

Tallinna Vesi



AS Tallinna Vesi
Results of operations – for the first 6 months of 2008

Currency	Thousand kroons
Start of reporting period	1 January 2008
End of reporting period	30 June 2008
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Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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MANAGEMENT REPORT
RESULTS OF OPERATIONS - FOR THE 1st HALF-YEAR 2008

Overview

In the 1st six months of 2008 the Company's total sales increased, year on year, by 16.6% to 445.1 mln EEK. Total water and sewerage services sale volumes increased in the 1st six months of 2008 by 0.2% compared to the same six months of 2007, respective sales increased by 10.5%. Within the service area sales to residential customers increased by 9.4% year on year, sales to commercial customers increased by 8.3% year on year, and sales to customers outside of the service area increased by 47.3% year on year, reaching 1.7 mln m³ or 12.2 mln EEK. The Company's profit before taxes was 180.1 mln EEK, which is a 3.2% increase compared to the same six months of 2007. Eliminating the one-off nitrogen provision release in the 1st quarter of 2007, profit before tax in the 1st six months of 2008 increased by 11.8%. The Company invested 98.1 mln EEK, of which 76.9 mln EEK was invested in network extension and rehabilitation.

<i>mln EEK</i>	6 months 2008	6 months 2007	Change	6 months 2007 underlying	Change
Sales	445,1	381,8	16,6%	381,8	16,6%
Main operating activities	363,2	325,5	11,6%	325,5	11,6%
Other operating activities	81,9	56,3	45,6%	56,3	45,6%
Gross profit	237,0	229,6	3,2%	216,3	9,6%
Gross profit margin %	53,3	60,1	-11,5%	56,7	-6,0%
Operating profit	201,9	195,5	3,3%	182,2	10,8%
Operating profit margin %	45,4	51,2	-11,4%	47,7	-5,0%
Profit before taxes	180,1	174,5	3,2%	161,2	11,8%
Profit before taxes margin %	40,5	45,7	-11,5%	42,2	-4,2%
Net profit	113,9	119,2	-4,4%	105,9	7,6%
ROA %	4,6	4,9	-6,4%	4,4	5,4%
Debt to total capital employed	55,7%	55,8%	-0,1%	55,8%	-0,1%

Gross profit margin – Gross profit / Net sales

Operating profit margin – Operating profit / Net sales

Profit before taxes margin – Profit before taxes / Net sales

ROA – Net profit / Total Assets

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

Profit and Loss Statement

2nd quarter 2008

Sales

In the 2nd quarter of 2008 the Company's total sales increased, year on year, by 32.6% to 233.9 mln EEK. Sales from the Company's main operating activities were 182.3 mln EEK. Sales in the main

operating activity principally comprise of sales of water and treatment of wastewater to domestic and commercial customers within and outside of the service area, and fees received from the City of Tallinn for operating and maintaining the storm water system.

Sales of water and wastewater services were 166.6 mln EEK, an 8.9% increase compared to the 2nd quarter of 2007, excluding the over pollution the increase was 9.2%, resulting from the 11.7% increase in tariffs from 1 January 2008 for the Company's residential and commercial customers combined with the factors described below.

Included within this amount were the following increases by sector: within the service area sales to residential customers increased by 9.2% to 87.2 mln EEK. Sales to commercial customers increased by 6.6% to 69.9 mln EEK. Sales to customers outside of the service area – primarily bulk volumes of wastewater treatment services provided to the surrounding municipalities – increased by 52.0% reaching 821 thousand m³ or 5.9 mln EEK. Over pollution fees received were 3.6 mln EEK, same level as in the 2nd quarter of 2007.

In the 2nd quarter of 2008, the volumes sold to residential customers dropped 2.3% or 171 thousand m³. We believe that this is mainly related to the fact that people are moving to the surrounding areas of Tallinn.

The volumes sold to commercial customers inside the service area decreased compared to the relevant period in 2007 due to several factors combined. Part of the reduction in sales volumes in Tallinn is due to companies moving to the surrounding municipalities, supplemented by companies implementing different efficiency measures or reducing their production. Particularly the sales in 2nd quarter of 2008 compared to the 2nd quarter of 2007 were impacted by the fact that one of the Company's biggest industrial customers moved its facilities out of our area in the second half of 2007, this resulted in a water and sewage volumes loss of 56 thousand m³ in the 2nd quarter of 2008 compared to 2007.

The real estate market stays relatively unchanged from last year. Although slightly lower than in 2007, the number of new apartments and business buildings being constructed this year in Tallinn remains high. A large share of new buildings still remain vacant as commercial customers as well as people in need of space are moving to surrounding areas due to more affordable real estate prices.

This trend is also reflected in the Company's sales to surrounding areas, which has increased by 52.0% in the 2nd quarter of 2008 compared to the same period last year. This reflects the success of the Company's strategy to re-capture customers leaving Tallinn. The Company is actively looking for the further expansion opportunities into the neighboring municipalities.

The sales from the operation and maintenance of the storm water and fire-hydrant system increased by 37.5% to 12.5 mln EEK in the 2nd quarter of 2008 compared to the same period in 2007. This is in accordance with the terms and conditions of the contract whereby the storm water and fire hydrant costs are invoiced based on actual costs and volumes treated. This is contractually agreed up to 2020.

Sales revenues from other operating activities, mainly connections and storm water construction, totaled 51.5 mln EEK which is 39.5 mln EEK more than in the 2nd quarter of 2007. Before 2008 a considerable amount of works and revenues were confirmed and recorded in the first quarter. According to the new contract concluded with the City of Tallinn on 30th November 2007, the revenue flow is more even throughout the year. Starting from March 2008 the revenue in this line is mainly calculated using the Tallinn domestic water sales volumes and fixed development rate per

cubic meter. This revenue line goes in pairs with the Cost of goods sold from other operating activities, where the respective costs of the constructions are recorded.

Cost of Goods Sold and Gross Margin

The cost of goods sold for the main operating activity was 68.2 mln EEK in the 2nd quarter of 2008, an increase of 11.1 mln EEK or 19.4% from the equivalent period in 2007.

In the 2nd quarter of 2008 the Company did not achieve the beneficial 0.5 coefficient for pollution tax, and as a result the amount of pollution tax payable was 5.1 mln EEK compared to 0.9 mln EEK in 2nd quarter of 2007. The 2nd quarter of 2007 included also the reduction of the rates in 1st quarter of 2007 as the environmental body confirmed it only in 2nd quarter of 2007. Without the reduction 2007 2nd quarter cost would have been 1.5 mln EEK. Increase in pollution tax is due to the combination of the coefficient and increase in tax rates year on year by 20%, supplemented by volume and pollution impact. Despite the fact that the pollution level of the incoming sewerage does vary and the company does not have full control over storm water outlets regarding the pollution, we are working hard to use the optimum level of chemicals to achieve the 0.5 coefficient in the following quarters of 2008.

The chemical costs were 6.6 mln EEK, this represents an 24.5% increase compared to the corresponding period in 2007. This result is the combination of volumes treated, chemicals dosed and the price inflation.

Electricity costs increased by 0.2 mln EEK or 3.5% in the 2nd quarter of 2008 compared to the 2nd quarter of 2007 due to higher electricity prices combined with volumes treated.

Salary expenses increased in the 2nd quarter of 2008, year on year, by 3.2 mln EEK or 25.0% due to a number of factors. Firstly, increased headcount from the new services launched. Secondly, a highly competitive labour market has led to significant salary inflation. Finally in the 1st quarter of 2008 the Company restructured and combined departments which resulted in transferring cost from one line to an other. Eliminating these structural changes would give us 17.0% increase in salaries. This is in line with the increase in average salaries in the Estonian market.

Depreciation charges increased in the 2nd quarter of 2008 by 1.9 mln EEK or 10.4% year on year due to new sludge treatment building commissioned in the end of 2007. Also in the beginning of 2008 the depreciation rates were revised to correspond with the useful life of assets.

Other cost of goods sold in the main operating activity increased by 0.3 mln EEK, or 2.4% year on year. This was due to higher costs on a number of support service contracts, such as transport, security services, maintenance cost, reflecting the significant increase in labour and services costs in Tallinn. But on the other hand it reflects Company's achievements to reduce costs by optimizing operations.

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

As a result of all of the above the Company's gross profit for the 2nd quarter of 2008 was 118.8 mln EEK, which is an increase of 10.0 mln EEK, or 9.3%, compared to the gross profit of 108.8 mln EEK for the 2nd quarter of 2007.

Operating Costs and Operating Margin

Marketing expenses decreased by 0.3 mln EEK to 3.1 mln EEK during the 2nd quarter of 2008 compared to the corresponding period in 2007. This is partly the result of the structural changes, balanced by the increase in depreciation charges.

General administration expenses decreased by 1.1 mln EEK to 14.2 mln EEK in the 2nd quarter of 2008 year on year, mainly as a consequence of structural changes.

Included within all the above cost categories are staff costs. These totaled 22.0 mln EEK in the 2nd quarter of 2008, which is a 2.8 mln EEK or 14.9% increase compared to the same period in 2007. As mentioned earlier this was mainly due to the wide revision of salaries at the beginning of 2008.

Other net income/expenses totaled an income of 0.1 mln EEK in the 2nd quarter of 2008 compared to an expense of 0.4 mln EEK in the 2nd quarter of 2007.

As a result of all of the above the Company's operating profit for the 2nd quarter of 2008 was 101.7 mln EEK, an increase of 12.0 mln EEK compared to an operating profit of 89.7 mln EEK achieved in the 2nd quarter of 2007. Compared to the operating profit in the 2nd quarter of 2007, the operating profit has increased 13.3%.

Financial expenses

Net Financial expenses were 11.1 mln EEK in the 2nd quarter of 2008, which is an increase of 0.5 mln EEK or 4.6% compared to the 2nd quarter of 2007. The Company's interest costs have increased by 19.5% compared to the 2nd quarter of 2007. This is due to the increase in the 6 month Euribor rate. The increase in interest expenses is partially offset by an increase in financial income earned during the 2nd quarter of 2008, as a result of a more favourable cash position and increasing interest rates.

Profit Before Tax

The Company's profit before taxes for the 2nd quarter of 2008 was 90.6 mln EEK, which is 11.4 mln EEK higher than the profit before taxes of 79.2 mln EEK for the 2nd quarter of 2007.

The Company recorded 66.2 mln EEK income tax as the result of 249.0 mln EEK dividends distributed in the 2nd quarter of 2008.

Results for the 1st six months of 2008

During the 1st six months of 2008 the Company's total sales increased, year on year, by 16.6% to 445.1 mln EEK. Sales from the Company's main operating activities were 363.2 mln EEK. Sales of water and wastewater treatment were 335.0 mln EEK, a 10.5% increase compared to the 1st half of 2007.

The Company's profit before taxes for the 1st six months of 2008 was 180.1 mln EEK, which is 5.6 mln EEK higher than the profit before taxes of 174.5 mln EEK in the relevant period in 2007. The results for the 1st half of 2007 were impacted by the fact that the Ministry of Environment gave final approval to the success of the nitrogen project, which resulted in the release of a provision worth 13.3 mln EEK for environmental taxes. Looking at the underlying profit before taxes for the 1st six months of 2007, it shows an 18.9 mln EEK or 11.8% increase in 2008 for the same period.

Balance sheet

During the 1st six months of 2008 the Company invested 98.1 mln EEK into fixed assets. Non-current assets were 2,164 mln EEK at 30 June 2008. Current assets decreased by 54.5 mln EEK to 319.1 mln EEK in the six months of the year, customer receivables decreased by 79.2 mln EEK. During the 1st six months of 2008 cash at bank increased by 13.5 mln EEK.

Current liabilities increased by 99.8 mln EEK to 299.1 mln EEK in the six months of the year. This was mainly due to increases in Current portion of long-term borrowings by 41.5 mln EEK, as result of the reclassification of the loan based on repayment schedule and Taxes payable by 70.0 mln EEK. Increase in taxes payable reflects the income tax on dividends.

The company continues to maintain its leverage level within its target range above 50% with total liabilities to total capital employed of 55.7% as of 30 June 2008. Long-term liabilities stood at 1,084.6 mln EEK at the end of June 2008, consisting almost entirely of the outstanding balance on the two long-term bank loans.

Cash flow

During the 1st six months of 2008, the Company generated 222.4 mln EEK of cash flows from operating activities, an increase of 49.2 mln EEK compared to the corresponding period in 2007. Underlying operating profit continues to be the main driver for growth, supplemented by debt collection in six months of 2008.

In the six months of 2008 net cash inflows from investing activities were 40.1 mln EEK, which is 65.8 mln EEK more than in 2007. This was mainly due to some large construction revenue invoices that were due and paid in the 1st quarter 2008, offset by increased investment payments. In the 1st six months the company invested 98.1 mln EEK – 76.9 mln EEK on networks (including 52.6 mln EEK on extension and developments), 10.1 mln EEK at Paljassaare wastewater treatment plant and sludge treatment, 3.6 mln EEK on water quality (Ülemiste water treatment plant and raw water) and 7.5 mln EEK for other investments (IT, capital maintenance, meters, etc).

The cash outflows from financing activities were 249.0 mln EEK during the 1st six months of 2008 compared to cash outflow of 196.5 mln EEK during the same six months of 2007, representing the dividend payouts of respective years.

As a result of all of the above factors, the total cash inflow in the six months of 2008 was 13.5 mln EEK compared to a cash outflow of 48.9 mln EEK in the six months of 2007. Cash and cash equivalents stood at 191.9 mln EEK as at 30 June 2008.

Employees

At the end of the 2nd quarter of 2008, the number of employees was 316, compared to 319 at the end of the 2nd quarter of 2007.

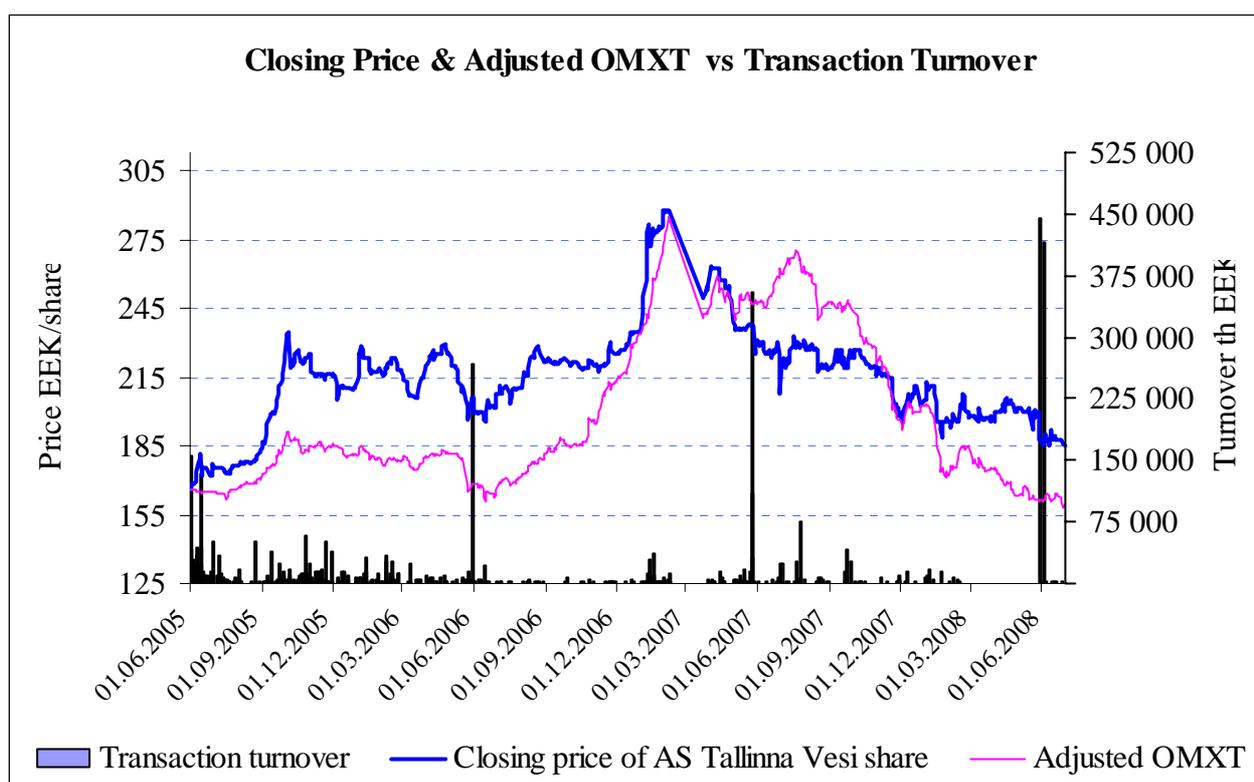
Dividends and share performance

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

As of 30 June 2008 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%
Nordea Bank Finland Plc clients account trading	8.72%
Morgan Stanley + Co International Equity client account	6.81%

At the end of the quarter, 30 June 2008, the closing price of the AS Tallinna Vesi share was 184.79 EEK (11.81 EUR), which is a 5.5% decrease compared to the closing price of 195.58 EEK (12.50 EUR) at the beginning of quarter, this is still outperforming the market as the OMX Tallinn index dropped by 8.5% during the quarter.



Operational highlights in the six months of 2008

- The company implemented the development component in the 1st quarter of 2008 according to the Services Agreement Amendment, which was signed with the City of Tallinn on 30 November 2007. The Services Agreement is extended until 2020 and the k-coefficient is also fixed until 2020 – 2% in years 2009 to 2010 and 0% in years 2011 to 2020. No extra capital expenditures (in addition to maintenance capex and extensions program agreed in the contract) can be imposed on the company until 2020. According to the agreement the

network extension constructions must be completed by March 2011. To compensate the Company for the construction and financing costs, a specific development component is included into the Tallinn domestic water tariff starting from 1 March 2008 to the end of 2017, and the City of Tallinn will compensate 4.4 mln EEK every month for the storm water constructions until the end of 2011. The development component shall be compensated to the customers with direct payment to the company by the City of Tallinn. The component is bigger during the construction period (9.00 kroons per m³ until 31 December 2011 and 6.10 kroons per m³ in years 2012 to 2017).

- From the beginning of the year water and wastewater tariffs increased as approved by the City Council in 2007. The tariff increase was 11.7% in the main service area and was similar outside the main service area, depending on individual contracts with the municipalities.
- The usage of the web based self service has increased by 3 times compared to 2007, around 12% of invoices were issued via web.
- We are pleased to report the compliance with all requirements of the Levels of Services established by the contract with City of Tallinn.

Additional information:

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Chief Financial Officer

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AS TALLINNA VESI

MANAGEMENT CONFIRMATION

The Management Board of AS Tallinna Vesi (hereinafter the company) has prepared the interim accounts in the form of condensed financial statements for the 1st half-year of financial year 2008 ended 30 June 2008. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the 1st half-year of financial year 2008 ended 30 June 2008 have been prepared following the accounting policies and the manner of presenting the information in line with the International Financial Reporting Standards as adopted by the EU. The condensed financial statements provide a true and fair view of the assets, liabilities, financial position and profit of the company.

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

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

All material subsequent events that occurred by the interim accounts preparation date of 14 July 2008 have been assessed as part of this review.

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



Roch Jean Guy Antoine Chéroux
Chairman of the Management Board
Chief Executive Officer



Siiri Lahe
Member of the Management Board
Chief Financial Officer



David Nigel Hetherington
Member of the Management Board
Chief Operating Officer

14 July 2008

AS TALLINNA VESI
 Unaudited Interim Condensed Financial Statements
 1'st half-year of the financial year 2008

CONDENSED BALANCE SHEETS

(unaudited, thousand EEK)

ASSETS	Note	2008	30 June 2007	31 December 2007
CURRENT ASSETS				
Cash at bank and in hand	2	191 892	200 475	178 420
Customer receivables		106 011	85 559	185 223
Accrued income and prepaid expenses		16 010	3 293	5 179
Inventories		4 107	4 055	3 645
Assets for sale		1 109	783	1 120
TOTAL CURRENT ASSETS		319 129	294 165	373 587
NON-CURRENT ASSETS				
Tangible assets	3	2 007 000	1 922 686	1 992 978
Intangible assets	3	44 813	50 181	49 137
Unfinished assets - non connections	3	42 441	63 994	48 034
Unfinished pipelines - new connections	3	67 506	97 318	90 057
Prepayments for fixed assets	3	1 988	3 106	5 399
TOTAL NON-CURRENT ASSETS		2 163 748	2 137 285	2 185 605
TOTAL ASSETS		2 482 877	2 431 450	2 559 192
LIABILITIES				
CURRENT LIABILITIES				
Current portion of long-term borrowings		82 942	0	41 486
Trade and other payables, incl. dividends		69 284	68 156	86 966
Taxes payable		96 494	77 286	26 486
Short-term provisions		2 486	2 231	2 231
Deferred income		47 854	41 491	42 099
TOTAL CURRENT LIABILITIES		299 060	189 164	199 268
NON-CURRENT LIABILITIES				
Bank loans		1 084 474	1 166 538	1 125 491
Other payables		121	100	113
TOTAL NON-CURRENT LIABILITIES		1 084 595	1 166 638	1 125 604
TOTAL LIABILITIES		1 383 655	1 355 802	1 324 872
EQUITY CAPITAL				
Share capital		200 001	200 001	200 001
Share premium		387 000	387 000	387 000
Statutory legal reserve		20 000	20 000	20 000
Accumulated profit		378 309	349 479	349 479
Net profit for the period		113 912	119 168	277 840
TOTAL EQUITY CAPITAL		1 099 222	1 075 648	1 234 320
TOTAL LIABILITIES AND EQUITY CAPITAL		2 482 877	2 431 450	2 559 192



Chairman of the Management Board: 11

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements

1st half-year of the financial year 2008

CONDENSED INCOME STATEMENTS

(unaudited, thousand EEK)

	Note	Quarter 2		6 months		Year ended 31
		2008	2007	2008	2007	December
						2007
Sales from main operating activities	4	182 344	164 363	363 230	325 496	648 335
Revenues from other operating activities	4	51 544	12 016	81 900	56 257	172 437
Net sales		233 888	176 379	445 130	381 753	820 772
Costs of goods sold (main operating activities)	5,6	-68 225	-57 120	-134 376	-102 005	-216 677
Costs of goods sold (other operating activities)	6	-46 824	-10 495	-73 711	-50 157	-158 187
GROSS PROFIT		118 839	108 764	237 043	229 591	445 908
Marketing expenses	5,6	-3 060	-3 330	-6 434	-6 493	-13 547
General administration expenses	5,6	-14 194	-15 264	-28 721	-29 543	-56 849
Other income/ expenses (-)	6	103	-427	27	1 971	1 850
OPERATING PROFIT		101 688	89 743	201 915	195 526	377 362
Financial income / expenses (-)	7	-11 079	-10 593	-21 810	-21 073	-44 237
PROFIT BEFORE TAXES		90 609	79 150	180 105	174 453	333 125
Income tax on dividends	8	-66 193	-55 285	-66 193	-55 285	-55 285
NET PROFIT FOR THE PERIOD		24 416	23 865	113 912	119 168	277 840
Attributable to:						
Equity holders of A-shares		24 406	23 855	113 902	119 158	277 830
B-share holder		10	10	10	10	10
Earnings per share in kroons	8	1,22	1,19	5,70	5,96	13,89



Chairman of the Management Board:

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements

1'st half-year of the financial year 2008

CONDENSED CASH FLOW STATEMENTS

(unaudited, thousand EEK)

	2008	6 months 2007	Year ended 31 December 2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit	201 915	195 526	377 362
Adjustment for depreciation	44 394	39 735	79 241
Adjustment for income and expenses from constructions	-8 188	-6 099	-14 250
Other financial income and expenses	-803	-366	-1 585
Profit from sale of fixed assets	-6	12	-2 422
Expensed fixed assets	0	0	476
Capitalization of operating expenses	-11 785	-9 082	-19 764
Movement in current assets involved in operating activities	18 556	-9 890	-32 062
Movement in liabilities involved in operating activities	6 556	-10 788	-327
Interest paid	-28 275	-25 849	-52 986
Total cash flow from operating activities	222 364	173 199	333 683
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of fixed assets (incl pipelines construction)	-106 754	-92 104	-265 951
Proceeds from pipelines financed by construction income	137 039	60 789	101 840
Proceeds from sale of and prepayments received for fixed assets	8	17	390
Proceeds from sale of assets and real estate investments	0	233	242
Interest received	9 825	5 411	10 571
Total cash flow from investing activities	40 118	-25 654	-152 908
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance lease payments	0	-473	-473
Dividends paid	-249 010	-196 010	-196 010
Income tax on dividends	0	0	-55 285
Total cash flow from financing activities	-249 010	-196 483	-251 768
Change in cash and bank accounts	13 472	-48 938	-70 993
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD	178 420	249 413	249 413
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	191 892	200 475	178 420



Chairman of the Management Board:

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements

1'st half-year of the financial year 2008

CONDENSED STATEMENTS OF CHANGES IN EQUITY

(unaudited, thousand EEK)

	Share capital	Share premium	Statutory legal reserve	Accumulated profit	Net profit	Total equity
31 December 2006	200 001	387 000	20 000	297 443	248 046	1 152 490
Transfer of financial year profit to the accumulated profit	0	0	0	248 046	-248 046	0
Dividends	0	0	0	-196 010	0	-196 010
Net profit of the financial year	0	0	0	0	277 840	277 840
31 December 2007	200 001	387 000	20 000	349 479	277 840	1 234 320
31 December 2006	200 001	387 000	20 000	297 443	248 046	1 152 490
Transfer of financial year profit to the accumulated profit	0	0	0	248 046	-248 046	0
Dividends	0	0	0	-196 010	0	-196 010
Net profit of the financial period	0	0	0	0	119 168	119 168
30 June 2007	200 001	387 000	20 000	349 479	119 168	1 075 648
31 December 2007	200 001	387 000	20 000	349 479	277 840	1 234 320
Transfer of financial year profit to the accumulated profit	0	0	0	277 840	-277 840	0
Dividends	0	0	0	-249 010	0	-249 010
Net profit of the financial period	0	0	0	0	113 912	113 912
30 June 2008	200 001	387 000	20 000	378 309	113 912	1 099 222



Chairman of the Management Board:

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements

1'st half-year of the financial year 2008

NOTES TO THE INTERIM ACCOUNTS

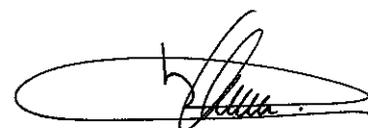
(unaudited, thousand EEK)

NOTE 1. ACCOUNTING PRINCIPLES

The interim accounts have been prepared according to International Financial Reporting Standards as adopted by the EU, and give a true and fair view of the financial position, results of operations and cash flows of AS Tallinna Vesi. The same accounting policies are followed in the interim financial statements as in the most recent annual financial statements. The interim report is prepared in accordance with IAS 34 Interim Financial Reporting.

NOTE 2. CASH AND CASH EQUIVALENTS

	6 months		Year ended 31 December
	2008	2007	2007
Cash at bank and in hand	3 188	48 788	37 838
Short term deposits	188 704	151 687	140 582
	191 892	200 475	178 420



Chairman of the Management Board:

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
1'st half-year of the financial year 2008

NOTES TO THE INTERIM ACCOUNTS

(unaudited, thousand EEK)

NOTE 3. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS

	Tangible assets in use				Assets in progress			Intangible assets			Total tangible and intangible non-current assets
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Unfinished assets - non connections	Unfinished pipelines - new connections	Prepayment for fixed assets	Development costs	Acquired licenses and other intangible assets		
										31.12.2006	
Acquisition cost at											
31.12.2006	345 074	2 016 934	534 627	17 532	91 676	117 162	2 795	17 543	63 731		3 207 074
Acquisition	0	0	0	0	148 237	135 085	2 611	0	0	0	285 933
Sale of fixed assets	-1 506	0	-1 505	0	0	0	0	0	0	0	-3 011
Write-off of fixed assets	-34	-1 319	-13 772	-482	0	0	0	-346	-623	0	-16 576
Reclassification within balance sheet	0	0	0	0	-170	-2 029	-7	0	0	0	-2 206
Reclassification to expenses	0	0	0	0	-460	0	0	0	0	0	-460
Expensed pipelines	0	0	0	0	0	-158 187	0	0	0	0	-158 187
Reclassification from assets in progress	20 654	119 355	47 058	658	-191 269	-1 974	0	1 809	3 709	0	0
31.12.2007	364 188	2 134 970	566 408	17 708	48 034	90 057	5 399	19 006	66 817		3 312 587
Acquisition	0	0	0	0	45 349	52 583	134	0	0	0	98 066
Sale of fixed assets	0	0	-11	0	0	0	0	0	0	0	-11
Write-off of fixed assets	-63	-104	-2 192	0	0	0	0	0	0	0	-2 359
Reclassification within balance sheet	0	0	0	0	-317	-1 423	-77	0	0	0	-1 817
Expensed pipelines	0	0	0	0	0	-73 711	0	0	0	0	-73 711
Reclassification from assets in progress	3 926	39 129	9 388	708	-50 625	0	-3 468	0	942	0	0
30.06.2008	368 051	2 173 995	573 593	18 416	42 441	67 506	1 988	19 006	67 759		3 332 755
Accumulated depreciation											
31.12.2006	59 475	641 049	325 644	10 894	0	0	0	11 408	17 271		1 065 741
Depreciation	3 952	33 642	31 569	1 102	0	0	0	1 918	7 058		79 241
Depreciation of fixed assets sold and written-off (-)	-34	-1 318	-15 197	-482	0	0	0	-346	-623		-18 000
31.12.2007	63 393	673 373	342 016	11 514	0	0	0	12 980	23 706		1 126 982
Depreciation	2 127	18 936	17 444	620	0	0	0	1 046	4 220		44 393
Depreciation of fixed assets sold and written-off (-)	-63	-103	-2 202	0	0	0	0	0	0		-2 368
30.06.2008	65 457	692 206	357 258	12 134	0	0	0	14 026	27 926		1 169 007
Net book value											
31.12.2006	285 599	1 375 885	208 983	6 638	91 676	117 162	2 795	6 135	46 460		2 141 333
31.12.2007	300 795	1 461 597	224 392	6 194	48 034	90 057	5 399	6 026	43 111		2 185 605
30.06.2008	302 594	1 481 789	216 335	6 282	42 441	67 506	1 988	4 980	39 833		2 163 748

On fixed assets are written off if the condition of the asset does not enable further usage for production purposes.
As of 30 June 2008 and 2007 there was no finance lease contract.



Chairman of the Management Board:

AS TALLINNA VESI

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NOTES TO THE INTERIM ACCOUNTS

(unaudited, thousand EEK)

NOTE 4. NET SALES	Quarter 2		2008	6 months		Year ended 31
	2008	2007		2007	December	2007
Revenues from main operating activities						
Total water supply and waste water disposal service, incl:	166 559	152 900	335 046	303 237	599 612	
<u>Domestic clients, incl:</u>	<u>87 178</u>	<u>79 822</u>	<u>175 995</u>	<u>160 897</u>	<u>318 963</u>	
Water supply service	48 657	44 622	98 273	89 959	178 452	
Waste water disposal service	38 521	35 200	77 722	70 938	140 511	
<u>Corporate clients, incl:</u>	<u>69 862</u>	<u>65 537</u>	<u>139 812</u>	<u>129 138</u>	<u>252 658</u>	
Water supply service	39 201	36 251	77 804	70 160	138 693	
Waste water disposal service	30 661	29 286	62 008	58 978	113 965	
<u>Outside service area clients, incl:</u>	<u>5 936</u>	<u>3 904</u>	<u>12 179</u>	<u>8 269</u>	<u>17 676</u>	
Water supply service	509	380	1 006	733	1 541	
Waste water disposal service	5 427	3 524	11 173	7 536	16 135	
<u>Overpollution</u>	<u>3 583</u>	<u>3 637</u>	<u>7 060</u>	<u>4 933</u>	<u>10 315</u>	
Stormwater treatment and disposal service	11 863	8 508	21 219	17 016	37 426	
Fire hydrants service	595	551	1 185	1 101	2 361	
Other works and services	3 327	2 404	5 780	4 142	8 936	
Total revenues from main operating activities	182 344	164 363	363 230	325 496	648 335	
Revenues from other operating activities						
Water, sewerage and storm water connections construction income	51 544	12 016	81 900	56 257	172 437	
TOTAL NET SALES	233 888	176 379	445 130	381 753	820 772	

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

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

NOTE 5. PERSONNEL EXPENSES	Quarter 2		2008	6 months		Year ended 31
	2008	2007		2007	December	2007
Salaries and wages	-16 487	-14 347	-34 187	-28 351	-57 666	
Social security taxation	-5 491	-4 784	-11 397	-9 450	-19 203	
Staff costs total	-21 978	-19 131	-45 584	-37 801	-76 869	
Number of employees at the end of reporting period			316	319	312	



Chairman of the Management Board:

AS TALLINNA VESI

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NOTE 6. COSTS AND EXPENSES

Cost of goods sold (main operating activities)	Quarter 2		6 months		Year ended 31 December
	2008	2007	2008	2007	2007
Tax on special use of water	-2 715	-2 594	-5 424	-5 259	-10 493
Chemicals	-6 561	-5 270	-11 016	-10 313	-20 979
Electricity	-6 376	-6 160	-13 852	-13 369	-26 382
Pollution tax	-5 112	-940	-7 983	9 608	6 207
Staff costs	-15 932	-12 741	-32 489	-25 628	-51 611
Research and development	-2	-59	-24	-59	-99
Depreciation and amortization	-20 321	-18 409	-40 601	-36 513	-72 806
Other costs of goods sold	-11 206	-10 947	-22 987	-20 472	-40 514
Total cost of goods sold (main operating activities)	-68 225	-57 120	-134 376	-102 005	-216 677
Cost of goods sold (other operating activities)					
Water, sewerage and storm water connections construction cost	-46 824	-10 495	-73 711	-50 157	-158 187
Marketing Expenses					
Staff costs	-1 390	-1 598	-2 936	-2 915	-6 107
Depreciation and amortization	-1 285	-896	-2 489	-1 750	-3 553
Other marketing expenses	-385	-836	-1 009	-1 828	-3 887
Total cost of marketing expenses	-3 060	-3 330	-6 434	-6 493	-13 547
General Administration Expenses					
Staff costs	-4 656	-4 792	-10 159	-9 258	-19 151
Depreciation and amortization	-642	-736	-1 304	-1 472	-2 882
Other general administration expenses	-8 896	-9 736	-17 258	-18 813	-34 816
Total cost of general administration expenses	-14 194	-15 264	-28 721	-29 543	-56 849

Other income/expenses - In both 2008 and 2007 other income/expenses includes, the profits recognised on the sale of fixed assets during the period, the movement of the bad debt provision during the year and provisions recognised and released throughout the financial period. It also includes income and costs generated from a consultancy project in the Republic of Tajikistan in 2007.



Chairman of the Management Board:

AS TALLINNA VESI

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(unaudited, thousand EEK)

NOTE 7. FINANCIAL INCOME AND EXPENSES	2008	6 months		Year ended 31
		2007	December	2007
Interest income	9 201	5 339	10 861	
Interest expenses	-30 208	-26 046	-53 513	
Other financial income / expenses (-)	-803	-366	-1 585	
Total financial income / expenses	-21 810	-21 073	-44 237	

NOTE 8. DIVIDENDS	2008	6 months		Year ended 31
		2007	December	2007
Dividends declared during the period	249 010	196 010	196 010	
Dividends paid during the period	249 010	196 010	196 010	
Income tax on dividends declared	-66 193	-55 285	-55 285	
Income tax accounted	-66 193	-55 285	-55 285	

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

NOTE 9. EARNINGS AND DIVIDENDS PER SHARE

	2008	6 months		Year ended 31
		2007	December	2007
Earnings per share from continuing operations:				
Earnings for the purposes of basic earnings per share (net profit for the period minus B-share preference rights)	113 902	119 158	277 830	
Weighted average number of ordinary shares for the purposes of basic earnings per share	20 000 000	20 000 000	20 000 000	
Earnings per share in kroons	5,70	5,96	13,89	
Dividends per A-share in kroons	12,45	9,80	9,80	
Dividends per B-share in kroons	10 000,00	10 000,00	10 000,00	

Diluted earnings per share for the periods ended 30 June 2008 and 2007, and 31 December 2007 are equal to the earnings per share figures stated above.


Chairman of the Management Board:

AS TALLINNA VESI

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NOTES TO THE INTERIM ACCOUNTS

(unaudited, thousand EEK)

NOTE 10. RELATED PARTIES

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

The transactions with related parties in 2008 and 2007 and respective balances as of 30.06.2008 and 30.06.2007 are recorded as follows:

	Tallinn City Government and related boards	The companies belonging to the same group with the United Utilities (Tallinn) B.V.
2008 for 6 months		
Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi		
Customer receivables	21 499	0
Accrued income and prepaid expenses	13 291	0
Accounts payable - short-term trade and other payables	0	8 549
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	1 963
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	91 810	0
General administration expenses	0	8 788
2007 for 6 months		
Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi		
Customer receivables	9 454	0
Accounts payable - short-term trade and other payables	0	2 241
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	2 931
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	55 549	0
General administration expenses	0	9 527

	2008	6 months 2007	Year ended 31 December 2007
Management Board fees excluding social tax	1 127	976	2 118
Supervisory Board fees excluding social tax	300	300	578

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

Company shares belonging to the Management Board members

As at report generation date Roch Jean Guy Antoine Chérourx owned 1 000 and Siiri Lahe 700 AS Tallinna Vesi shares.


Chairman of the Management Board:

AS TALLINNA VESI

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NOTES TO THE INTERIM ACCOUNTS

NOTE 11. LIST OF SUPERVISORY BOARD MEMBERS

Robert John Gallienne	Chairman of the Supervisory Board
Ian John Alexander Plenderleith	Member of the Supervisory Board
Henry Emanuel Russell	Member of the Supervisory Board
David Leonard Fuller	Member of the Supervisory Board
Elmar Sepp	Member of the Supervisory Board
Mart Mägi	Member of the Supervisory Board
Rein Ratas	Member of the Supervisory Board
Valdur Laid	Member of the Supervisory Board
Deniss Borodits	Member of the Supervisory Board

On 4 July 2008 United Utilities (Tallinn) B.V. recalled David Leonard Fuller from the Supervisory Board and appointed Steven Richard Fraser as the new member of the Supervisory Board.


Chairman of the Management Board: 28