

Tallinna Vesi



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

Currency	Thousand euros
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

CONTENTS

	Page
MANAGEMENT REPORT	3
MANAGEMENT CONFIRMATION	10
BALANCE SHEETS	11
INCOME STATEMENTS	12
CASH FLOW STATEMENTS	13
STATEMENTS OF CHANGES IN EQUITY	14
NOTES TO THE ACCOUNTS	
NOTE 1. ACCOUNTING PRINCIPLES	15
NOTE 2. CASH AND CASH EQUIVALENTS	15
NOTE 3. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS	16
NOTE 4. NET SALES	17
NOTE 5. PERSONNEL EXPENSES	17
NOTE 6. COSTS AND EXPENSES	18
NOTE 7. FINANCIAL INCOME AND EXPENSES	19
NOTE 8. DIVIDENDS	19
NOTE 9. EARNINGS AND DIVIDENDS PER SHARE	19
NOTE 10. RELATED PARTIES	20
NOTE 11. LIST OF SUPERVISORY BOARD MEMBERS	21

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 28.4 mln EUR. 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 0.78 mln EUR. The Company's profit before taxes was 11.5 mln EUR, 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 6.3 mln EUR, of which 4.9 mln EUR was invested in network extension and rehabilitation.

<i>mln EUR</i>	6 months 2008	6 months 2007	Change	6 months 2007 underlying	Change
Sales	28,4	24,4	16,6%	24,4	16,6%
Main operating activities	23,2	20,8	11,6%	20,8	11,6%
Other operating activities	5,2	3,6	45,6%	3,6	45,6%
Gross profit	15,1	14,7	3,2%	13,8	9,6%
Gross profit margin %	53,3	60,1	-11,5%	56,7	-6,0%
Operating profit	12,9	12,5	3,3%	11,6	10,8%
Operating profit margin %	45,4	51,2	-11,4%	47,7	-5,0%
Profit before taxes	11,5	11,1	3,2%	10,3	11,8%
Profit before taxes margin	40,5	45,7	-11,5%	42,2	-4,2%
Net profit	7,3	7,6	-4,4%	6,8	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 14.9 mln EUR. Sales from the Company's main operating activities were 11.7 mln EUR. Sales in the main operating activity principally comprise of sales of water and treatment of wastewater to domestic

and commercial customers within and outside of the service area, and fees received from the City of Tallinn for operating and maintaining the storm water system.

Sales of water and wastewater services were 10.6 mln EUR, 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 5.6 mln EUR. Sales to commercial customers increased by 6.6% to 4.5 mln EUR. 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 0.38 mln EUR. Over pollution fees received were 0.23 mln EUR, 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 0.80 mln EUR 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 3.3 mln EUR which is 2.5 mln EUR 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 4.4 mln EUR in the 2nd quarter of 2008, an increase of 0.71 mln EUR 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 0.33 mln EUR compared to 0.06 mln EUR 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 0.09 mln EUR. 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 0.42 mln EUR, 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 0.01 mln EUR 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 0.20 mln EUR 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 0.12 mln EUR 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 0.02 mln EUR, 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 7.6 mln EUR, which is an increase of 0.64 mln EUR, or 9.3%, compared to the gross profit of 7.0 mln EUR for the 2nd quarter of 2007.

Operating Costs and Operating Margin

Marketing expenses decreased by 0.02 mln EUR to 0.20 mln EUR 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 0.07 mln EUR to 0.91 mln EUR 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 1.4 mln EUR in the 2nd quarter of 2008, which is a 0.18 mln EUR 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 0.01 mln EUR in the 2nd quarter of 2008 compared to an expense of 0.03 mln EUR 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 6.5 mln EUR, an increase of 0.77 mln EUR compared to an operating profit of 5.7 mln EUR 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 0.71 mln EUR in the 2nd quarter of 2008, which is an increase of 0.03 mln EUR 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 5.8 mln EUR, which is 0.73 mln EUR higher than the profit before taxes of 5.1 mln EUR for the 2nd quarter of 2007.

