

Tallinna Vesi



AS Tallinna Vesi
Results of operations – for the 4th quarter and
12 months of 2008

Currency	Thousand kroons
Start of reporting period	1 January 2008
End of reporting period	31 December 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 4th QUARTER 2008

Overview

During the twelve months of 2008 the Company's total sales increased, year on year, by 11.0% to 719.9 mln EEK. Total water and sewerage services sale volumes increased in the twelve months of 2008 by 0.3% compared to the same twelve months of 2007, respective sales increased by 9.8%. Within the service area sales to residential customers increased by 8.7% year on year, sales to commercial customers increased by 7.4% year on year, and sales to customers outside of the service area increased by 49.4% year on year, reaching 3.8 mln m³ or 26.4 mln EEK. The Company's profit before taxes was 362.2 mln EEK, which is an 8.7% increase compared to the same twelve months of 2007. Eliminating the one-off nitrogen provision release in the 1st quarter of 2007, profit before tax in the twelve months of 2008 increased by 13.2%. In 2008 the Company invested 306.3 mln EEK, of which 265.1 mln EEK was invested in network extension and rehabilitation.

<i>mln EEK</i>	4 Q 2008	4 Q 2007	Change	12 months 2008	12 months 2007	Change
Sales	182,7	165,7	10,3%	719,9	648,3	11,0%
Gross profit	108,7	106,2	2,3%	447,2	431,7	3,6%
Gross profit margin %	59,5	64,1	-7,2%	62,1	66,6	-6,7%
Operating profit	104,0	93,4	11,4%	405,4	377,4	7,4%
Operating profit margin %	56,9	56,4	1,0%	56,3	58,2	-3,3%
Profit before taxes	92,8	82,0	13,3%	362,2	333,1	8,7%
Net profit	92,8	82,0	13,3%	296,0	277,8	6,5%
Net profit margin %	50,8	49,5	2,7%	41,1	42,9	-4,1%
ROA %	3,6	3,2	13,3%	11,6	10,9	6,5%
Debt to total capital employed	49,9	51,8	-3,5%	49,9	51,8	-3,5%

Gross profit margin – Gross profit / Net sales

Operating profit margin – Operating profit / Net sales

Net Profit margin – Net Profit / Net sales

ROA – Net profit / Total Assets

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

Profit and Loss Statement

4th quarter 2008

Sales

In the 4th quarter of 2008 the Company's total sales increased, year on year, by 10.3% to 182.7 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 163.9 mln EEK, an 8.0% increase compared to the 4th quarter of 2007, 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 8.0% to 87.0 mln EEK. Sales to commercial customers increased by 4.4% to 66.4 mln EEK. Sales to customers outside of the service area – primarily bulk volumes of wastewater treatment services provided to the surrounding municipalities – increased by 40.9% reaching 1.1 mln m³ or 6.9 mln EEK. Over pollution fees received were 3.5 mln EEK, 31.3% increase compared to the 4th quarter of 2007.

In the 4th quarter of 2008, the volumes sold to residential customers dropped 3.3%. We believe that this is mainly related to the fact that people have moved to the surrounding areas of Tallinn.

The volumes sold to commercial customers inside the service area decreased by 6.4% 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.

The real estate market has changed considerably compared to last year. Although the number of new apartments and business buildings being constructed in Tallinn in 2008 remained 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 40.9% in the 4th 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 32.2% to 15.1 mln EEK in the 4th 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.

Cost of Goods Sold and Gross Margin

The cost of goods sold for the main operating activity was 74.0 mln EEK in the 4th quarter of 2008, an increase of 14.5 mln EEK or 24.4% from the equivalent period in 2007.

In the 4th 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 7.0 mln EEK compared to 1.7 mln EEK in 4th quarter of 2007. This increase in pollution tax is due to the combination of the coefficient and increase in tax rates year on year by 20%, supplemented by increased 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.

The chemical costs were 5.2 mln EEK, representing a 1.3% 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 1.6 mln EEK or 24.6% in the 4th quarter of 2008 compared to the 4th quarter of 2007 due to higher electricity prices combined with volumes treated.

Salary expenses increased in the 4th quarter of 2008, year on year, by 2.1 mln EEK or 13.9% 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 another.

Depreciation charges increased in the 4th quarter of 2008 by 2.8 mln EEK or 15.5% 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 2.5 mln EEK, or 25.4% year on year. This was due to higher costs on a number of support services and maintenance and repair contracts, reflecting the increase in labour and services costs, but also the tightening of warranty requirements regarding the emergency repair works in Tallinn.

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 4th quarter of 2008 was 108.7 mln EEK, which is an increase of 2.5 mln EEK, or 2.3%, compared to the gross profit of 106.2 mln EEK for the 4th quarter of 2007.

Operating Costs and Operating Margin

Marketing expenses decreased by 0.8 mln EEK to 3.1 mln EEK during the 4th 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.

Mainly as a consequence of structural changes the General administration expenses decreased by 1.3 mln EEK to 13.9 mln EEK in the 4th quarter of 2008 year on year.

Other net income/expenses

In order to more appropriately reflect the substance of different types of compensations received, the accounting policy for constructions was changed in 2008. In accordance with the new policy, any compensation received from the local governments are treated as government grants in accordance with IAS 20 and are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate. Accordingly, such compensations are deducted from the carrying amount of the pipeline assets constructed; any excess of the compensation receivable compared to the related construction cost that the compensation is intended to compensate is recognized in income once the construction is completed. The net effect of these transactions can be seen from other income/expenses and the change in the accounting policy is accounted retrospectively.

Until 2007 and also during the first 3 quarters of 2008, the Company accounted for any compensations received from customers and local governments for constructing new pipelines as income once the construction was completed and receipt of the compensation was probable. Compensations were presented in the income statement as “Revenues from other operating activities” and the related construction costs were presented as “Costs of goods sold (other operating activities)”.

Income/expenses from constructions totaled a net income of 14.2 mln EEK in the 4th quarter of 2008 compared to a net income of 5.3 mln EEK in the 4th quarter of 2007. The rest of the other income/expenses totaled an expense of 1.9 mln EEK in the 4th quarter of 2008 compared to an income of 0.9 mln EEK in the 4th quarter of 2007.

As a result of all of the above the Company’s operating profit for the 4th quarter of 2008 was 104.0 mln EEK, an increase of 10.6 mln EEK compared to an operating profit of 93.4 mln EEK achieved in the 4th quarter of 2007. Compared to the operating profit in the 4th quarter of 2007, the operating profit has increased 11.4%.

Financial expenses

Net Financial expenses were 11.2 mln EEK in the 4th quarter of 2008, which is a decrease of 0.3 mln EEK or 2.2% compared to the 4th quarter of 2007. The Company’s interest costs have increased by 2.0% compared to the 4th 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 4th 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 4th quarter of 2008 was 92.8 mln EEK, which is 10.8 mln EEK higher than the profit before taxes of 82.0 mln EEK for the 4th quarter of 2007.

Results for the twelve months of 2008

During the twelve months of 2008 the Company’s total sales increased, year on year, by 11.0% to 719.9 mln EEK. Sales from the Company’s main operating activities were 719.9 mln EEK. Sales of water and wastewater treatment were 658.3 mln EEK, a 9.8% increase compared to the twelve months of 2007.

The Company’s profit before taxes for the twelve months of 2008 was 362.2 mln EEK, which is 29.1 mln EEK higher than the profit before taxes of 333.1 mln EEK in the relevant period in 2007. The results for the twelve months 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 twelve months of 2007, it shows a 42.4 mln EEK or 13.2% increase in 2008 for the same period.

Balance sheet

During the twelve months of 2008 the Company invested 306.3 mln EEK into fixed assets. Non-current assets were 2,212 mln EEK at 31 December 2008. Current assets decreased by 26.2 mln

EEK to 347.4 mln EEK in the twelve months of the year, customer receivables increased by 3.7 mln EEK. During the twelve months of 2008 cash at bank increased by 51.4 mln EEK.

Current liabilities decreased by 7.0 mln EEK to 192.2 mln EEK in the twelve 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 decrease in Trade payables.

The Company continues to maintain its leverage level within its target range of 50% with total liabilities to total capital employed of 49.9% as of 31 December 2008. Long-term liabilities stood at 1,085.5 mln EEK at the end of December 2008, consisting almost entirely of the outstanding balance on the two long-term bank loans.

Cash flow

During the twelve months of 2008, the Company generated 393.1 mln EEK of cash flows from operating activities, an increase of 59.5 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 twelve months of 2008.

In the twelve months of 2008 net cash outflows from investing activities were 26.8 mln EEK, which is 126.1 mln EEK less than in 2007. This was mainly due to the change in constructions compensation mechanism as result of the 30 November 2007 agreement with the local municipality. In the 1st quarter 2008 the Company received the compensation for 2007 constructions. In 2008 the Company invested 306.3 mln EEK – 265.1 mln EEK on networks (including 189.7 mln EEK on extension and developments), 17.5 mln EEK at Paljassaare wastewater treatment plant and sludge treatment, 9.9 mln EEK on water quality (Ülemiste water treatment plant and raw water) and 13.7 mln EEK for other investments (IT, capital maintenance, meters, etc).

The cash outflows from financing activities were 314.9 mln EEK during the twelve months of 2008 compared to cash outflow of 251.8 mln EEK during the same twelve months of 2007, representing the payouts of the dividend and the income tax on dividends of respective years. The Company made its first scheduled repayment to EBRD. Considering the extensive network extension program and related investment outflows until 2011, the Company does not intend to reduce the loan capital and therefore the repayment amount was replaced with a new loan drawdown from Nordea. The Company signed the new loan agreement with Nordea in November 2008. The total loan facility is 37.5 mln EUR and the interest margin applicable to the 6 month Euribor is 115 bps.

As a result of all of the above factors, the total cash inflow in the twelve months of 2008 was 51.4 mln EEK compared to a cash outflow of 71.0 mln EEK in the twelve months of 2007. Cash and cash equivalents stood at 229.9 mln EEK as at 31 December 2008.

Employees

At the end of the 4th quarter of 2008, the number of employees was 327, compared to 312 at the end of the 4th quarter of 2007.

Dividends and share performance

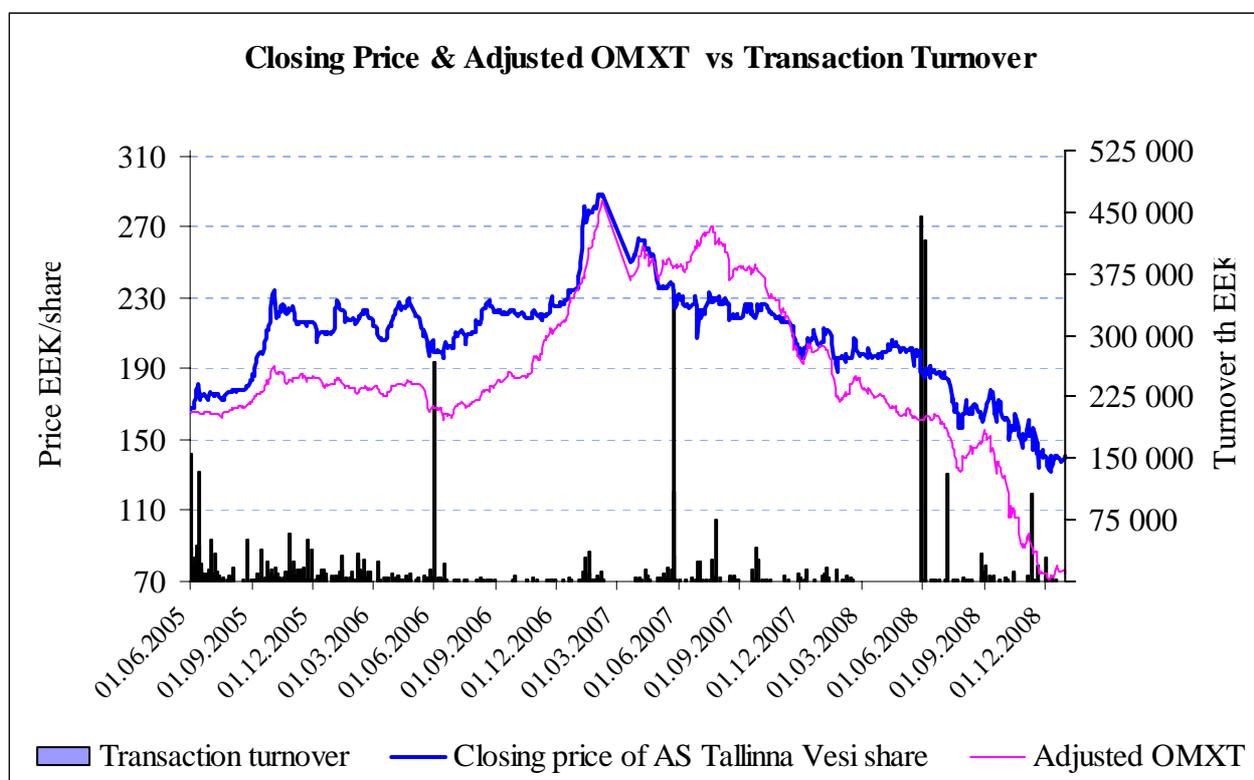
Based on the results of the 2007 financial year, the Company paid 249,010,000 EEK of dividends. Of this 10,000 EEK was paid to the owner of the B-share and 249,000,000 EEK, i.e. 12.45 EEK per share to the owners of the A-shares. The dividends were paid out on 13 June 2008, based on the list of shareholders,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

As of 31 December 2008 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%
Credit Suisse Securities (Europe) Ltd Prime Brokerage A/C Prime Brokerage Clients	5.76%
HSBC Bank Plc Re Parvus European Absolute Opportunities Master Fund	5.46%

Parvus AM has declared that their shareholding in the clients' accounts exceeds 10% and AKO Capital has declared their indirect ownership above 5% of the share capital.

At the end of the quarter, 31 December 2008, the closing price of the AS Tallinna Vesi share was 140.66 EEK (8.99 EUR), which is a 12.8% decrease compared to the closing price of 161.32 EEK (10.31 EUR) at the beginning of quarter, this is still outperforming the market as the OMX Tallinn index dropped by 41.7% during the quarter.



Operational highlights in the twelve months of 2008

- In 2008 the water quality as measured at the customer's taps again showed improvement with over 98% of the samples taken fully compliant with European standards against a requirement of 95%. We are pleased to report for 2008 the compliance with all requirements of the Levels of Services established by the contract with City of Tallinn. Annual compliance at the waste water treatment plant was also achieved.
- 2008 was the first year of the three year network extension programme and the Company delivered the planned lengths in 2008. In total over 34 km of wastewater pipe, 14.4 km of storm water pipe and 2.9 km of water pipe were constructed, thus providing the opportunity for over 1300 customers to connect to the wastewater network. The programme continues in 2009 with many of the designs already complete and construction contracts being awarded. During the 2008 network extension programme the Company also took the opportunity to replace over 16 km of water pipe to further improve the water quality and pressure regimes in the targeted areas.
- Installation of more valves on the water network, replacing connection pipes and also responding to leakages faster, saw the leakage level reduced to 17.25%, a further improvement on the 19.2% achieved in 2007.
- 2008 was a wet year and the Company was very diligent ensuring the cleaning and proper function of the street gullies and storm water system and this resulted in less flooding issues in the City. The Company also pressure washed over 165 km of wastewater pipe, 65 km more than in 2007, and as a consequence the number of blockages was reduced by more than 6%.
- 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).
- On the 5th of August the Company concluded an operating agreement with Maardu City and Maardu Vesi. When the operating contract comes into force, AS Tallinna Vesi shall help AS Maardu Vesi to finance the self-financing part required within the European Union Assistance Project during the period 2009-2012 with up to a total of 80 mln EEK over the period. The Company shall get the investment back through the capital component to be included in the tariff within 20 years. On the basis of the cooperation of the companies and the subsidies of the European Union the problems regarding the water quality in Maardu shall be solved in the forthcoming years and in a longer perspective Maardu shall be supplied with drinking water from Ülemiste Water Treatment Plant. Administrating the infrastructure of AS Maardu Vesi enables AS Tallinna Vesi to increase its customer portfolio and to grow turnover. In addition to the required self-financing AS Tallinna Vesi shall provide the customers of AS Maardu Vesi with a modern service of operating the assets with a good-quality customer service. There are about 20 000 residents living in the operating area of AS Maardu Vesi. The operating contract has been planned for the duration

of 30 years. Initially the contract was planned to commence from 1 January 2009, assuming the EU funding confirmation in 2008. In January 2009 Maardu Vesi received the positive confirmation for their application to use the EU funding. Tallinna Vesi shall start to operate the assets and provide full service at the latest from 1 April 2009 after the preparation period during which the assets are taken over. AS Maardu Vesi shall still remain the owner of all assets.

- The Company submitted the application for the tariff increase from 1st January 2009 in the 3rd quarter. The City Government approved the 12.8% tariff increase for water and wastewater services on 1 October 2008. The tariff increase is applicable from 1st January 2009 and consists of 11.4% of CPI increase, 2% of k-coefficient and -0.6% of change of law. The 12.8% tariff increase is applicable in the main service area and is similar outside the main service area, depending still on individual contracts with the municipalities.
- The usage of the web based self service has increased by more than 2 times compared to 2007, 9.7% of invoices were issued via web.

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 12 months period of financial year 2008 ended 31 December 2008. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the financial year 2008 ended 31 December 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 12 months of the financial year and of their effect to the condensed financial statements. It includes the description of the main risks and unclear aspects that can, based on the sensible judgement of the Management Board, have an impact on the company.

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

All material subsequent events that occurred by the interim accounts preparation date of 16 January 2009 have been assessed as part of this review.

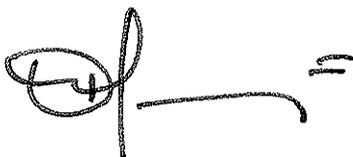
The company is carrying on its activities as a going concern.



Ian John Alexander Plenderleith
Chairman of the Management Board
Chief Executive Officer



Siiri Lahe
Member of the Management Board
Chief Financial Officer



David Nigel Hetherington
Member of the Management Board
Chief Operating Officer

16 January 2009

AS TALLINNA VESIUnaudited Interim Condensed Financial Statements
for the 12 months period of the financial year 2008**CONDENSED BALANCE SHEETS**

(thousand EEK)

ASSETS	Note	31 December 2008	31 December 2007
CURRENT ASSETS			
Cash at bank and in hand	2	229 860	178 420
Customer receivables		108 204	104 496
Accrued income and prepaid expenses		4 434	85 906
Inventories		3 760	3 645
Assets for sale		1 140	1 120
TOTAL CURRENT ASSETS		347 398	373 587
NON-CURRENT ASSETS			
Tangible assets	3	2 052 316	1 992 978
Intangible assets	3	40 702	49 137
Unfinished assets - non connections	3	24 808	48 034
Unfinished pipelines - new connections	3	91 974	90 057
Prepayments for fixed assets	3	1 853	5 399
TOTAL NON-CURRENT ASSETS		2 211 653	2 185 605
TOTAL ASSETS		2 559 051	2 559 192
LIABILITIES			
CURRENT LIABILITIES			
Current portion of long-term borrowings		82 695	41 486
Trade and other payables		63 636	86 966
Taxes payable		23 634	26 486
Short-term provisions		2 486	2 231
Deferred income		19 797	42 099
TOTAL CURRENT LIABILITIES		192 248	199 268
NON-CURRENT LIABILITIES			
Bank loans		1 084 790	1 125 491
Other payables		735	113
TOTAL NON-CURRENT LIABILITIES		1 085 525	1 125 604
TOTAL LIABILITIES		1 277 773	1 324 872
EQUITY CAPITAL			
Share capital		200 001	200 001
Share premium		387 000	387 000
Statutory legal reserve		20 000	20 000
Accumulated profit		378 309	349 479
Net profit for the period		295 968	277 840
TOTAL EQUITY CAPITAL		1 281 278	1 234 320
TOTAL LIABILITIES AND EQUITY CAPITAL		2 559 051	2 559 192

Chairman of the Management Board: 

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
for the 12 months period of the financial year 2008

CONDENSED INCOME STATEMENTS

(thousand EEK)

		Quarter 4		Year ended 31 December	Year ended 31 December
	Note	2008	2007	2008	2007
Sales from main operating activities	4	182 717	165 710	719 923	648 335
Costs of goods sold (main operating activities)	6	-73 984	-59 469	-272 752	-216 677
GROSS PROFIT		108 733	106 241	447 171	431 658
Marketing expenses	6	-3 079	-3 838	-12 310	-13 547
General administration expenses	6	-13 949	-15 278	-54 546	-56 849
Other income/ expenses (-)	7	12 304	6 261	25 045	16 100
OPERATING PROFIT		104 009	93 386	405 360	377 362
Financial income / expenses (-)	8	-11 170	-11 426	-43 199	-44 237
PROFIT BEFORE TAXES		92 839	81 960	362 161	333 125
Income tax on dividends	9	0	0	-66 193	-55 285
NET PROFIT FOR THE PERIOD		92 839	81 960	295 968	277 840
Attributable to:					
Equity holders of A-shares		92 829	81 950	295 958	277 830
B-share holder		10	10	10	10
Earnings per share in kroons	10	4,64	4,10	14,80	13,89

Chairman of the Management Board:



AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
for the 12 months period of the financial year 2008

CONDENSED CASH FLOW STATEMENTS

(thousand EEK)

	Note	Year ended 31 December 2008	Year ended 31 December 2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		405 360	377 362
Adjustment for depreciation		89 669	79 241
Adjustment for income and expenses from constructions		-27 921	-14 250
Other financial income and expenses	8	-891	-1 585
Profit from sale of fixed assets		-455	-2 422
Expensed fixed assets		-19	476
Capitalization of operating expenses		-25 210	-19 764
Movement in current assets involved in operating activities		9 411	-32 062
Movement in liabilities involved in operating activities		758	-327
Interest paid		-57 569	-52 986
Total cash flow from operating activities		393 133	333 683
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of fixed assets (incl pipelines construction)		-307 197	-265 951
Proceeds from pipelines financed by construction income		262 987	101 840
Proceeds from sale of and prepayments received for fixed assets		480	390
Proceeds from sale of assets and real estate investments		0	242
Interest received		16 905	10 571
Total cash flow from investing activities		-26 825	-152 908
CASH FLOWS FROM FINANCING ACTIVITIES			
Received long-term loans		42 246	0
Repayment of long-term loans		-41 911	0
Finance lease payments		0	-473
Dividends paid	9	-249 010	-196 010
Income tax on dividends		-66 193	-55 285
Total cash flow from financing activities		-314 868	-251 768
Change in cash and bank accounts		51 440	-70 993
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD		178 420	249 413
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	2	229 860	178 420

Chairman of the Management Board:



AS TALLINNA VESIUnaudited Interim Condensed Financial Statements
for the 12 months period of the financial year 2008**CONDENSED STATEMENTS OF CHANGES IN EQUITY**

(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
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	295 968	295 968
31 December 2008	200 001	387 000	20 000	378 309	295 968	1 281 278

Chairman of the Management Board:

IP

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
for the 12 months period of the financial year 2008

NOTES TO THE INTERIM ACCOUNTS

(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.

Change in accounting policy

Until 2007, the Group accounted for any compensations received from the customers and local governments for constructing new pipelines (including connection fees) as income once the construction was completed and the receipt of the compensation was probable. Compensations were presented in the income statement as "Revenues from other operating activities" and the related construction costs were presented as "Costs of goods sold (other operating activities)".

In order to more appropriately reflect the substance of different types of compensations received, the accounting policy was changed in 2008. In accordance with the new policy, any compensations received from the local governments are treated as government grants in accordance with IAS 20 and are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate. Accordingly, such compensations are deducted from the carrying amount of the pipeline assets constructed; any excess of the compensation receivable compared to the related construction cost that the compensation is intended to compensate is recognised in income once the construction is completed.

Any compensations received from the customers are recognised as income in accordance with IAS 18 "Revenue" over the expected life of the client relationship.

The change in the accounting policy is accounted for retrospectively and the comparatives have been changed as follows:

Accounting before changing the accounting policy:

Line of Income Statement	9 months		Year ended 31 December
	2008	2007	2007
Revenues from other operating activities	133 193	67 798	172 437
Costs of goods sold (other operating activities)	-119 440	-58 867	-158 187

Accounting after changing the accounting policy:

Line of Income Statement	9 months		Year ended 31 December
	2008	2007	2007
Other income / expenses (-) from constructions	13 753	8 931	14 250

NOTE 2. CASH AND CASH EQUIVALENTS

	Year ended 31 December	Year ended 31 December
	2008	2007
Cash at bank and in hand	1 551	37 838
Short term deposits	228 309	140 582
Total Cash and cash equivalents	229 860	178 420

Chairman of the Management Board:

AS TALLINNA VESI

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NOTES TO THE INTERIM ACCOUNTS

(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	
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	148 257	135 085	2 611	0	0	285 953
Sale of fixed assets	-1 506	0	-1 505	0	0	0	0	0	0	-3 011
Write-off of fixed assets	-34	-1 319	-13 772	-482	0	0	0	-346	-623	-16 576
Reclassification within balance sheet	0	0	0	0	-170	-2 029	-7	0	0	-2 206
Expensed assets	0	0	0	0	-460	-158 187	0	0	0	-158 647
Reclassification from assets in progress	20 654	119 355	47 058	658	-191 269	-1 974	0	1 809	3 709	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	116 606	189 651	0	0	0	306 257
Sale of fixed assets	0	0	-1 101	0	0	0	0	0	0	-1 101
Write-off of fixed assets	-68	-816	-11 334	-484	0	0	0	-1 709	-7 137	-21 548
Reclassification within balance sheet	-535	-20	-5	0	-2 243	-1 438	-155	0	0	-4 396
From balance sheet to fixed assets	144	0	0	0	0	0	0	0	0	144
Expensed assets	0	0	0	0	-282	-186 282	0	0	0	-186 564
Reclassification from assets in progress	4 316	100 404	31 706	1 149	-137 307	-14	-3 391	445	2 692	0
31.12.2008	368 045	2 234 538	585 674	18 373	24 808	91 974	1 853	17 742	62 372	3 405 379
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	4 221	38 023	34 635	1 218	0	0	0	8 931	2 641	89 669
Depreciation of fixed assets sold and written-off (-)	-351	-828	-12 415	-485	0	0	0	-7 137	-1 709	-22 925
31.12.2008	67 263	710 568	364 236	12 247	0	0	0	14 774	24 638	1 193 726
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
31.12.2008	300 782	1 523 970	221 438	6 126	24 808	91 974	1 853	2 968	37 734	2 211 653

Fixed assets are written off if the condition of the asset does not enable further usage for production purposes.

As of 31 December 2008 and 2007 there was no finance lease contract.

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(thousand EEK)

NOTE 4. NET SALES	Quarter 4		Year ended 31	Year ended 31
	2008	2007	December	December
	2008	2007	2008	2007
Revenues from main operating activities				
Total water supply and waste water disposal service, incl:	163 886	151 797	658 305	599 612
<u>Domestic clients, incl:</u>	<u>87 036</u>	<u>80 615</u>	<u>346 836</u>	<u>318 963</u>
Water supply service	48 562	45 115	193 688	178 452
Waste water disposal service	38 474	35 500	153 148	140 511
<u>Corporate clients, incl:</u>	<u>66 417</u>	<u>63 596</u>	<u>271 231</u>	<u>252 658</u>
Water supply service	36 519	35 018	150 669	138 693
Waste water disposal service	29 898	28 578	120 562	113 965
<u>Outside service area clients, incl:</u>	<u>6 900</u>	<u>4 896</u>	<u>26 401</u>	<u>17 676</u>
Water supply service	546	416	2 160	1 541
Waste water disposal service	6 354	4 480	24 241	16 135
<u>Overpollution</u>	<u>3 533</u>	<u>2 690</u>	<u>13 837</u>	<u>10 315</u>
Stormwater treatment and disposal service	14 174	10 697	46 158	37 426
Fire hydrants service	911	719	2 687	2 361
Other works and services	3 746	2 497	12 773	8 936
TOTAL NET SALES	182 717	165 710	719 923	648 335

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

Codes of Estonian Classification of Economic Activities (EMTAK) are 36001 and 37001.

NOTE 5. PERSONNEL EXPENSES

	Quarter 4		Year ended 31	Year ended 31
	2008	2007	December	December
	2008	2007	2008	2007
Salaries and wages	-18 099	-17 570	-66 330	-57 666
Social security taxation	-6 028	-5 851	-22 093	-19 203
Staff costs total	-24 127	-23 421	-88 423	-76 869
Number of employees at the end of reporting period			327	312

Chairman of the Management Board:

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AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
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NOTES TO THE INTERIM ACCOUNTS

(thousand EEK)

NOTE 6. COSTS AND EXPENSES

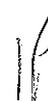
Cost of goods sold (main operating activities)	Quarter 4		Year ended 31 December	Year ended 31 December
	2008	2007	2 008	2007
Tax on special use of water	-2 733	-2 628	-10 804	-10 493
Chemicals	-5 234	-5 167	-22 841	-20 979
Electricity	-8 118	-6 514	-29 759	-26 382
Pollution tax	-7 033	-1 723	-17 010	6 207
Staff costs	-17 350	-15 236	-63 516	-51 611
Research and development	-2	-30	-26	-99
Depreciation and amortization	-21 194	-18 350	-82 079	-72 806
Other costs of goods sold	-12 320	-9 821	-46 717	-40 514
Total cost of goods sold (main operating activities)	-73 984	-59 469	-272 752	-216 677
Marketing Expenses				
Staff costs	-1 423	-1 908	-5 417	-6 107
Depreciation and amortization	-1 291	-907	-5 065	-3 553
Other marketing expenses	-365	-1 023	-1 828	-3 887
Total cost of marketing expenses	-3 079	-3 838	-12 310	-13 547
General Administration Expenses				
Staff costs	-5 354	-6 277	-19 490	-19 151
Depreciation and amortization	-613	-700	-2 525	-2 882
Other general administration expenses	-7 982	-8 301	-32 531	-34 816
Total cost of general administration expenses	-13 949	-15 278	-54 546	-56 849

NOTE 7. OTHER INCOME AND EXPENSES

	Quarter 4		Year ended 31 December	Year ended 31 December
	2008	2007	2008	2007
Income / expenses (-) from constructions	14 168	5 319	27 921	14 250
Other income / expenses (-)	-1 864	942	-2 876	1 850
Total other income / expenses	12 304	6 261	25 045	16 100

Chairman of the Management Board:

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(thousand EEK)

NOTE 8. FINANCIAL INCOME AND EXPENSES

	Year ended 31 December 2008	Year ended 31 December 2007
Interest income	14 883	10 861
Interest expenses	-57 191	-53 513
Other financial income / expenses (-)	-891	-1 585
Total financial income / expenses	-43 199	-44 237

NOTE 9. DIVIDENDS

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

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

NOTE 10. EARNINGS AND DIVIDENDS PER SHARE

	Year ended 31 December 2008	Year ended 31 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)	295 958	277 830
Weighted average number of ordinary shares for the purposes of basic earnings per share	20 000 000	20 000 000
Earnings per share in kroons	14,80	13,89
Dividends per A-share in kroons	12,45	9,80
Dividends per B-share in kroons	10 000,00	10 000,00

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

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(thousand EEK)

NOTE 11. RELATED PARTIES

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

The transactions with related parties in 2008 and 2007 and respective balances as of 31.12.2008 and 31.12.2007 are recorded as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
The shareholders which have significant control		
Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi		
Customer receivables	24 935	29 912
Accrued income and prepaid expenses	0	80 727
Accounts payable - short-term trade and other payables	3 972	4 091
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	4 254	5 836
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	48 845	39 787
Income / expenses (-) from constructions	23 492	6 197
General administration expenses	16 385	17 612
	Year ended 31 December 2008	Year ended 31 December 2007
Management Board fees excluding social tax	2 295	2 118
Supervisory Board fees excluding social tax	500	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 Siiri Lahe owned 700 AS Tallinna Vesi shares.

Chairman of the Management Board:



AS TALLINNA VESI

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NOTES TO THE INTERIM ACCOUNTS

NOTE 12. LIST OF SUPERVISORY BOARD MEMBERS

Robert John Gallienne	Chairman of the Supervisory Board
Kevin Starling	Member of the Supervisory Board
Matti Hyyrynen	Member of the Supervisory Board
Steven Richard Fraser	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

Chairman of the Management Board:

