy of the following:

- Tallinn Water Quality Study (an evaluation report of assets of the Company), conducted by Parkman International in May 1999,
- EBRD Tallinn Water and Environment Project. Review of Investment Programme, as conducted by Pannell Kerr Foster, September 1999
- Environmental Audit of the Company performed by OÜ Keskkonna Konsult in February 2000.

The Transaction will require certain legal documents, including, but not limited to:

- (a) a Subscription and Share Purchase Agreement, between the Investor, the City of Tallinn, and the Company, which will set forth the terms and conditions of the subscription and purchase of the Shares
- (b) a Shareholders' Agreement, defining the rights and obligations of the shareholders of the Company

The draft agreements will be provided to the Qualified Bidders after approval of the short-list. The documents will be in English, but will be governed by Estonian law.

The Qualified Bidders will provide comments to the transaction documents, in writing, within 21 days upon receipt of such documentation. Representatives of the City of Tallinn and their Advisors will review such comments, provide specific responses as may be deemed necessary and issue addenda if required. Any response by the City of Tallinn will be distributed amongst all Qualified Bidders. The City of Tallinn is under no obligation to accept any such comments received by the Qualified Bidders and reserves the right not to make any modifications to the issued documentation.

3.6. Due Diligence and Access to Data Room

The Qualified Bidders will be allowed to conduct their co-ordinated Due Diligence(s) of the Company in accordance with a prescribed timetable, including visits to the Data Room, site visits, interviews with the management and respective municipal and state authorities as may be deemed appropriate by the Transaction Committee and the Advisors. The Due Diligence period will commence and end on the period set forth in the Transaction Timetable (Table 37).

3.7. Bidders Meeting

The Qualified Bidders will be invited to attend an official bidders meeting that will be held towards the end of the Due Diligence period at a location to be announced.

The Qualified Bidders may come forward with final comments to the transaction. The Transaction Committee, its Advisors and representatives of the City of Tallinn will issue a final addendum that will address these comments. However, the Transaction Committee and the City of Tallinn are under no obligation to comment on all issues that may have been raised by the Qualified Bidders. The final addendum will be issued approximately 14 days after the bidders meeting. After this bidders meeting, no further questions, comments, requests for clarifications will be allowed. The City of Tallinn will issue final versions of the transaction documents no later than three weeks before the deadline for submission of the final proposals by the Bidders.

3.8. Submission of Final Offers

Each Qualified Bidder is eligible to submit its final unconditional written offer which shall include:

- Unconditional offer for the price of the 28,000,000 A-shares of AS Tallinna Vesi to be sold and 30,000,000 A-shares to be subscribed for. The offer should be expressed as total consideration in EEK, in words and numbers.
- Unconditional offer for the coefficients of the yearly change in price for the water and wastewater services in the Operating Region of Tallinna Vesi for the next five years.

It is the City of Tallinn's intention to select the winning Bidder that achieves the best scoring for the price for the A-shares to be sold and issued (40 per cent) and the coefficients of the yearly change in the price of water and wastewater services for the next five years (60 per cent). In addition, the following must be included in the Final Offer:

- a detailed business plan of AS Tallinna Vesi, including investment schedule and sources of financing necessary to meet the levels of service as set forth in Section V of this Document,
- description of sources of financing of the purchase and subscription price.

Bidders will also be required to provide a certificate of transfer of a tender guarantee payment of EEK 29,000,000 to the account of the Board of Municipal Property of the City of Tallinn (account no. 10002011281000 with Eesti Ühispank), or alternatively an irrevocable bank guarantee in the same amount valid for 180 days after the submission of the Final Offer. Such a tender guarantee payment shall be returned in full to the Bidder should the bid prove unsuccessful.

In addition, the Bidders shall provide written relevant confirmations of authorization to participate in the tender and of the acceptance of the sale-purchase, subscription and shareholders' agreements. In the event that a Qualified Bidder's offer is accepted, the Subscription and Share Purchase Agreement, the Shareholders Agreement and the other legal documentation will constitute valid, binding and enforceable legal obligation of the parties hereto. Violation of any of these provisions will automatically constitute disqualification and loss of the bid security.

The Final Offer should also contain the following information about the Bidder:

- Complete legal name, country of incorporation and registration data
- Copies of effective by-laws and articles of incorporation or equivalent documents
- Certificate of corporate existence, or equivalent document
- Identification and description of the shareholders of the Bidder and its Designated Parent (if any), with names of major shareholders and their respective holdings in shares and votes
- Legalized (if issued outside Estonia) and notarized power of attorney of legal representatives
- Contact data of relevant partners or advisors.

3.9. Submission and Evaluation of Final Offers

The Final Offer should be submitted in a closed envelope marked "AS Tallinna Vesi aktsiad" no later than 12 a.m. local time on 27.10.2000 to the following address:

Tallinna Linnavaaramet,
Vabaduse väljak 10, IV floor,
Tallinn,
Estonia.

The Bidder is requested to submit the Final Offer in Estonian or English. If the Final Offer is submitted in English, an executive summary in Estonian must be included. The City of Tallinn may require translation of the Final Offer to the Estonian language. Late submissions and fax copies will not be accepted. A notice will be issued to the all Bidders by the Board of Municipal Property of the City of Tallinn confirming receipt of the Final Offer.

The offer envelopes shall be opened in full public view at the same location on the same business day after the deadline of submission.

The Advisors and the Transaction Committee shall prepare an evaluation memorandum on the submitted Final Offers. The winning Bidder will be selected according to the aforementioned criteria by the Tallinn City Council based on the motion of Tallinn City Government.

3.10. Closing

The closing of the Transaction will be the time at which payment of the purchase price will be made and the relevant Shares are transferred. This is expected to occur in the last quarter of 2000.

The share sale-purchase, subscription and shareholders' agreement will be concluded with the Bidder, whose offer has been declared best by the Tallinn City Council based on the motion of Tallinn City Government. The offer(s) will be evaluated based on the offer price and the coefficient for the change in water and wastewater service tariff(s).

In case the awarded bidder has not signed the share sale and purchase agreement within one month as of the date of award by the Tallinn City Council, Tallinn City Council shall be entitled to declare such decision null and void. In such event, the tender guarantee payment will not be returned to the best bidder or its bank guarantee shall be realized.

The price for the shares sold and subscribed for must be paid not later than 10 banking days as of the date of signing the share sale-purchase, subscription and shareholders' agreement.

3.11. Reserved Rights

The City of Tallinn reserves the right, at any time, at its sole discretion and without notice or explanation:

- (a) To refuse to qualify any Bidder for the Due Diligence phase
- (b) To exclude any Qualified Bidder from the Due Diligence phase and bidding process
- (c) To revise the schedule or procedures pertaining to any aspect of the sale process
- (d) To declare any Offer or the entire final bidding round void (whether before or after opening of such bid)

In no event may a claim be made against the City of Tallinn and its officials, against the Company, the Advisors to the City of Tallinn or their related persons as a result of any such decision.

SECTION V: RESPONSIBILITIES AND OBLIGATIONS

1. INVESTOR OBLIGATIONS

1.1. Levels of Service 2001 - 2005

1.1.1. General

The Levels of Service and other associated specified outputs and deadlines as defined in this section set out performance indicators in water supply, wastewater collection and treatment, surface water drainage and other areas of the Company operations required to be achieved by the Company within the Operating Area No. 1 in Tallinn during the first 5 year term from 2001 to 2005. Hereafter Levels of Service shall be interpreted as including all associated specified outputs and deadlines.

Compliance with these detailed Levels of Service will be achieved through a combination of improved operational efficiency of business activities and capital investments.

The Levels of Service and the resulting capital investment program for the first 5 year term concentrates primarily on the improvement of the above-ground assets (primarily Paljassaare wastewater treatment plant and water treatment plant at lake Ülemiste) and expansion of water, sewerage and stormwater networks into the existing areas not currently provided with water and wastewater services. Some limited but essential rehabilitation of the water supply and sewerage networks is also needed in order to achieve the requirements set forth in the Levels of Service, together with specified outputs in relation to Quality Assurance Accreditation of Company laboratories, Health and Safety improvements and other specified outputs.

Save as expressly provided in the Levels of Service below, the Strategic Investor will be exclusively responsible for determining the means and methods of achieving the individual Levels of Service requirements in accordance with all recognized local and international engineering and operating practices as appropriate and all applicable Laws and regulations.

The performance of the Strategic Investor in meeting these Levels of Service will provide key measurable and objective standards against which the technical performance of the Strategic Investor can be assessed by all interested parties.

The Company shall provide the services in accordance with all applicable Laws and regulations in order to procure the satisfaction of Levels of Service set out below.

1.1.2. Water Supply

1.1.2.1. Raw Water Quality and Availability of Supply

LoS 1.1.1. - Raw Water Availability

The raw surface water catchment and ground water resources serving the Company's supply area shall be managed in such a way that sufficient raw water is always available in storage to satisfy the maximum demands anticipated during the period of 2001 to 2005.

The Company will issue a water consumption estimate for its operating area to the City no later than July 1st 2001, along with projected estimates of raw water consumption and letter of comfort regarding raw water availability for the period until December 31st 2010.

LoS 1.1.2. - Surface Water Catchment Area Management

Construction of additional raw water control and flow measurement stations is required at Paunküla, Kaunissaare, Aavoja, Soodla and Raudoja water reservoirs by the Authorization of Water Usage TKA-19 issued by the Tallinn Environmental Agency for a period from April 1st 1998 to January 1st 2001, with completion within the period 2001-2005.

The Company shall report the installation of the control and flow measurement stations to the City within 90 days after the completion of such installation, but no later than 90 days after the deadline stipulated by the Authorization of Water Usage TKA-19.

LoS 1.1.3. - Surface Raw Water Quality

Beginning from January 1st 2001, the surface raw water catchment facilities including reservoirs, canals, control structures and Lake Ülemiste as summarized in Table 6 and Table 7 in the Section II of this Information Memorandum are required to be managed in such a way as to optimize the raw water quality, and to maintain raw water quality in accordance with the Authorization of Water Usage TKA-19 and subsequent Authorization for the period from 2001 to 2005.

During the period from 2001 to 2005 the Company shall maintain raw water quality in accordance with the classification A2 of the European Council Directive 75/440/EC, concerning the quality required of surface water intended for abstraction of drinking water, as amended by the Directives 79/869/EC, 90/656/EC and 91/692/EC.

The reporting and measurement of raw water quality shall be conducted in accordance with the requirements set forth in the LoS 1.2.4. on Water Quality Measurement.

LoS 1.1.4. - Ground Water Environmental Protection

The environmental protection of ground water resources abstracted by the Company under the Authorization of Water Usage TKA-19 and subsequent Authorization for the period from 2001 to 2005 in relation to the pollution caused by certain dangerous substances shall be carried out in accordance with the European Council Directive 80/68/EC, amended by the Directive 81/855/EC.

Any ground water pollution or risk of pollution, as defined by the Directive 80/68/EC shall be reported to the City no later than 48 hours after the pollution incident or its discovery and annually as a summary, no later than 90 days after the end of the year under review.

LoS 1.1.4. - Ground Water Quality Monitoring

The installation of control and measurement facilities is required from the Company on all its ground water pumping stations to be completed before January 1st 2002.

1.1.2.2. Drinking Water Quality and Availability of Supply**Clarification note:**

The existing Estonian Standard for drinking water EVS 663:1995 approximates to the EC Drinking Water Directive 80/778/EC. This current Directive will be replaced by Directive 98/83/EC by the end of 2003 through enabling National legislation passed by each Member State of the EC. The deadline for passing this National enabling legislation for all Member States is the end of 2000. Estonia is preparing for membership of the EC through a process of harmonization of its National Laws including Environmental laws which include water related issues. National legislation is currently being drafted in Estonia in order to implement this Directive. For the purposes of this Information Memorandum and in order to provide clear guidelines to the Strategic Investors, it has been assumed that the Estonian legislation necessary to introduce the Directive 98/83/EC into Estonian National Law will be enacted in due course to supersede EVS 663:1995 and will follow the requirements of Directive 98/83/EC without significant additions amendments or derogations. Specifically it has been assumed that the new indicator (i.e. non health related) parameters affecting water quality at the customer's tap will continue to be mandatory.

This Information Memorandum further assumes that measures by the Strategic Investor to meet the requirements of Directive 98/83/EC over the first 5 years will be introduced through a coordinated program of improvements implemented in accordance with the stated deadlines.

LoS 1.2.1. - Water Quality at Surface Water Treatment Plant and Ground Water Boreholes

Virtually full compliance of at least 99.5 percent of all samples (i.e. an average failure rate of 1 in every 200 tests) including 100 percent (i.e. no failures) for all microbiological samples for treated raw surface water and extracted ground water to the Estonian Drinking Water Standard EVS 663:1995 is required to be maintained beginning from January 1st 2001. Furthermore, at least 99.5 percent compliance is required beginning from January 1st 2001, including 100 percent (i.e. no failures) for all microbiological samples for all new parameters not currently included in the Estonian Drinking

Water Standard but included in the European Council Directive 98/83/EC on quality of water intended for human consumption.

Virtually full compliance of at least 99.5 percent of all samples including 100 percent for all microbiological samples for treated raw surface water at the treatment works and extracted raw ground water at the borehole locations to the European Council Directive 98/83/EC is required to be maintained from January 1st 2004 onwards.

The reporting and measurement of treated surface water and extracted ground water quality shall be conducted in accordance with the requirements set forth in the LoS 1.2.4. on Water Quality Measurement.

LoS 1.2.2. - Water Quality at the Consumer's Premises

The levels of compliance for water quality at the customer's premises are required to be improved from the current level of 91.1 percent of all samples taken in 1999 based upon the Estonian Drinking Water Standard EVS 663:1995 to at least 95 percent compliance of all samples, including no less than 95 percent for all microbiological samples, according to the European Council Directive 98/83/EC starting from the year 2005. Compliance level of less than 91.1 percent of all water samples taken by the Company to the Estonian Drinking Water Standard is not allowed in any given year beginning from 2001.

This Level of Service is subject to quality measurement and reporting practices stipulated by the LoS 1.2.4. on Water Quality Measurement presented below.

LoS 1.2.3. - Availability of Water Supply

The Company shall establish procedures and capabilities for monitoring of both planned and unplanned interruptions to every individual client of the Company in its Operating Region beginning from July 1st 2001.

Unplanned Interruptions

Beginning from the year 2005, the discontinuation of water supply to the consumers due to unplanned interruptions should be decreased to a maximum total of 12 hours per calendar year, with no single unplanned interruption exceeding 4 hours at a time. The duration of the unplanned water supply interruption shall be measured individually for every client of the Company.

The Company is required to report a number of unplanned interruptions above and below 4 hour limit in its Operating Area annually, starting from 2002. The reports should be presented to the City no later than 90 days after the end of the calendar year under review.

Planned Interruptions

Beginning from January 1st 2001, the Company is required to notify the clients in writing of any planned water supply interruptions and their duration, related to the maintenance and repair of the distribution system, at least 5 days prior to the interruption. The planned interruption should be eliminated in the shortest possible time, in accordance with all recognized local and international engineering and operating practices as deemed appropriate by the Company. For every planned interruption exceeding 5 hours, an alternative water source has to be provided, reflecting the drinking water quality requirements set forth in the LoS 1.2.2. elsewhere in this section.

The Company is required to report the number of planned interruptions exceeding the pre-notified period annually, separately for every individual supply area. The reports should be presented to the City not later than 90 days after the end of the calendar year under review.

LoS 1.2.4. - Drinking Water laboratory Accreditation

Accreditation of the drinking water laboratory in accordance with the Law on Food Products is required by January 1st 2002. Replacement of outdated laboratory and sampling equipment with new equipment to allow full testing of all the drinking water parameters listed in the European Council Directives 98/86/EC (drinking water) and 79/869/EC (raw water) is required together with staff training to achieve accreditation by this deadline. The accreditation of the drinking water laboratory

shall be reported to the City within 90 days after the accreditation, but no later than 90 days after the deadline of January 1st 2002.

LoS 1.2.5. - Water Quality Measurement

Raw water quality measurement shall be conducted daily at the raw water intake in Lake Ülemiste and at least once every month in all surface water reservoirs of the Company. Raw water in all the ground water boreholes and underground reservoirs shall be measured twice every month. Samples taken should be tested by an accredited water laboratory beginning from January 1st 2002 and existing water laboratory of the Company prior to January 1st 2002. Test results collected shall be reported to the City annually in a summary form including monthly and annual maximum, minimum and average indicators of raw water quality, according to the chemical and microbiological parameters included in the Estonian Drinking Water Standard EVS 663:1995 and European Council Directive 75/440/EC.

Treated surface water and ground water quality measurement shall be conducted hourly at the surface water treatment plant and ground water pumping stations (in locations where the ground water is treated). Samples taken should be tested by an accredited water laboratory beginning from January 1st 2002 and existing water laboratory of the Company prior to January 1st 2002. Test results collected shall be reported to the City annually in a summary form including monthly and annual maximum, minimum and average indicators of drinking water quality, according to the all parameters included in the Estonian Drinking Water Standard EVS 663:1995 and European Council Directive 98/86/EC.

Drinking water quality measurement, currently conducted at 120 fixed locations across the Company operating region twice per calendar month. The samples should be taken at the point where the Company's pipeline enters the internal water distribution network of the Company's clients (i.e. at the limit of the Company's mains). Samples taken should be tested by an accredited water laboratory beginning from January 1st 2002 and existing water laboratory of the Company prior to January 1st 2002. Test results collected shall be reported to the City annually in a summary form including monthly and annual maximum, minimum and average indicators of drinking water quality, according to the parameters included in the Estonian Drinking Water Standard EVS 663:1995 and European Council Directive 98/86/EC.

Beginning from January 1st 2005, the drinking water quality measurement procedures shall be changed to fully correspond to all the requirements set forth in the European Council Directive 98/86/EC, including water quality testing at the consumer's tap.

All water quality test results shall be recorded and stored in a database format.

LoS 1.2.6. - Leakages

Leakages are required to be reduced by at least 25 percent by the year 2005, in comparison to the water leakages observed in 1999 (in absolute terms). The leakage level beginning from the year 2001 is required to be maintained at least at the level observed in 1999 in absolute terms.

The reduction in leakages can be achieved by a combination of pro-active leakage detection, setting up of district meter areas (DMAs) to facilitate leakage prioritizing, pressure zoning and staff training in leakage management. Further leakage reduction to reach the optimum economic level of leakage for the network is anticipated as a result of the rehabilitation of the water network in the period 2006-2010.

The information on water leakages shall be reported to the City annually, within 90 days from the end of the year under review, complete with annual water production and water sales statistics, along with an estimate of operational use of water and fire fighting consumption.

LoS 1.2.7. - Pressure

The Company is required to provide water at pressure that will, under normal average daily demand conditions, enable it to serve the top floor of every connected house located in the operating area of the Company. This requirement can be achieved through additional pressure zoning and local pressure reduction and boosting, where appropriate, consistent with maintaining existing minimum normal levels of pressure to existing high-rise apartment blocks.

The applicable water pressure requirement is set forth in the Tallinn Water and Sewerage Network Operating Order, approved by the Decree No. 25 of Tallinn City Council on August 26th 1999.

The customer complaints regarding inadequate water pressure should be recorded by the Company and investigated within a period of 30 days. Annual statistics on customer complaints regarding water pressure and results of the appropriate investigations shall be summarized in a report that the Company shall prepare and submit to the City within 90 days from the end of the year under review.

LoS 1.2.8. - Metering

Every client of the Company shall be equipped with a separate water meter beginning from December 31st 2001, as required by the Tallinn Water and Sewerage Network Operating Order, including the installation of all necessary connecting pipes, replacement of outdated meters and modernization of control mechanisms. The Company shall be responsible for all equipment installation and shall bear all costs.

The information regarding the number of customer connections with installed meters as proportion of the total client base of the Company shall be reported to the City no later than within 90 days from the end of the year under review.

LoS 1.2.9. - New Area Connection to Water Supply

Connection of the districts Kose, Nõmme and Pirita, located in the Company's Operating Region and currently not entirely covered with a water distribution system, to the water supply network of the Company is required according to the schedule set forth in Table 41 in the Appendix III. In total, a construction of 35.1 kilometer water distribution network is required in these regions in the period from 2001 to 2006. The extension of the network may also require reinforcement and additional boosting capacities, in order to maintain the compliance with the requirements set forth in the Drinking Water Quality and Availability of Supply LoS.

The Company shall report the length of the water distribution system constructed and the number of new clients connected annually. The report is due within 90 days from the end of the year under review.

LoS 1.2.10. - Fire hydrants

The Company is required to bring all of its fire hydrants located in the Company's Operating Area in Tallinn in compliance with the Estonian Fire Fighting and Emergency Equipment Standard 620-3:1966 before December 31st 2005.

The requirement shall be achieved through replacing the outstanding non-Tallinn-type hydrants with Tallinn-type hydrants. This represents approximately 2,000 replacement fire hydrants.

The number of fire hydrants replaced shall be reported to the City annually, no later than 90 days from the end of the year under review.

1.1.3. Wastewater Collection, Treatment and Disposal

1.1.3.1. Wastewater Collection

LoS 2.1.1. - Availability of Wastewater Collection

The Company is required to reduce the number of sewer blockages observed in 1999, as described in Section II of this Information Memorandum, by at least 20 percent by the year 2005. This can be achieved through selective rehabilitation and replacement of amortized sewerage network in order to reduce the possibility of sewer blockages due to structural collapse (or reduce the consequences of sewer collapse). The number of blockages each year between 2001 and 2005 shall not exceed the 1999 figure.

The number of sewerage network blockages shall be reported to the City annually, no later than 90 days after the end of the year under review.

The major component of the sewer rehabilitation and replacement program targeted for substantial reduction in the number of network blockages due to structural collapse is programmed for the

period 2006 to 2010, following the completion of a detailed underground asset database and rehabilitation strategy during the period 2000 to 2004 (as described in the LoS 5.1).

LoS 2.1.2. - New Area Connection to Sewerage Network

Connection of the districts Nõmme, Lilleküla, Mustjõe, Merivälja, Kose, Maarjamäe, Kakumäe and Pirita, located in the Operating Region of the Company and currently not entirely covered with a sewer, to the sewage collection system of the Company is required according to the schedule set forth in Table 42 in the Appendix III. In total, a construction of 189.6 kilometers of new sewerage network is required in these regions in the period from 2001 to 2006. The extension of network may also require reinforcement and additional boosting capacities, in order to maintain compliance with the requirements set forth in the Wastewater Collection LoS.

The Company shall report the length of the sewerage network constructed and the number of new clients connected annually. The report is due within 90 days from the end of the year under review.

1.1.3.2. Wastewater Treatment and Disposal

LoS 2.2.1. - Treated Effluent Quality

Starting from January 1st 2001, the Company is required to maintain the level of pollution at no worse than the level of 1999, as measured by the maximum of average weekly pollution concentrations. The Company will be responsible for all fines charged for not meeting the existing treated effluent discharge standards as described in the Section II of this Information Memorandum.

Starting from January 1st 2004, the Company is required to achieve full level of compliance with the existing and planned future effluent discharge standards, as set by the Decree No. 11 of the Government of Estonia on January 20th 1998.

The Company shall conduct treated effluent sampling and testing according to the existing regulations and requirements of the Tallinn Environmental Agency. The Company should present regular treated effluent sample test results to the Tallinn Environmental Agency as per its request.

In addition, the Company should annually report maximum weekly pollution concentration levels in the treated effluent for every week for the past year to the City, at least 90 days after the end of the year under review.

LoS 2.2.2. - Wastewater Laboratory Accreditation

Accreditation of the wastewater laboratory is required from the Company by January 1st 2002. Replacement of out-dated laboratory and sampling equipment with new equipment to allow full testing of all the wastewater effluent parameters regulated by the effluent discharge standards set by the Decree No. 11 of the Government of Estonia is required together with staff training to achieve accreditation by this deadline.

The accreditation of the wastewater laboratory shall be reported to the City within 90 days after the accreditation, but no later than 90 days after the deadline of January 1st 2002.

LoS 2.2.3. - Wastewater Treatment Plant Overflows

The Company shall cease discharging fully or partially untreated wastewater from the waste water treatment plant (typically caused by severe rainfalls and combined sewer and stormwater collection network overflows) beginning from January 1st 2004. This Level of Service shall be achieved through completion of construction of the wastewater collection reservoir at the Paljassaare wastewater treatment plant, already initiated by the Company.

The Company shall report the number of wastewater treatment plant overflows and resulting discharge of untreated wastewater for the previous year to the City, no later than 90 days after the year end.

LoS 2.2.4. - Sludge Processing

The annual volume of sludge disposed to landfill from both the primary and secondary treatment stages following digestion shall be reduced to 25 per cent of all sludge generated by the wastewater

treatment plant beginning from the year 2005. New agricultural and commercial outlets for digested sludge shall be pursued as a sustainable and profitable alternative to sludge dumping. Digested sludge for disposal to land for agricultural use shall comply with Directive 86/278/EC concerning the protection of the environment and in particular of the soil in cases when sewage sludge is used in agriculture.

The Company shall annually report the amount of sludge generated by the Company operations for the year, along with proportions of sludge recycled and dumped to the landfill. The report is due within the 90 days after the end of the year under review.

1.1.4. Stormwater Collection and Disposal

LoS 3.1. - Stormwater Collection and Measurement

The installation of stormwater measurement and testing equipment, according to the requirements set forth in the Authorization of Water Usage TKA-19, is required from the Company prior to the end of 2005.

The Company shall report the completion of the stormwater collection and measurement equipment installation to the City within 90 days after the completion of the project.

LoS 3.2. - New Area Connection to Stormwater Network

Connection of the districts Nõmme, Lilleküla and Merivälja, located in the Operating Region of the Company and currently not entirely covered with a stormwater collection network, to the stormwater collection system of the Company is required according to the schedule set forth in Table 43 in Appendix III. In total, a construction of 45.3 kilometer stormwater collection network is required in these regions in the period from 2001 to 2006. The extension of network may also require reinforcement and additional boosting capacities, in order to maintain the compliance with the requirements set forth in the Stormwater Collection and Disposal LoS.

The Company shall report the length of the stormwater network constructed and the number of new clients connected annually. The report is due within 90 days from the end of the year under review.

1.1.5. Customer Service and Reporting

LoS 4.1. - Customer Service

The customer services department of the Company will be required inter-alia to monitor all customer contacts and complaints including written and telephoned communications and to record the speed of response in number of days for each communication. The Department shall provide yearly reports of number of contacts and complaints, no later than 90 days after the end of the year under review.

The information provided by the consumers through contacts and complaints shall be utilized in building of an asset database, required in LoS 4.1 (for example information regarding the location of water quality complaints and bursts).

LoS 4.2. - Information Collection and Reporting

The Company is required to prepare a full annual record of performance against each of the Levels of Service requirements setting out the compliance and failure results and reasons, along with corrective actions. In addition, the Company shall report annually against indicators set forth by the City of Tallinn, covering operational, financial and environmental performance aspects.

The deadline for presentation of the annual reports to the City is set forth in the individual Levels of Service elsewhere in this section (typically no later than 90 days after the end of the year under review, unless otherwise noted).

In addition, without prejudice to the requirements set out in the Levels of Services, the Company shall maintain in good order complete and accurate records in reasonable detail of its activities relating to the implementation of and compliance with the Levels of Service which shall be available for inspection by the City and individual Company customers at all reasonable times.

1.1.6. Other Levels of Service**LoS 5.1. - Database Modeling**

Separate dynamic calibrated GIS computer models of the water distribution network and sewer system based on a detailed underground asset inventory are required to be completed and a rehabilitation strategy developed by the Company by the end of 2004. This will enable an extensive underground asset rehabilitation and renewal program for both sewerage and water networks to be implemented during the period 2006 to 2010.

A detailed underground asset rehabilitation program, complete with cost estimates, shall be presented to the City no later than September 30th 2004.

LoS 5.2. - ISO Accreditation

Achievement of Quality Assurance accreditation ISO 9001 is required from the Company by December 31st 2001 and achievement of Environmental Management System accreditation ISO 14000 is required by December 31st 2002.

Achievement of ISO 9000 accreditation shall be reported within 90 days after the award of the accreditation, but no later than 90 days after the deadline of December 31st 2001.

LoS 5.3. - Health and Safety

Reconstruction and replacement of all buildings, plant and technical equipment at the water treatment plant and at all other working areas not in full compliance with National Health and Safety legislation is required to achieve full compliance with the legislation by December 31st 2001.

Safe working conditions are governed by the Estonian Law on Safety of Working Conditions from July 7th 1999. Specific installations at the water treatment plant not conforming to the current legislation include: the existing chlorine store and chlorine dosing facilities, residual ozone destructor as well as reconstruction of ventilation and heating systems of the purification system and reconstruction of the boiler house.

The Company shall report the number of health and safety related incidents and their nature annually to the City, no later than 90 days after the end of the year under review.

1.2. Levels of Service 2006 - 2010

Levels of Service for the period from 2006 to 2010 will be determined by the City prior to the end of 2004, based primarily upon the results of the underground assets rehabilitation strategy prepared by the Company and improvements in the quality of services deemed necessary by the City.

Capital investment in this period will be largely in rehabilitation and replacement of underground assets comprising water distribution and sewerage networks. The purpose of this investment is to achieve higher Levels of Service by the year 2010 in sewer flooding, water quality at the customers' premises, and reduced leakage levels through a systematic rehabilitation and renewal strategy based on asset condition database and dynamic modeling of the networks.

Tentative Levels of Service to be achieved at the end of the period 2006 to 2010 are presented below as a guide to the Strategic Investor:

- Sewer Blockages
Reduction in annual blockage incidents by at least 40 percent compared to 1999 incidents.
- Water Quality in Distribution
Improvement in compliance with Directive 98/86/EC (i.e. better than 95 percent) for bacteriological and chemical parameters at the customers' premises (interim standard for lead)
- Water Quality at the Treatment Works
Virtually full compliance to European Council Directive 98/83/EC (i.e. 99.5 percent for all parameters)
- Leakage
Economic level of leakage achieved through active leakage control
- Wastewater Treatment Plant
Full compliance with Ministry of Environment/HELCOM standards for effluent samples
- Sewage Sludge
All primary and secondary sludge digested and recycled to agricultural use
- Water Resources Management
Fully in accordance with the Water Framework Directive
- Customer Service Improvement
Continuing improvement in customer services reflected in reduction of customer complaints year-on-year.

2. TARIFF REGULATION

The exact format of the regulatory framework has still to be established but it is intended that the tariff setting exercise will be subject to regulation. The initial proposals for regulation which are being discussed by the Tallinn City Government assume that the City Government acts as the regulator of the water tariffs for the first five years beginning from 2001. The agreed regulatory framework will be set up prior to the start of that period.

The ideas in this Section have not been agreed but are an indication of the approach that will be taken by the City of Tallinn.

The tariff aspects of the regulatory framework will seek to ensure that the company sets tariffs in accordance with Public Water Supply and Sewerage Act, which

- Cover production costs
- Comply with quality and safety requirements
- Comply with environmental protection requirements
- Operate with justified profitability
- Ensure that the prices set shall not be discriminatory with regard to different clients or groups of clients

In addition the regulator will have an overall duty to

- Promote the economy and efficiency in the carrying out of the company's functions
- Protect the customers' interests

The Public Water Supply and Sewerage Act, dated 1999, especially Sections 6 and 14, contains the tariff provisions under which all water undertakings will operate. In accordance with the Act, Tallinn City Government has agreed revisions to the tariff structure which will have to come in force by January 1st 2001.

In particular the revisions:

- Introduce a fixed fee element of the tariff as required by Section 14.1.1
- Set a price for the services that is not discriminatory between domestic and non-domestic clients in line with Section 14.4
- Allow an increase for inflation

Although there will be no discrimination between domestic and non-domestic customers once the new tariffs are applied, the regulator may examine other aspects of the current tariff structure to ensure that there is no other discrimination and that some customers are not subsidizing others.

As an example of an approach that may be taken, the Regulator may decide that a fair balance between water and sewerage charges may be achieved by equalizing the rates of return on capital employed in each service.

As another example, the regulator may also examine the effect of the implementation of the flat fee system to ensure that it is being applied in the best interests of customers as a whole.

The tariffs for the first five years will be in accordance with the bids of the successful Bidder. In determining these tariffs the Bidders are required to achieve the Levels of Service indicators set out elsewhere in Section V of this Information Memorandum.

The limit on increases in tariffs will be known as the K factor and there will be a separate factors for each of the five years, although these can be the same amount. The K factor and hence the tariffs may be revised upwards or downwards during the five-year period if there are major changes to specific circumstances which are set out in the operating license.

The charges will be controlled by the formula

$$\Delta T = \text{CPI} + K$$

where

- ΔT = Annual Change in Tariff
- CPI = Change in Consumer Price Index
- K = Coefficient to reflect potential productivity and efficiency gains and increase in tariffs to finance the provision of the agreed level of service to customers

CPI applied to the formula will be the CPI published in the monthly bulletin Estonian Statistics six months before the new tariff increases are to be applied. Under normal circumstances, it will be assumed that the tariffs will operate for the financial year of the company and be for that the company will prepare its budget for that period.

2.1. Tariff Setting Process

2.1.1. Tariffs for First Five Years

The tariffs will initially be set for a period of five years as a result of the bid process. The bid will contain a business plan in sufficient detail to enable the tariffs to be determined in respect of the investment required and the levels of service to be achieved.

The tariffs will be adjusted annually for the CPI factor as described above.

Company Accounts and other supporting information will be submitted annually to the Regulatory Body so that it can be determine whether the productivity and efficiency gains have been made, the investments have been carried out and the required levels of service achieved. This will also determine whether any trigger points have arisen which would give rise to a change in the K coefficient during the five-year period.

The tariff for each year will be fixed based on the abovementioned coefficients by the City Government in accordance with Section 13 (2) of the Water and Sewerage Act. The tariff will be determined and published three months before the changes are due to come into effect.

2.1.2. Subsequent Tariffs

A price review will take place in the fifth year of operation which will determine the K coefficient of the tariffs for the subsequent five years. The Company will submit its business plan for the period in sufficient detail to enable the Regulator to fulfill his duties. The plan will include but not be restricted to:

- Forecast levels of service to be achieved
- Forecast levels of compliance with environmental regulations including the meeting of requirements of Estonian law and EU compliance
- Forecast of levels of sales of water and sewerage
- Forecasts of production costs
- Investment plan for the period
- Funding sources for the investment plan

Having examined the plan and discussed with the Operator, the Regulator will fix the coefficients for the next five year period having made due allowance for justified profitability as required by Section 13 (3) of the Act.

These coefficients will be included in the price to be determined by the City Government in accordance with Section 13 (2) of the Act. The price will be determined and published three months before the changes are due to come into effect.

3. RELATIONS WITH THE CITY OF TALLINN

3.1. Tallinn City Obligations

Key Tallinn City obligations under the Terms and Conditions of the Transaction will include, among others:

- Monitoring the performance of the Company against established Levels of Service
- Setting the tariffs of the Company according to the agreed procedure
- Subsidizing the connection fees of the Company's clients

Of these obligations, the subsidizing of the Connection fees payable by the Company's clients has been decided by the Resolution No. 210 of the Tallinn City Council and Decree No. 25 of the Tallinn City Council, both dated June 15th 2000. According to these decisions, a special account will be established in the amount of the proceeds of the sale of the existing shares of the Company, to be used for financing:

- Sewerage and water network connection subsidies
- Surface water drainage network extension
- Necessary road excavation works for the network extensions

The subsidies will be granted to all existing households established prior to 1995 within the Operating Area of the Company in Tallinn to the extent of 50 to 80 per cent from the total connection fee payable. The size of the subsidy will be based on the timing of the connection, when clients connecting in the first year after the construction of the network extension will receive 80 per cent subsidy, second year - 70 per cent subsidy, third year and later - 50 per cent subsidy.

The remaining obligations of the City of Tallinn under the terms and Conditions of the Transaction will be finalized prior to the deadline for submitting the proposals by the Qualified Bidders. All Qualified Bidders will be provided with full copies of agreements when they become available.

3.2. Sanctions and Guarantees

Sanctions and guarantees to be levied upon the Strategic Investor in connection to the established Levels of Service will be developed by the City of Tallinn prior to the deadline for submitting the proposals by the Qualified Bidders. All Qualified Bidders will be provided with full copies of agreements when they become available.

APPENDICES

APPENDIX I: WATER QUALITY TEST RESULTS

Table 38: Surface Raw Water Quality 1999

Characteristic	Unit	Min	Max	Mean
Odor	Point	2	2	2
Color	Degree	34	95	55,3
Turbidity	NTU	1,01	27,1	9,75
pH		7,30	8,74	8,15
Conductivity	? S/cm	326	483	389
Dissolv. Oxygen, O ₂	mg/l	5,3	17,1	10,3
Dry residue, 105 °C	mg/l	217	325	258
Alkalinity	Mval/l	2,70	4,08	3,23
Total hardness	Mval/l	3,45	5,10	4,08
Permanent hardness	Mval/l	0,55	1,34	0,88
Temporary hardness	Mval/l	2,79	4,08	3,20
Aluminum, Al ³⁺	mg/l	0,08	0,01	0,04
Calcium, Ca ²⁺	mg/l	52,5	87,4	64,7
Magnesium, Mg ²⁺	mg/l	7,3	16,7	10,3
Sodium, Na ⁺	mg/l	4,9	6,0	5,3
Potassium, K ⁺	mg/l	2,1	2,7	2,3
Bicarbonate, HCO ₃ ⁻	mg/l	161	245	188
Chloride, Cl ⁻	mg/l	8,5	12,4	9,8
Sulphate, SO ₄ ²⁻	mg/l	23	44	31,2
Ammonium, NH ₄ ⁺	mg/l	<0,004	0,157	0,077
Nitrate, NO ₃ ⁻	mg/l	1,0	6,2	3,2
Nitrite, NO ₂ ⁻	mg/l	<0,003	0,369	0,077
Fluoride, F ⁻	mg/l	0,10	0,18	0,14
Orthophosphate, PO ₄ ³⁻	mg/l	<0,005	0,036	0,009
Sulphide, S ²⁻	mg/l	0,007	0,014	0,010
Anionic detergents	mg/l			<0,01
Permanganate index	Mg O ₂ /l	8,3	12,6	10,2
COD (K ₂ Cr ₂ O ₇)	Mg O ₂ /l	27,9	59,8	41,0
Total organic carbon	Mg C/l	11,2	14,8	12,7
Iron, Fe	mg/l	0,08	0,28	0,12
Manganese, Mn	mg/l	0,008	0,090	0,042
Zinc, Zn	mg/l			<0,01
Copper, Cu	mg/l			<0,003
Barium, Ba	mg/l	0,07	0,07	0,07
Boron, B	mg/l	0,05	0,07	0,06
Arsenic, As	mg/l			<0,002
Mercury, Hg	mg/l			<0,00005
Cadmium, Cd	mg/l			<0,0001
Chromium (VI), Cr ⁶⁺	mg/l			<0,001
Molybdenum, Mo	mg/l			<0,01
Lead, Pb	mg/l			<0,001
Selenium, Se	mg/l			<0,002
Cyanide, CN ⁻	mg/l	0,001	0,002	0,001
Coliform bacteria.	bact./100ml	0	90	13,2
Therm. coliform bact.	bact./100ml	0	70	3,8
Biomass of phytoplankton	mg/l	0,164	40,962	10,509
Number of phytoplankton	cells/ml	272	942800	253000
Number of zooplankton	unit/m ³	21000	3880000	665761

Table 39: Treated Surface Water Quality 1999

Characteristic	Unit	Min	Max	Mean	Standard EVS 663:1995			EU directive 98/83/EC
					Very good	Good	Satisfactory	
Odor	point	1	1	1	1	2	2	
Taste	point	1	1	1	1	2	2	
Color	degree	0,0	12,0	2,4	5	15	25	
Turbidity	NTU	0,12	0,99	0,34	1	2	5	1
PH		6,65	7,17	6,91	6,5-8,5	6,0-9,0	6,0-9,0	6,5-9,5
Conductivity	µS/cm	355	500	415				2500
Dissolv. oxygen, O ₂	mg/l	6,4	15,9	10,4				
Dry residue, 105 °C	mg/l	240	353	279	1000	1000	1500	
Alkalinity	mval/l	1,72	3,28	2,18				
Total hardness	mval/l	3,51	5,12	4,09	5	7	10	
Permanent hardness	mval/l	1,55	2,54	1,93				
Temporary hardness	mval/l	1,93	2,64	2,17				
Aluminum, Al ³⁺	mg/l	0,04	0,20	0,11	0,2			0,2
Calcium, Ca ²⁺	mg/l	54,8	84,8	66,7				
Magnesium, Mg ²⁺	mg/l	6,7	10,8	9,3				
Sodium, Na ⁺	mg/l	4,8	6,0	5,4				200
Potassium, K ⁺	mg/l	2,0	2,7	2,3				
Bicarbonate, HCO ₃ ⁻	mg/l	118	161	132				
Chloride, Cl ⁻	mg/l	10,1	14,9	12,0	100	250	350	250
Sulphate, SO ₄ ²⁻	mg/l	68	114	84,4	100	250	500	250
Ammonium, NH ₄ ⁺	mg/l	0,004	0,004	<0,004	0,0	0,5	1,0	0,5
Nitrate, NO ₃ ⁻	mg/l	0,8	6,6	3,2	1	10	45	50
Nitrite, NO ₂ ⁻	mg/l			<0,003	0,00	0,01	0,10	0,5
Fluoride, F ⁻	mg/l	0,04	0,17	0,09	1,5			1,5
Orthophosphate, PO ₄ ³⁻	mg/l			<0,005				
Sulphide, S ²⁻	mg/l	0,001	0,010	0,004				
Anionic detergents	mg/l			<0,01	0	0,3	0,5	
Permanganate index	mg O ₂ /l	2,1	4,1	2,95	1	2	4	5
Total organic carbon	mg C/l	4,84	7,12	6,07				
Free chlorine	mg/l	0,19	0,65	0,40	0,3 – 0,5			
Iron, Fe	mg/l			<0,02	0,1	0,3	1	0,2
Manganese, Mn	mg/l	0,004	0,036	0,013	0,05	0,1	0,2	0,05
Zinc, Zn	mg/l			<0,01	1	3	5	
Copper, Cu	mg/l	<0,003	0,004	<0,003	0,3	1	1	2
Barium, Ba	mg/l	0,05	0,05	0,05	0,7			
Boron, B	mg/l			<0,02	0,3			1
Arsenic, As	mg/l			<0,002	0,01			0,01
Mercury, Hg	mg/l			<0,00005	0,001			0,001
Cadmium, Cd	mg/l			<0,0001	0,003			0,005
Chromium (VI), Cr ⁶⁺	mg/l			<0,001	0,05			0,05
Molybdenum, Mo	mg/l			<0,01	0,07			
Lead, Pb	mg/l			<0,001	0,01			0,01
Selenium, Se	mg/l			<0,002	0,01			0,01
Cyanide, CN ⁻	mg/l	0,001	0,002	0,001	0,07			0,05
Coliform bacteria.	bact./100ml	0	0	0	0			0
Therm. coliform bact.	bact./100ml	0	0	0	0			0
Biomass of phytoplankton	mg/l	0,000	0,045	0,008				
Number of phytoplankton	cells/ml	0	1100	227,3				
Number of zooplankton	unit/m ³	0	104328	5051				

Table 40: Supplied Drinking Water Quality 1999 (average)

No.	Location	Turbidity	Color	Odor	Taste	Iron Fe	Coliform bacteria (37 °C)	Therm. coliform bacteria (44 °C)
		NTU	mgPt/l	Point	point	Mg/l	Bact./100 ml	bact./100 ml
1	Aia 18	0.86	6.2	1.0	1.0	0.15	0.3	0.0
2	Akadeemia 10	2.11	9.0	1.0	1.0	0.26	0.0	0.0
3	Akadeemia 30	1.10	8.0	1.0	1.0	0.12	0.0	0.0
4	Akadeemia 32	1.32	5.9	1.0	1.0	0.17	0.0	0.0
5	Algi ja Ronga nurk	1.23	11.6	1.0	1.0	0.50	0.2	0.0
6	Arbu 15	1.04	7.4	1.0	1.0	0.27	0.0	0.0
7	Asula 2	1.03	5.9	1.0	1.0	0.22	0.5	0.0
8	Auto 8	1.73	3.7	1.0	1.0	0.12	0.4	0.0
9	Belinski 20	1.46	4.3	1.0	1.0	0.22	0.0	0.0
10	Ehitajate-Õismäe hüdrant	1.03	3.1	1.0	1.0	0.08	0.0	0.0
11	Ehitajate tee 110 H nr.3897	1.77	4.7	1.0	1.0	0.25	0.0	0.0
12	Ehitajate tee 112	0.85	5.5	1.0	1.0	0.14	0.0	0.0
13	Ehitajate tee 115 H	1.64	5.1	1.0	1.0	0.10	0.0	0.0
14	Ehte 9	1.09	5.1	1.0	1.0	0.19	0.7	0.0
15	Endla 38	0.93	6.1	1.0	1.0	0.20	0.0	0.0
16	Energia 8	0.78	6.0	1.0	1.0	0.28	0.0	0.0
17	Filtri 5	1.05	6.0	1.0	1.0	0.18	0.2	0.0
18	Gonsiori 2	0.81	5.9	1.0	1.0	0.12	0.0	0.0
19	Heki tee 16	2.14	13.7	1.0	1.0	0.40	0.0	0.0
20	Hiiu 39	2.20	5.1	1.0	1.0	0.19	0.1	0.0
21	Humala 3	1.15	18.1	1.0	1.0	0.83	0.0	0.0
22	II Liin 10	0.94	6.8	1.0	1.0	0.15	0.0	0.0
23	II liin 4	0.71	4.4	1.0	1.0	0.17	1.2	0.0
24	Juurdeveo 10	0.84	3.8	1.0	1.0	0.12	0.7	0.0
25	Järveotsa 15	1.56	10.2	1.0	1.0	0.37	0.0	0.0
26	Järveotsa tee 5 H nr.3907	2.82	5.4	1.0	1.0	0.49	0.0	0.0
27	Kaarla 2, 4 või 6	2.39	3.7	1.0	1.0	0.27	0.0	0.0
28	Kadaka tee 48	1.69	6.4	1.0	1.0	0.24	0.1	0.0
29	Kadaka tee 76A	3.00	7.8	1.0	1.0	0.42	0.1	0.0
30	Kadaka tee 76B	1.87	4.6	1.0	1.0	0.24	0.4	0.0
31	Kaluri 1	1.08	5.0	1.0	1.0	0.15	0.1	0.0
32	Kauna 2	0.87	5.0	1.0	1.0	0.17	1.1	0.0
33	Kirsi 15A	0.98	4.0	1.0	1.0	0.08	0.0	0.0
34	Kloostri 6	2.06	8.1	1.0	1.0	0.22	0.3	0.0
35	Koidula 23	1.11	6.1	1.0	1.0	0.20	0.0	0.0
36	Kolde pst. 100A	1.02	4.3	1.0	1.0	0.11	0.0	0.0
37	Kopli 27	1.82	10.5	1.0	1.0	0.42	0.2	0.0
38	Kopli 29	1.27	7.4	1.0	1.0	0.24	0.0	0.0
39	Kullerkupu 10	0.81	5.7	1.0	1.0	0.14	0.0	0.0
40	Kunderi 22	1.28	5.5	1.0	1.0	0.17	0.0	0.0
41	Kuuma 9	2.39	4.0	1.0	1.0	0.17	0.4	0.0
42	Kõrgepinge 21	1.07	15.0	1.0	1.0	0.75	0.0	0.0
43	Kõrgepinge 31	1.50	10.6	1.0	1.0	0.51	3.5	1.5
44	Käo 57	0.74	7.1	1.0	1.0	0.23	0.0	0.0
45	Kõie 11	1.62	8.4	1.0	1.0	0.33	0.0	0.0
46	Kõie 15	1.20	6.3	1.0	1.0	0.25	0.4	0.0
47	Kütise 2	2.52	3.8	1.0	1.0	0.16	0.5	0.0

48 Lagle pst. 1	2.30	8.8	1.0	1.0	0.44	0.1	0.0
49 Lauteri 1	1.03	7.0	1.0	1.0	0.17	0.0	0.0
50 Lauteri 3	0.89	5.7	1.0	1.0	0.19	0.3	0.1
51 Liikuri 44	1.25	9.9	1.0	1.0	0.27	0.0	0.0
52 Liikuri 9	0.56	4.8	1.0	1.0	0.19	0.0	0.0
53 Liivalaia 23	1.03	5.5	1.0	1.0	0.22	0.4	0.0
54 Linnamäe tee 6	1.21	6.8	1.0	1.0	0.23	0.0	0.0
55 Linnu tee 64	0.57	4.0	1.0	1.0	0.09	0.5	0.0
56 Linnu tee 96	0.46	0.0	1.0	1.0	0.08	0.0	0.0
57 Lodjapuu tee 48	2.78	13.1	1.0	1.0	0.48	0.4	0.0
58 Lossi plats 1A	1.48	14.4	1.0	1.0	0.25	0.2	0.0
59 Luha 16	1.09	6.4	1.0	1.0	0.21	0.0	0.0
60 Lääne tee 2	2.08	13.8	1.0	1.0	0.36	0.0	0.0
61 Läänemere 46	0.95	6.9	1.0	1.0	0.28	0.0	0.0
62 Mahla 78/80	2.55	7.0	1.0	1.0	0.19	0.0	0.0
63 Mahla 82	2.33	5.2	1.0	1.0	0.18	0.0	0.0
64 Mahtra 13	0.93	6.3	1.0	1.0	0.21	0.0	0.0
65 Majaka 32	1.17	6.1	1.0	1.0	0.16	0.2	0.0
66 Majaka põik 4	1.25	7.4	1.0	1.0	0.27	7.1	0.5
67 Meika 7	0.81	5.8	1.0	1.0	0.23	1.3	0.0
68 Mustamäe tee 187	0.77	6.1	1.0	1.0	0.18	0.0	0.0
69 Narva mnt. 98	1.19	7.9	1.0	1.0	0.19	5.3	0.0
70 Narva mnt. ja Mäe nurk	1.21	8.7	1.0	1.0	0.30	3.9	0.2
71 Noole 7	0.54	2.7	1.0	1.0	0.11	0.0	0.0
72 Nurmesalu 3	2.57	4.0	1.0	1.0	0.17	0.2	0.0
73 Pae 68	0.97	7.1	1.0	1.0	0.18	0.0	0.0
74 Paldiski mnt. 125	0.64	7.0	2.0	1.0	0.41	0.0	0.0
75 Paldiski mnt. 125	1.45	6.0	1.0	1.0	0.30	0.0	0.0
76 Paldiski mnt. 62	1.09	5.5	1.0	1.0	0.28	0.0	0.0
77 Paldiski mnt. 96	0.97	4.4	1.0	1.0	0.17	0.0	0.0
78 Paljassaare põik 14	1.13	9.1	1.0	1.0	0.28	0.0	0.0
79 Paplite pst. 9	2.04	4.1	1.0	1.0	0.14	0.0	0.0
80 Peterburi mnt. 46	1.30	7.4	1.0	1.0	0.20	0.0	0.0
81 Peterburi mnt. 48	1.41	5.5	1.0	1.0	0.24	0.0	0.0
82 Pihlaka 12	1.64	3.8	1.0	1.0	0.14	0.0	0.0
83 Puhkekodu tee 61	2.82	3.7	1.0	1.0	0.18	0.0	0.0
84 Punane 38 III a. p/m	0.77	4.4	1.0	1.0	0.09	0.0	0.0
85 Põllu 91	1.37	3.7	1.0	1.0	0.10	0.0	0.0
86 Pärnu mnt. 476	1.57	0.7	1.0	1.0	0.08	0.0	0.0
87 Pärnu mnt. 325	17.58	2.0	1.2	1.2	1.70	0.3	0.0
88 Pärnu mnt. 453	1.80	3.4	1.0	1.0	0.14	0.2	0.0
89 Pärnu mnt. 476	1.25	2.8	1.0	1.0	0.12	0.0	0.0
90 Raekoja plats 17	1.43	12.8	1.0	1.0	0.26	0.0	0.0
91 Raekoja plats 18	1.40	10.0	1.0	1.0	0.26	0.0	0.0
92 Randla 19	0.59	4.0	1.0	1.0	0.24	0.0	0.0
93 Randvere tee 29	2.02	9.4	1.0	1.0	0.20	0.1	0.0
94 Raua 26	0.84	5.0	1.0	1.0	0.12	0.0	0.0
95 Ravi 27	0.78	5.3	1.0	1.0	0.22	0.3	0.0
96 Regati pst. 1	1.84	6.6	1.0	1.0	0.16	0.0	0.0
97 Ristiku 69	1.40	6.4	1.0	1.0	0.32	0.1	0.0
98 Rohu 13	1.02	5.6	1.0	1.0	0.23	0.0	0.0
99 Rulli 4	2.72	6.5	1.0	1.0	0.22	0.1	0.0
100 Räägu 49	1.08	9.5	1.0	1.0	0.47	0.0	0.0

101 Sadama 21	1.16	6.2	1.0	1.0	0.27	0.0	0.0
102 Sepa 16	1.75	7.3	1.0	1.0	0.28	0.4	0.0
103 Sinimäe 17	1.45	6.2	1.0	1.0	0.34	0.0	0.0
104 Sisaski 2	1.06	2.8	1.0	1.0	0.08	0.0	0.0
105 Sõle 23	1.27	7.2	1.0	1.0	0.31	0.0	0.0
106 Sõle 29	1.39	3.0	1.0	1.0	0.17	0.0	0.0
107 Sõle 39B	0.93	5.1	1.0	1.0	0.15	0.0	0.0
108 Sõle 86a	0.87	4.5	1.0	1.0	0.11	0.0	0.0
109 Särgava allee 4	1.97	5.0	1.0	1.0	0.15	0.2	0.0
110 Särgava allee 6	3.50	6.3	1.0	1.0	0.34	0.0	0.0
111 Sütiste tee 19	1.04	9.4	1.0	1.0	0.25	0.5	0.0
112 Sütiste tee 36	1.59	8.1	1.0	1.0	0.30	0.2	0.0
113 Tammsaare tee 77	0.81	4.0	1.0	1.0	0.16	0.5	0.0
114 Tedre 27/29	0.82	7.1	1.0	1.0	0.27	0.3	0.0
115 Tondi 90	0.73	2.6	1.0	1.0	0.05	0.6	0.0
116 Trummi 16B	1.15	7.6	1.0	1.0	0.19	0.0	0.0
117 Trummi põik 6	1.75	7.1	1.1	1.1	0.21	0.0	0.0
118 Tule 24	2.16	4.6	1.0	1.0	0.17	0.0	0.0
119 Tuulemaa 20	1.13	6.5	1.0	1.0	0.30	0.0	0.0
120 Tuuleveski 39	1.11	5.3	1.0	1.0	0.20	0.0	0.0
121 Tuvi 5A III a	0.78	3.6	1.0	1.0	0.09	0.0	0.0
122 Töö pst. 37	2.77	2.2	1.0	1.0	0.22	0.0	0.0
123 Töö pst.37	1.54	3.0	1.0	1.0	0.48	9.0	0.0
124 Tööstuse 95A	1.00	4.3	1.0	1.0	0.12	0.0	0.0
125 Uus-Sadama 22	1.01	5.9	1.0	1.0	0.13	0.3	0.0
126 Vabaduse pst. 130	1.43	3.6	1.0	1.0	0.09	0.0	0.0
127 Vabriku 28	1.56	5.3	1.0	1.0	0.25	0.0	0.0
128 Valdeku 11	1.64	5.1	1.0	1.0	0.18	0.0	0.0
129 Valdeku 112	1.54	5.3	1.0	1.0	0.13	0.0	0.0
130 Vasara 18	0.69	4.9	1.0	1.0	0.13	0.0	0.0
131 Vilde tee 101	1.73	6.2	1.0	1.0	0.30	0.2	0.0
132 Vilisuu 7	1.45	11.6	1.0	1.0	0.43	0.0	0.0
133 Vilmsi 39	2.63	5.0	1.0	1.0	0.24	0.0	0.0
134 Võru 11	1.34	9.0	1.0	1.0	0.28	0.0	0.0
135 Õismäe tee 92	1.68	13.5	1.0	1.0	0.52	0.0	0.0
136 Ülemiste tee 1	1.08	10.9	1.0	1.0	0.35	0.0	0.0
137 Ülemiste tee 5	1.15	7.5	1.0	1.0	0.15	0.0	0.0
138 Ümera 9	0.96	5.8	1.0	1.0	0.24	0.0	0.0

APPENDIX II: ARTICLES OF ASSOCIATION OF THE COMPANY

(As approved by Tallinn City Council Resolution no 210 on June 15, 2000. Unofficial translation from Estonian)

1 TRADE NAME, LOCATION AND LEGAL STATUS

- 1.1 The trade name of the joint-stock company ("Company") is: Aktsiaselts Tallinna Vesi (abbreviated as AS Tallinna Vesi)
- 1.2 The location of the Company is Tallinn, the Republic of Estonia.
- 1.3 The Company is responsible for fulfilling its obligations with all its assets. Shareholders are not personally responsible for the liabilities of the Company. The Company is not responsible for the liabilities of shareholders.
- 1.4 The Company is founded for an indefinite term.

2 AIMS AND FIELDS OF ACTIVITY OF COMPANY. RIGHTS

- 2.1 Fields of activity of the Company are:
 - 2.1.1 Supplying of customers with drinking and common water of due quality; leading off and treatment of customers' waste water and rain water;
 - 2.1.2 Designing and building of water supply and sewerage facilities, repairs, maintenance, liquidation of accidents;
 - 2.1.3 Consultations and training in the field of water supply and sewerage;
 - 2.1.4 Laboratory analysis of the quality of drinking water and waste water;
 - 2.1.5 Consultations and training in the field of water supply and sewerage,
 - 2.1.6 Working out and issuing of specifications for water supply and sewerage system;
 - 2.1.7 Maintenance and repairs of the power equipment for water supply and sewerage system;
 - 2.1.8 Utilization of sludge which is created by purification and treatment of drinking water and waste water, production and sale of greenhouse soil;
 - 2.1.9 Heat generation on the basis of purified waste water;
 - 2.1.10 Production of water purifying chemicals and construction materials;
 - 2.1.11 Utilization of dangerous waste;
 - 2.1.12 Devising, production, intermediation, and sale of technical and technological solutions, equipment, machinery, measuring devices, and operating systems for water supply and sewerage system;
 - 2.1.13 Transportation services.
- 2.2 The Company has the right to perform all and any legal acts necessary for the Company's activities that are not in conflict with law or the Articles of Association.

3 SHARE CAPITAL AND SHARES

- 3.1 Share Capital
 - 3.1.1 Share capital is formed of monetary and non-monetary contributions. The value of non-monetary contributions is determined by an expert appointed by the Council of the Company, based on the ordinary value of the thing or right. Valuation of non-monetary contributions is audited by an auditor according to the principles provided by law.
 - 3.1.2 Minimum capital of the Company shall be 800,000,000 (eight hundred million) kroons and maximum capital shall be 3,200,000,000 (three milliard two hundred million) kroons.

3.1.3 A shareholder who is late with his contribution shall pay delay interest to the Company 0.05% for each day of delay. The management board furnishes the shareholder who is late with payment with a request to pay the overdue amount within one month upon receipt of the request, indicating that in failure to make the payment the shareholder is deprived of his share. If the shareholder fails to pay the overdue amount within the term specified in the request, the shareholder shall be deprived of his share. Sums deposited by the shareholder that do not exceed one-fifth of the par value of a share are transferred to the Company's capital reserves, the remaining amount is returned to the shareholder.

3.2 Shares

3.2.1 The Company has two classes of shares:

3.2.2 Registered shares with the par value of 10 (ten) kroons (hereinafter: "**Class A Shares**"). Each Class A Share grants its holder 1 (one) vote at the General Meeting of the Company and the right to participate in the General Meeting of the Company as well as in distribution of profit and of assets remaining upon dissolution of the Company, also other rights provided by law and the Articles of Association of the Company. Class A Shares are registered shares and not exchangeable for bearer shares.

3.2.3 The Company issues one registered preferred share with the par value of 1,000 (one thousand) kroons (hereinafter: "**Class B Share**"). Class B Share grants the holder the right to participate in the General Meeting of the Company as well as in distribution of profit and of assets remaining upon dissolution of the Company, also other rights provided by law and the Articles of Association of the Company. Class B Share grants the holder the preferential right to receive dividends in an agreed sum of 10,000 (ten thousand) kroons. Class B Share grants the shareholder one vote at the General Meeting of the Company when acting on the following issues (restricted right to vote):

- amending of the Articles of Association of the Company;
- increasing and reducing of the share capital of the Company;
- issuing of convertible bonds;
- acquisition of treasury shares by the Company;
- deciding on the merger, division, transformation and/or dissolution of the Company;
- on the request of the management board or the Council, deciding on issues related to the business of the Company that have not been placed in the sole competence of the General Meeting by law.

3.3 Share Transfer

3.3.1 Shares are freely transferable

3.4 Registration of Shares

3.4.1 All shares of the Company shall be registered with the Estonian Central Registry for Securities in a dematerialized form. No share certificates shall be issued to holders of the shares of the Company.

4 CONVERTIBLE BONDS

4.1 On the resolution of the general meeting the Company may issue convertible bonds.

4.2 The sum of the nominal values of convertible bonds shall not be more than one-third of the share capital.

5 RIGHTS AND OBLIGATIONS OF SHAREHOLDERS

5.1 Rights of Shareholders

5.1.1 Shareholders shall be equal under equal circumstances.

5.1.2 Shareholders' rights are provided by law and these Articles of Association.

5.2 Obligations of Shareholders

5.2.1 A shareholder shall comply with the requirements arising to him under law and these Articles of Association.

5.2.2 A shareholder shall keep in secret the confidential information related to the Company or its business. Authorization for disclosure of any such information to third persons is granted on the resolution of the Company's management body only.

6 MANAGEMENT

6.1 Management Bodies of the Company are:

6.1.1 the General Meeting ("the General Meeting");

6.1.2 the Council ("the Council");

6.1.3 the management board ("the Board").

6.2 General Meeting

6.2.1 The supreme body of management of the Company is the general meeting of shareholders. General Meetings are annual and extraordinary. If the Company has one shareholder, the shareholder has all the rights and authority of the General Meeting.

6.2.2 Annual General Meeting is held once annually, but not later than within 6 (six) months from the end of a financial year. The Board serves notice of an annual General Meeting to the shareholders at least 3 (three) weeks in advance.

6.2.3 The Board calls an extraordinary General Meeting in cases provided by law, with at least 1 (one) week advance notice to the shareholders. Request for an extraordinary General Meeting shall be presented to the Board in writing.

6.2.4 Notice of a General Meeting will be sent to the shareholders by registered mail at their registered addresses. If the Company has more than 100 shareholders, no notices need to be sent out to the shareholders and the notice of a General Meeting will be published in at least one national daily newspaper of the Republic of Estonia.

6.2.5 General Meeting will be held in the Republic of Estonia, at the time and place determined by the Board.

6.2.6 The General Meeting has a quorum if more than one-half of the votes represented by shares are present.

6.2.7 The General Meeting is competent:

6.2.7.1 to amend the Articles of Association;

6.2.7.2 to increase and reduce share capital;

6.2.7.3 to issue convertible bonds;

6.2.7.4 to elect an auditor;

6.2.7.5 to designate a special audit;

6.2.7.6 to approve of annual report and distribute profit;

6.2.7.7 to decide on the dissolution, merger, division and transformation of the Company;

- 6.2.7.8 to appoint and withdraw members of the Council, as provided in Section 6.4.4.1 hereof;
- 6.2.7.9 to decide on assertion of a claim against a member of the Board or of the Council or a shareholder as well as on transacting with a member of the Council, and to appoint a representative of the Company in such claim or transaction;
- 6.2.7.10 to acquire treasury shares;
- 6.2.7.11 on the Board's or Council's request, to decide on other issues related to the business of the Company;
- 6.2.7.12 to decide on other issues placed in the competence of the General Meeting by law.
- 6.2.8 A resolution of the General Meeting is adopted if more than one-half of the votes represented by shares at the General Meeting are in favor, save when acting on issues referred to in Subsections 6.2.7.1; 6.2.7.2; 6.2.7.3 and 6.2.7.7 above, in which case a resolution is adopted if at least two-thirds of the votes represented at the General Meeting are in favor. In addition to the above, a resolution of the General Meeting on issues referred to in Subsections 6.2.7.1; 6.2.7.2; 6.2.7.3; 6.2.7.7; 6.2.7.10 and 6.2.7.11 is adopted provided that the votes granted by Class B Share are in favor. A resolution of the General Meeting on issues that require a greater majority of votes by law is adopted provided that the number of votes required under law are in favor.
- 6.3 Council
 - 6.3.1 The Council plans the activities of the Company, organizes the management of the Company and supervises the activities of the Board.
 - 6.3.2 The Council is competent:
 - 6.3.2.1 to plan the activities of the Company and approve of the development plan and strategic development of the Company;
 - 6.3.2.2 to approve of and change the business plan and annual budget;
 - 6.3.2.3 to give instructions to the Board on organizing the management of the Company and to supervise the activities of the Board;
 - 6.3.2.4 to elect and remove members of the Board;
 - 6.3.2.5 to determine the duties of members of the Board and establish the principles of remuneration;
 - 6.3.2.6 to appoint and withdraw the procurator;
 - 6.3.2.7 to approve of annual report prepared by the Board and make changes to profit distribution proposal;
 - 6.3.2.8 to determine the agenda of a general meeting;
 - 6.3.2.9 to grant consent to the Board for transactions and activities mentioned in Section 6.3.3 hereof;
 - 6.3.2.10 to decide on other issues placed in the competence of the Council by law or these Articles of Association.
 - 6.3.3 Council's consent is required by the Board for transactions and activities in all areas and issues that have bearing in relation to the business of the Company and that according to law and these Articles of Association are not in the sole competence of the General Meeting and the Council and that are beyond the scope of everyday business activities of the Company, including the following:
 - 6.3.3.1 the conclusion, amendment or termination of agreements that bring liabilities to the Company with the term of more than 12 months;
 - 6.3.3.2 the making of investments exceeding ten million kroons per investment or a series of related investments;

- 6.3.3.3 the assumption of loans and debt obligations or the taking in of external funds exceeding ten million kroons per loan or debt obligation or per series of related loans or debt obligations;
- 6.3.3.4 the granting of loans or the guarantee of debt obligations exceeding ten million kroons;
- 6.3.3.5 the transfer, acquisition, pledging or otherwise encumbering of assets (including immovables and registered movables) the value of which exceeds the sum of ten million kroons, or the making of transactions which, in the future, bring along obligations of transfer or acquisition of said assets;
- 6.3.3.6 the conclusion of agreements that bring liabilities to the Company exceeding the sum of ten million kroons per transaction or a series of related transactions;
- 6.3.3.7 the changing of the Company's areas of activity, the launching of new or the termination of current areas of activity, or the subcontracting for services in the main fields of activity;
- 6.3.3.8 the acquisition or termination of holdings in other companies;
- 6.3.3.9 the acquisition or transfer of companies, or the termination of its activities;
- 6.3.3.10 the making of transactions with Affiliate Companies;
- 6.3.3.11 the specification of the authority of the Company's representatives with the Company's subsidiaries or other enterprises where the Company has a holding;
- 6.3.3.12 the foundation or closure of foreign branches;
- 6.3.4 The Council reports to the General Meeting.
- 6.3.5 The Council consists of seven (7) members whose term of authority lasts two (2) years. Council members are elected and appointed according to the following procedure:
 - 6.3.5.1 Five (5) members to the Council are elected at the General Meeting, whereas the person who receives the most of votes shall be considered elected. According to this Section hereof a Council member may be removed before the end of his or her tenure provided that at least two-thirds of the votes represented at the General Meeting are in favor.
 - 6.3.5.2 Two (2) members of the Council are appointed and removed by the holder of Class B Share.
- 6.3.6 Members of the Council elect from among themselves the Chairman of the Council who will organize the activities of the Council and chair the meetings of the Council.
- 6.3.7 Council meetings take place at the location of the Company according to the necessity, but not less frequently than 1 (once) per 3 (three) months.
- 6.3.8 Notice of a Council meeting and the agenda thereof shall be sent to members of the Council in writing at least 7 (seven) days in advance.
- 6.3.9 A meeting of the Council has a quorum if at least four (4) members of the Council are present. A member of the Council may not be represented by another member of the Council or a third person at the meeting or in the making of resolutions.
- 6.3.10 A resolution of the Council is deemed adopted if more than one-half of the participating members of the Council voted in favor, save the resolutions specified in Sections 6.3.2.1; 6.3.2.2 and 6.3.3.2 – 6.3.3.11 (included) which shall be adopted by the unanimous vote of all participating members of the Council.
- 6.3.11 Meetings of the Council shall be recorded in minutes. The minutes will be signed by all participating members of the Council and the secretary at the minutes.
- 6.3.12 The Council has the right to adopt resolutions without calling a meeting. In this case the Chairman of the Council sends a written draft of a resolution to all members of the Council, indicating the deadline by which a Council member must submit his or her written position. If within such term a member of the Council has not submitted his or her position it shall be

deemed that he votes against the resolution. A resolution that is made according to the principles herein provided shall be adopted if more than one-half of the votes of members of the Council are in favor, save the resolutions specified in Sections 6.3.2.1; 6.3.2.2 and 6.3.3.2 – 6.3.3.11 (included) which shall be adopted if all members of the Council vote in favor.

6.4 Board

6.4.1 The Board is the management body of the Company that represents and manages the Company and organizes the Company's accounting. In management the Board shall adhere to the Council's lawful instructions. The Board has the right to make transactions specified in Section 6.3.3 that are beyond the scope of everyday business activities of the Company only on the Council's consent.

6.4.2 The Board consists of two (2) to five (5) members who are elected for three (3) years. The place of residence of at least one-half of the members of the Board shall be Estonia. If there are more than two members on the Board, members of the Board elect from among themselves the Chairman of the Board who organizes the activities of the Board.

6.4.3 The rights and obligations of a Board member (director) will be specified in a contract to be concluded with such member. The conclusion, amendment and termination of such contracts shall be in the competence of the Council.

6.4.4 If the Board has more than one member resolutions of the Board are passed at the meeting, convened by the Chairman of the Board. A Board meeting has a quorum if more than one-half of the Board members are present. A resolution of the Board is adopted if more than one-half of the participating members of the Board vote in favor. Each member of the Board has one vote at the passing of a resolution.

6.4.5 The Board is competent:

6.4.5.1 to manage the day-to-day activities of the Company and represent the Company as well as resolve any current business issues;

6.4.5.2 to implement the resolutions of the shareholders and the Council;

6.4.5.3 to prepare the annual accounts, activity report and profit distribution proposal according to the principles provided by law;

6.4.5.4 to organize the accounting of the Company;

6.4.5.5 to set up reserve funds;

6.4.5.6 to file the annual report that has been approved by the shareholders with the commercial registry;

6.4.5.7 to organize the business of the Company;

6.4.5.8 to issue written orders and instructions;

6.4.5.9 to employ and dismiss employees;

6.4.5.10 to impose disciplinary punishments;

6.4.5.11 to pass resolutions on issues that, according to law or the Articles of Association of the Company, are not within the competence of the Council or the General Meeting of the Company.

6.5 Affiliate Companies

6.5.1 For the purposes of these Articles of Association an Affiliate Company means, as the case may be:

6.5.1.1 any person who, directly or indirectly, owns twenty percent or more of the votes granted by shares of the Company, or any person who, directly or indirectly, owns at least twenty

percent of the votes granted by the shares of a shareholder in the Company referred to in this Subsection;

- 6.5.1.2 any person which at the relevant times exercises direct or indirect control over or is controlled by or under the same or common control (direct or indirect) of the Company or a shareholder in the Company referred in Section 6.5.1.1 or a shareholder of such shareholder;
 - 6.5.1.3 any person in which there is ownership, direct or indirect, by the Company or a shareholder in the Company referred in Section 6.5.1.1 or a shareholder of such shareholder of fifty percent or more of the votes granted by shares;
 - 6.5.1.4 any person who is under the control (direct or indirect) of an affiliate company of the Company or of a shareholder in the Company referred in Section 6.5.1.1.
- 6.5.2 Control means the direct or indirect power or authority to direct or influence the management and strategy of another, either by ownership of voting stock or through participation in the board of directors or other similar body on the ground of contract or otherwise.

7 SIGNATORY RIGHTS

- 7.1 The Chairman of the Board individually and other members of the Board jointly, two together, may represent the Company in all legal acts.

8 FINANCIAL YEAR, REPORTING, CAPITAL RESERVES AND PROFIT DISTRIBUTION

- 8.1 The financial year of the Company commences on January 1st and ends on December 31st.
- 8.2 The Board prepares the annual report of the Company and presents the annual report together with the auditor's report to the Council and the General Meeting. The annual report shall be approved by the General Meeting.
- 8.3 The General Meeting passes the profit distribution proposal on the basis of the approved annual accounts.
- 8.4 The payment of dividends to shareholders is provided by and the extent of dividend payment is specified in a resolution of the General Meeting. The principles of payment of dividends is determined by a resolution of the General Meeting.
- 8.5 The capital reserve of the Company shall be one-tenth of the share capital. Capital reserve is formed of annual net profit transfers as well as of other transfers into the reserve capital under law. At least one-twentieth part of net profit is transferred into capital reserve each financial year. If capital reserve reaches the amount prescribed by the Articles of Association, transfers into reserve capital from net profit shall cease. On the resolution of the General Meeting capital reserves may be used to cover a loss, if it is impossible to cover the loss from available shareholders' equity, or to increase the share capital of the Company. Reserve capital may not be used for payments to shareholders.

9 AUDITOR AND SPECIAL AUDIT

- 9.1 The General Meeting determines the number of and appoints the auditors. The General Meeting also establishes the principles of their remuneration. Auditors may be appointed for a specified term or for a single audit.
- 9.2 Shareholders whose shares represent at least one-tenth of the share capital may demand that the shareholders' General Meeting pass a resolution on the conduct of a special audit in issues related to the management or financial situation of the Company as well as on the

appointment of an auditor for the special audit. If the meeting fails to pass a resolution on the conduct of a special audit, the shareholders whose shares represent at least a quarter of the share capital may demand the conduct of a special audit and the appointment of an auditor for the special audit by court. If the auditors for the special audit are appointed by the General Meeting, the latter shall also establish the principles of their remuneration.

- 9.3 Members of the Board and of the Council shall allow the auditors for the special audit to inspect all documents necessary for the conduct of a special audit and shall give any required information. The auditors appointed for the special audit shall keep the Company's business secret.
- 9.4 The auditors appointed for the special audit shall prepare a report on the results of the audit, to be presented to the shareholders' general meeting.

10 DISSOLUTION OF THE COMPANY

10.1 Methods of Dissolution

The Company may be dissolved by liquidation, merger, division or transformation, or any other manner provided by law.

10.2 Liquidation

10.2.1 The General Meeting that passes a resolution on liquidation also appoints the liquidators of the Company, unless otherwise provided by law. There may be one or several liquidators.

10.2.2 Payments to shareholders from the assets of the Company remaining upon liquidation shall be made according to the principles provided by law. Payments may be monetary or non-monetary.

10.3 Merger, Division and Transformation

The merger, division and transformation of the Company takes place according to the procedure provided by law.

APPENDIX III: NETWORK EXPANSION SCHEDULE

Table 41: Water Distribution Network Expansion Schedule in Tallinn, 2001-2006 (m)

	2001	2002	2003	2004	2005	2006	Total
Nõmme	2,717	2,400	2,350	7,070	2,340	-	16,877
Kose	215	110	362	528	-	-	1,215
Pirita	-	-	-	1,800	-	2,675	4,475
Kakumäe	-	-	-	-	-	12,507	12,507
Total	2,930	2,510	2,712	9,398	2,340	15,182	35,074

Table 42: Sewerage Network Expansion Schedule in Tallinn, 2001-2006 (m)

	2001	2002	2003	2004	2005	2006	Total
Nõmme	19,428	21,606	19,980	18,679	27,196	-	106,889
Lilleküla	5,204	3,829	4,823	3,663	-	-	17,519
Mustjõe	-	5,547	4,148	-	-	-	9,695
Merivälja	5,083	2,025	6,590	-	-	-	13,699
Kose	2,804	2,841	2,964	5,007	-	-	13,616
Maarjamäe	-	-	-	1,681	-	6,590	8,272
Pirita	-	-	2,209	-	-	4,911	7,120
Kakumäe	-	-	-	-	-	12,750	12,751
Total	32,519	35,849	40,715	29,031	27,196	24,251	189,561

Table 43: Stormwater Collection Network Expansion Schedule in Tallinn, 2001-2006 (m)

	2001	2002	2003	2004	2005	2006	Total
Nõmme	4,748	4,862	618	4,254	5,244	-	19,726
Lilleküla	2,470	3,830	700	530	-	-	7,530
Merivälja	5,130	2,148	6,627	-	-	-	13,905
Kakumäe	-	-	-	-	-	4,167	4,167
Total	12,348	10,893	7,945	4,784	5,244	4,167	45,328

APPENDIX IV: WATER AND SEWERAGE SECTOR LEGAL ENVIRONMENT

The following provides a non-exhaustive list of acts, laws, regulations and other legal instruments that govern the water and sewerage sector in Estonia. Some of the acts are available in English. The English title of all of the below listed acts, laws, regulations and other legal instruments are freely translated and are not official translations. The Advisors accept no liability with regard to these translations.

Acts

- Local Government Organization Act. Passed by the Riigikogu on June 2nd 1993
- Public Water Supply and Sewerage Act. Passed by the Riigikogu on February 10th 1999
- Water Act. Passed by the Riigikogu on May 5th 1999
- Pollution Damage Indemnification Act. Passed by the Riigikogu on December 15th 1993

Secondary Legislation

Passed on the ground of the **Local Government Organization Act**:

- Bylaws of Tallinn. Approved by Tallinn Town Council on October 10th 1996
- Principles of the Foundation of and Participation by the City of Tallinn in Joint-stock Companies, Private Limited Companies and Foundations. Approved by Tallinn Town Council on October 1st 1998
- Regulations for Transport of Wastewater and Effluent. Approved by Tallinn Town Government on June 28th 1994
- Water Discharge Form. Approved by Tallinn Town Government on September 29th 1994
- Directions for Sampling Wastewater Conducted into Tallinn's Sewerage System and for Establishing Level of Pollution and Margins. Approved by Tallinn Town Government on October 31st 1992

Passed on the ground of the Public Water Supply and Sewerage Act:

- Rules and Regulations on Use of the Public Water Supply and Sewerage Facilities of Tallinn. Approved by Tallinn Town Council on August 26th 1999
- Principles of Adjustment of the Price of Service of Water Supply and Drainage of Wastewater in the Public Water Supply and Sewerage System of Tallinn. Approved by Tallinn Town Council on December 22nd 1999

Legislation that is currently being developed on the basis of the **Public Water Supply and Sewerage Act**:

- Principles of Calculation of Subscription Fee for the Service of Water Supply and Drainage of Wastewater in the Public Water Supply and Sewerage System of Tallinn. (Tallinn Town Council)
- Rules and Regulations on Connecting to the Public Water Supply and Sewerage System of Tallinn. (Tallinn Town Council)
- Public Water Supply and Sewerage Facilities' Development Plan. (Tallinn Town Council)
- Designation of Licensed Areas of Operators. (Tallinn Town Council)
- Appointment of Operators. (Tallinn Town Council)
- Directions on the Sampling of Wastewater Conducted into Public Sewerage System and Determining the Level of Pollution. (Tallinn Town Government)

- Price Regulations of the Service of Water Supply and Conducting of Wastewater (Tallinn Town Government)
- Amendments to the Public Water Supply and Sewerage Act and to such secondary acts are being currently developed.

Passed on the ground of the **Water Act**:

- Requirements to Wastewater Conducted into Bodies of Water of Soil. Approved by the Government of the Republic on January 20th 1998
- Principles of Calculating and Payment of the Fee for Special Use of Water. Approved by the Minister of the Environment on April 29th 1996
- Procedure for Granting and Withdrawing Permits for Special Use of Water. Approved by the Minister of the Environment on December 24th 1996
- Requirements to the Quality of Drinking Water and to Monitoring Such Quality; Principles on Selecting Fresh Water Springs and Making Water Analyses (Estonian Standard). Approved by the Minister of Social Affairs on March 15th 1996

Passed on the ground of the Pollution Damage Indemnification Act:

- Principles of Calculating and Payment of Compensation for Pollution Damage When Leading Wastewater and Substances that Pollute Water into Bodies of Water, Groundwater and Soil. Approved by the Minister of the Environment on May 31st 1995

APPENDIX V: WATER AND WASTEWATER EXPERTISE

- 1) Overview of International Experience where the Bidder (or the Designated Parent) exercises Management Control in water **and/or** wastewater companies

Number of international water and wastewater projects	
Number of countries in which the Bidder has water and wastewater projects (enclose list of countries and types of projects)	
Approximate population served other than home market	

- 2) Detailed description of the following [in the format set forth below, less than two (2) pages each]

- One (1) Project where the Bidder or the Designated Parent exercises Management Control of a company (or itself is a company) that supplies water **and** provides wastewater services to at least 500,000 inhabitants,
- Projects in four (4) different countries where the Bidder or the Designated Parent exercises Management Control of a water **and/or** wastewater companies (or itself is a company that supplies water **and/or** provides wastewater services),
- One (1) Project where the Bidder or the Designated Parent exercises Management Control in a water **and/or** wastewater company (or is itself a company that supplies water **and/or** provides wastewater services) for a period of at least three years.

Each of these criteria must be met at the date of the submission of the Qualification Applications, one Project may be used to meet more than one of the qualification criteria.

Name of city / urban area	
Country	
Population served	
Type of Public-Private Partnership	
Date of contract commencement	
Approximate duration of contract	
Approximate contract value (in EUR)	
Reference: Name / Address / phone / fax number / email	
Description of Management Control (% of shares held, number of board members appointed and their responsibility, etc.)	

- 4) Annual turnover of the Bidder or the Designated Parent from provision of water services or from activities directly related to water services over the last three (3) years.

Fiscal Year	Total turnover Water and Wastewater systems in '000 EUR
1	
2	
3	
Total	

The applicant shall quote the exchange rates used.