The Company recorded 4.2 mln EUR income tax as the result of 15.9 mln EUR 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 28.4 mln EUR. Sales from the Company's main operating activities were 23.2 mln EUR. Sales of water and wastewater treatment were 21.4 mln EUR, 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 11.5 mln EUR, which is 0.36 mln EUR higher than the profit before taxes of 11.1 mln EUR 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 0.85 mln EUR for environmental taxes. Looking at the underlying profit before taxes for the 1st six months of 2007, it shows a 1.2 mln EUR or 11.8% increase in 2008 for the same period.

Balance sheet

During the 1st six months of 2008 the Company invested 6.3 mln EUR into fixed assets. Non-current assets were 138.3 mln EUR at 30 June 2008. Current assets decreased by 3.5 mln EUR to 20.4 mln EUR in the six months of the year, customer receivables decreased by 5.1 mln EUR. During the 1st six months of 2008 cash at bank increased by 0.86 mln EUR.

Current liabilities increased by 6.4 mln EUR to 19.1 mln EUR in the six months of the year. This was mainly due to increases in Current portion of long-term borrowings by 2.7 mln EUR, as result of the reclassification of the loan based on repayment schedule and Taxes payable by 4.5 mln EUR. 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 69.3 mln EUR 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 14.2 mln EUR of cash flows from operating activities, an increase of 3.1 mln EUR 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 2.6 mln EUR, which is 4.2 mln EUR 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 6.3 mln EUR – 4.9 mln EUR on networks (including 3.4 mln EUR on extension and developments), 0.65 mln EUR at Paljassaare wastewater treatment plant and sludge treatment, 0.23 mln EUR on water quality (Ülemiste water treatment plant and raw water) and 0.48 mln EUR for other investments (IT, capital maintenance, meters, etc).

The cash outflows from financing activities were 15.9 mln EUR during the 1st six months of 2008 compared to cash outflow of 12.6 mln EUR 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 0.86 mln EUR compared to a cash outflow of 3.1 mln EUR in the six months of 2007. Cash and cash equivalents stood at 12.3 mln EUR 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.

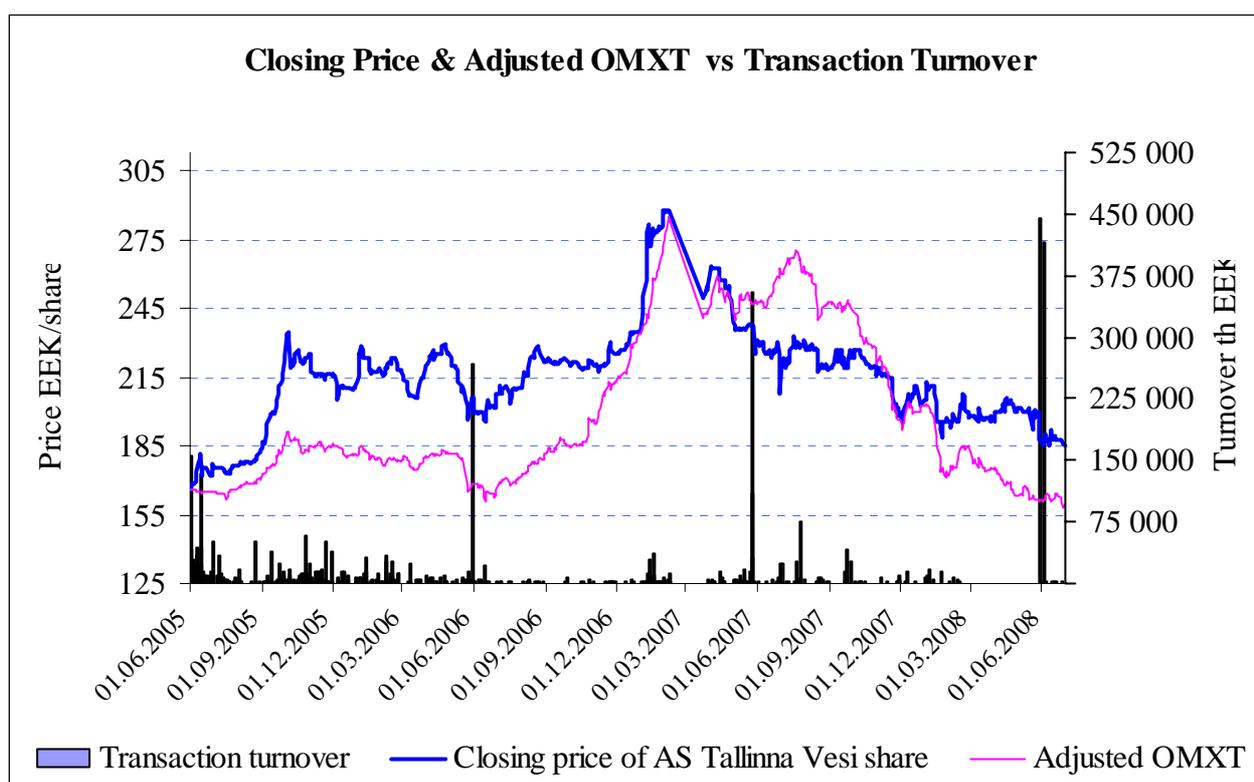
Dividends and share performance

Based on the results of the 2007 financial year, the company paid 15,914,640 EUR of dividends. Of this 639 EUR was paid to the owner of the B-share and 15,914,000 EUR, i.e. 0.80 EUR 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 11.81 EUR, which is a 5.5% decrease compared to the closing price of 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 0.28 mln EUR 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 (0.58 euros per m³ until 31 December 2011 and 0.39 euros 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 three 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 EUR)

ASSETS	Note	2008	30 June 2007	31 December 2007
CURRENT ASSETS				
Cash at bank and in hand	2	12 264	12 813	11 403
Customer receivables		6 775	5 468	11 838
Accrued income and prepaid expenses		1 023	210	331
Inventories		262	259	233
Assets for sale		71	50	72
TOTAL CURRENT ASSETS		20 396	18 801	23 877
NON-CURRENT ASSETS				
Tangible assets	3	128 271	122 882	127 375
Intangible assets	3	2 864	3 207	3 140
Unfinished assets - non connections	3	2 712	4 090	3 070
Unfinished pipelines - new connections	3	4 314	6 220	5 756
Prepayments for fixed assets	3	127	199	345
TOTAL NON-CURRENT ASSETS		138 289	136 597	139 686
TOTAL ASSETS		158 685	155 398	163 562
LIABILITIES				
CURRENT LIABILITIES				
Current portion of long-term borrowings		5 301	0	2 651
Trade and other payables		4 428	4 356	5 558
Taxes payable		6 167	4 939	1 693
Short-term provisions		159	143	143
Deferred income		3 058	2 652	2 691
TOTAL CURRENT LIABILITIES		19 113	12 090	12 736
NON-CURRENT LIABILITIES				
Bank loans		69 311	74 555	71 932
Other payables		8	6	7
TOTAL NON-CURRENT LIABILITIES		69 318	74 562	71 939
TOTAL LIABILITIES		88 432	86 652	84 675
EQUITY CAPITAL				
Share capital		12 782	12 782	12 782
Share premium		24 734	24 734	24 734
Statutory legal reserve		1 278	1 278	1 278
Accumulated profit		24 178	22 336	22 336
Net profit for the period		7 280	7 616	17 757
TOTAL EQUITY CAPITAL		70 253	68 746	78 887
TOTAL LIABILITIES AND EQUITY CAPITAL		158 685	155 398	163 562



Chairman of the Management Board:

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements

1st half-year of the financial year 2008**CONDENSED INCOME STATEMENTS**

(unaudited, thousand EUR)

		Quarter 2		6 months		Year ended 31 December
	Note	2008	2007	2008	2007	2007
Sales from main operating activities	4	11 654	10 505	23 215	20 803	41 436
Revenues from other operating activities	4	3 294	768	5 234	3 595	11 021
Net sales		14 948	11 273	28 449	24 398	52 457
Costs of goods sold (main operating activities)	5,6	-4 360	-3 651	-8 588	-6 519	-13 848
Costs of goods sold (other operating activities)	6	-2 993	-671	-4 711	-3 206	-10 110
GROSS PROFIT		7 595	6 951	15 150	14 674	28 499
Marketing expenses	5,6	-196	-213	-411	-415	-866
General administration expenses	5,6	-907	-976	-1 836	-1 888	-3 633
Other income/ expenses (-)	6	7	-27	2	126	118
OPERATING PROFIT		6 499	5 736	12 905	12 496	24 118
Financial income / expenses (-)	7	-708	-677	-1 394	-1 347	-2 827
PROFIT BEFORE TAXES		5 791	5 059	11 511	11 150	21 291
Income tax on dividends	8	-4 231	-3 533	-4 231	-3 533	-3 533
NET PROFIT FOR THE PERIOD		1 560	1 525	7 280	7 616	17 757
Attributable to:						
Equity holders of A-shares		1 560	1 525	7 280	7 616	17 757
B-share holder		0,64	0,64	0,64	0,64	0,64
Earnings per share in euros	9	0,08	0,08	0,36	0,38	0,89



Chairman of the Management Board:

AS TALLINNA VESIUnaudited Interim Condensed Financial Statements
1st half-year of the financial year 2008**CONDENSED CASH FLOW STATEMENTS**

(unaudited, thousand EUR)

	6 months		Year ended 31
	2008	2007	December
			2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit	12 905	12 496	24 118
Adjustment for depreciation	2 837	2 540	5 064
Adjustment for income and expenses from constructions	-523	-390	-911
Other financial income and expenses	-51	-23	-101
Profit from sale of fixed assets	0	1	-155
Expensed fixed assets	0	0	30
Capitalization of operating expenses	-753	-580	-1 263
Movement in current assets involved in operating activities	1 186	-632	-2 049
Movement in liabilities involved in operating activities	419	-689	-21
Interest paid	-1 807	-1 652	-3 386
Total cash flow from operating activities	14 212	11 069	21 326
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of fixed assets (incl pipelines construction)	-6 823	-5 887	-16 997
Proceeds from pipelines financed by construction income	8 758	3 885	6 509
Proceeds from sale of and prepayments received for fixed assets	1	1	25
Proceeds from sale of assets and real estate investments	0	15	15
Interest received	628	346	676
Total cash flow from investing activities	2 564	-1 640	-9 773
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance lease payments	0	-30	-30
Dividends paid	-15 915	-12 527	-12 527
Income tax on dividends	0	0	-3 533
Total cash flow from financing activities	-15 915	-12 558	-16 091
Change in cash and bank accounts	861	-3 128	-4 537
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD	11 403	15 940	15 940
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	12 264	12 813	11 403



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 EUR)

	Share capital	Share premium	Statutory legal reserve	Accumulated profit	Net profit	Total equity
31 December 2006	12 782	24 734	1 278	19 010	15 853	73 658
Transfer of financial year profit to the accumulated profit	0	0	0	15 853	-15 853	0
Dividends	0	0	0	-12 527	0	-12 527
Net profit of the financial year	0	0	0	0	17 757	17 757
31 December 2007	12 782	24 734	1 278	22 336	17 757	78 887
31 December 2006	12 782	24 734	1 278	19 010	15 853	73 658
Transfer of financial year profit to the accumulated profit	0	0	0	15 853	-15 853	0
Dividends	0	0	0	-12 527	0	-12 527
Net profit of the financial period	0	0	0	0	7 616	7 616
30 June 2007	12 782	24 734	1 278	22 336	7 616	68 746
31 December 2007	12 782	24 734	1 278	22 336	17 757	78 887
Transfer of financial year profit to the accumulated profit	0	0	0	17 757	-17 757	0
Dividends	0	0	0	-15 915	0	-15 915
Net profit of the financial period	0	0	0	0	7 280	7 280
30 June 2008	12 782	24 734	1 278	24 178	7 280	70 253



Chairman of the Management Board:

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements

1st half-year of the financial year 2008**NOTES TO THE INTERIM ACCOUNTS**

(unaudited, thousand EUR)

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.

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

NOTE 2. CASH AND CASH EQUIVALENTS

	6 months		Year ended 31 December
	2008	2007	2007
Cash at bank and in hand	204	3 118	2 418
Short term deposits	12 060	9 695	8 985
	12 264	12 813	11 403



Chairman of the Management Board:

AS TALLINNA VESI

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

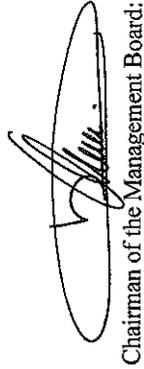
NOTES TO THE INTERIM ACCOUNTS

NOTE 3. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS

(unaudited, thousand EUR)

	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	
Acquisition cost at										
31.12.2006	22 054	128 906	34 169	1 120	5 859	7 488	179	1 121	4 073	204 969
Acquisition	0	0	0	0	9 475	8 634	167	0	0	18 276
Sale of fixed assets	-96	0	-96	0	0	0	0	0	0	-192
Write-off of fixed assets	-2	-84	-880	-31	0	0	0	-22	-40	-1 059
Reclassification within balance sheet	0	0	0	0	-11	-130	0	0	0	-141
Reclassification to expenses	0	0	0	0	-29	0	0	0	0	-29
Expensed pipelines	0	0	0	0	0	-10 110	0	0	0	-10 110
Reclassification from assets in progress	1 320	7 628	3 008	42	-12 224	-126	0	116	237	0
31.12.2007	23 276	136 449	36 200	1 132	3 070	5 756	345	1 215	4 270	211 713
Acquisition	0	0	0	0	2 898	3 361	9	0	0	6 268
Sale of fixed assets	0	0	-1	0	0	0	0	0	0	-1
Write-off of fixed assets	-4	-7	-140	0	0	0	0	0	0	-151
Reclassification within balance sheet	0	0	0	0	-20	-91	-5	0	0	-116
Expensed pipelines	0	0	0	0	0	-4 711	0	0	0	-4 711
Reclassification from assets in progress	251	2 501	600	45	-3 236	0	-222	0	60	0
30.06.2008	23 523	138 944	36 659	1 177	2 712	4 314	127	1 215	4 331	213 002
Accumulated depreciation										
31.12.2006	3 801	40 970	20 812	696	0	0	0	729	1 104	68 113
Depreciation	253	2 150	2 018	70	0	0	0	123	451	5 064
Depreciation of fixed assets sold and written-off (-)	-2	-84	-971	-31	0	0	0	-22	-40	-1 150
31.12.2007	4 052	43 036	21 859	736	0	0	0	830	1 515	72 027
Depreciation	136	1 210	1 115	40	0	0	0	67	270	2 837
Depreciation of fixed assets sold and written-off (-)	-4	-7	-141	0	0	0	0	0	0	-151
30.06.2008	4 183	44 240	22 833	776	0	0	0	896	1 785	74 713
Net book value										
31.12.2006	18 253	87 935	13 356	424	5 859	7 488	179	392	2 969	136 856
31.12.2007	19 224	93 413	14 341	396	3 070	5 756	345	385	2 755	139 686
30.06.2008	19 339	94 704	13 826	401	2 712	4 314	127	318	2 546	138 289

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

Unaudited Interim Condensed Financial Statements

1st half-year of the financial year 2008**NOTES TO THE INTERIM ACCOUNTS**

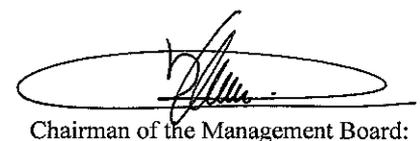
(unaudited, thousand EUR)

NOTE 4. NET SALES	Quarter 2		6 months		Year ended 31
	2008	2007	2008	2007	December
Revenues from main operating activities					2007
Total water supply and waste water disposal service, incl:	10 645	9 772	21 413	19 380	38 322
<u>Domestic clients, incl:</u>	<u>5 572</u>	<u>5 102</u>	<u>11 248</u>	<u>10 283</u>	<u>20 385</u>
Water supply service	3 110	2 852	6 281	5 749	11 405
Waste water disposal service	2 462	2 250	4 967	4 534	8 980
<u>Corporate clients, incl:</u>	<u>4 465</u>	<u>4 189</u>	<u>8 936</u>	<u>8 253</u>	<u>16 148</u>
Water supply service	2 505	2 317	4 973	4 484	8 864
Waste water disposal service	1 960	1 872	3 963	3 769	7 284
<u>Outside area clients, incl:</u>	<u>379</u>	<u>250</u>	<u>778</u>	<u>528</u>	<u>1 130</u>
Water supply service	33	24	64	47	98
Waste water disposal service	347	225	714	482	1 031
<u>Overpollution</u>	<u>229</u>	<u>232</u>	<u>451</u>	<u>315</u>	<u>659</u>
Stormwater treatment and disposal service	758	544	1 356	1 088	2 392
Fire hydrants service	38	35	76	70	151
Other works and services	213	154	369	265	571
Total revenues from main operating activities	11 654	10 505	23 215	20 803	41 436
Revenues from other operating activities					
Water, sewerage and storm water connections construction income	3 294	768	5 234	3 595	11 021
TOTAL NET SALES	14 948	11 273	28 449	24 398	52 457

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		6 months		Year ended 31
	2008	2007	2008	2007	December
Salaries and wages	-1 054	-917	-2 185	-1 812	-3 686
Social security taxation	-351	-306	-728	-604	-1 227
Staff costs total	-1 405	-1 223	-2 913	-2 416	-4 913
Number of employees at the end of reporting period			316	319	312



Chairman of the Management Board:

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements

1st half-year of the financial year 2008**NOTES TO THE INTERIM ACCOUNTS**

(unaudited, thousand EUR)

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	-174	-166	-347	-336	-671
Chemicals	-419	-337	-704	-659	-1 341
Electricity	-408	-394	-885	-854	-1 686
Pollution tax	-327	-60	-510	614	397
Staff costs	-1 018	-814	-2 076	-1 638	-3 299
Research and development	0	-4	-2	-4	-6
Depreciation and amortization	-1 299	-1 177	-2 595	-2 334	-4 653
Other costs of goods sold	-716	-700	-1 469	-1 308	-2 589
Total cost of goods sold (main operating activities)	-4 360	-3 651	-8 588	-6 519	-13 848
Cost of goods sold (other operating activities)					
Water, sewerage and storm water connections construction cost	-2 993	-671	-4 711	-3 206	-10 110
Marketing Expenses					
Staff costs	-89	-102	-188	-186	-390
Depreciation and amortization	-82	-57	-159	-112	-227
Other marketing expenses	-25	-53	-64	-117	-248
Total cost of marketing expenses	-196	-213	-411	-415	-866
General Administration Expenses					
Staff costs	-298	-306	-649	-592	-1 224
Depreciation and amortization	-41	-47	-83	-94	-184
Other general administration expenses	-569	-622	-1 103	-1 202	-2 225
Total cost of general administration expenses	-907	-976	-1 836	-1 888	-3 633

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

Unaudited Interim Condensed Financial Statements

1st half-year of the financial year 2008**NOTES TO THE INTERIM ACCOUNTS**

(unaudited, thousand EUR)

NOTE 7. FINANCIAL INCOME AND EXPENSES	6 months		Year ended 31
	2008	2007	December 2007
Interest income	588	341	694
Interest expense	-1 931	-1 665	-3 420
Other financial income / expenses (-)	-51	-23	-101
Total financial income / expenses	-1 394	-1 347	-2 827

NOTE 8. DIVIDENDS	6 months		Year ended 31
	2008	2007	December 2007
Dividends declared during the period	15 915	12 527	12 527
Dividends paid during the period	15 915	12 527	12 527
Income tax on dividends declared	-4 231	-3 533	-3 533
Income tax accounted	-4 231	-3 533	-3 533

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

NOTE 9. EARNINGS AND DIVIDENDS PER SHARE

	6 months		Year ended 31
	2008	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)	7 280	7 616	17 757
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 euros	0,36	0,38	0,89
Dividends per A-share in euros	0,80	0,63	0,63
Dividends per B-share in euros	639,12	639,12	639,12

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: 19

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements

1st half-year of the financial year 2008**NOTES TO THE INTERIM ACCOUNTS**

(unaudited, thousand EUR)

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 transactions with the shareholder having significant influence. 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	1 374	0
Accrued income and prepaid expenses	849	0
Accounts payable - short-term trade and other payables	0	546
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	125
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	5 868	0
General administration expenses	0	562
2007 for 3 months		
Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi		
Customer receivables	604	0
Accounts payable - short-term trade and other payables	0	143
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	187
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	3 550	0
General administration expenses	0	609

	6 months		Year ended 31 December
	2008	2007	2007
Management Board fees excluding social tax	72	62	135
Supervisory Board fees excluding social tax	19	19	37

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 Chéroux owned 1 000 and Siiri Lahe 700 AS Tallinna Vesi shares.



Chairman of the Management Board:

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements

1st half-year of the financial year 2008

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: