

Tallinna Vesi



AS Tallinna Vesi
Results of operations – for the 1st half-year of 2009

| | |
|----------------------------------|---|
| Currency | Thousand kroons |
| Start of reporting period | 1 January 2009 |
| End of reporting period | 30 June 2009 |
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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 2009

Overview

During the first six months of 2009 the Company's total sales increased, year on year, by 3.6% to 381.7 mln EEK. The Company's profit before taxes was 172.9 mln EEK, which is a 4.0% decrease compared to the same six months of 2008. The fall in profit was due to the payment of a one off financial cost that was necessary to secure the financing for the comprehensive network extension program during 2008 to 2010. The costs of the program will be compensated to the Company over 10 years. In 2009 the Company invested 85.5 mln EEK, of which 62.2 mln EEK was invested in network extension and rehabilitation.

| <i>mln EEK</i> | 2 Q 2009 | 2 Q 2008 | Change | 6 months 2009 | 6 months 2008 | Change |
|--------------------------------|---------------------|---------------------|---------------|--------------------------|--------------------------|---------------|
| Sales | 189,0 | 182,3 | 3,6% | 381,7 | 363,2 | 5,1% |
| Gross profit | 121,0 | 114,1 | 6,0% | 247,0 | 228,9 | 7,9% |
| Gross profit margin % | 64,0 | 62,6 | 2,3% | 64,7 | 63,0 | 2,7% |
| Operating profit | 107,0 | 101,7 | 5,2% | 217,9 | 201,9 | 7,9% |
| Operating profit margin % | 56,6 | 55,8 | 1,6% | 57,1 | 55,6 | 2,7% |
| Profit before taxes | 74,5 | 90,6 | -17,7% | 172,9 | 180,1 | -4,0% |
| Net profit | 13,4 | 24,4 | -45,2% | 111,8 | 113,9 | -1,9% |
| Net profit margin % | 7,1 | 13,4 | -47,1% | 29,3 | 31,4 | -6,6% |
| ROA % | 0,5 | 1,0 | -45,7% | 4,5 | 4,6 | -2,7% |
| Debt to total capital employed | 53,6 | 55,7 | -3,9% | 53,6 | 55,7 | -3,9% |

Gross profit margin – Gross profit / Net sales

Operating profit margin – Operating profit / Net sales

Net Profit margin – Net Profit / Net sales

ROA – Net profit / Total Assets

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

Profit and Loss Statement

2nd quarter 2009

Sales

In the 2nd quarter of 2009 the Company's total sales increased, year on year, by 3.6% to 189.0 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 174.0 mln EEK, a 4.5% increase compared to the 2nd quarter of 2008, resulting from the 12.8% increase in tariffs from 1 January 2009 for the Company's residential and commercial customers combined with the factors described below.

Included within this amount were the following changes by sectors. Within the service area, sales to residential customers increased by 8.7% to 94.8 mln EEK. Sales to commercial customers decreased by 1.3% to 68.9 mln EEK. Sales to customers outside of the service area – primarily bulk volumes of wastewater treatment services provided to the surrounding municipalities – increased by 10.7% to 6.6 mln EEK. Over pollution fees received were 3.8 mln EEK, a 5.2% increase compared to the 2nd quarter of 2008.

In the 2nd quarter of 2009, the volumes sold to residential customers dropped 3.6%. We believe that this is due to the combination of the economic recession and the fact that people have continued to move to the surrounding areas of Tallinn.

The volumes sold to commercial customers inside the service area decreased by 12.5% compared to the relevant period in 2008. The majority of the reduction in sales volumes in Tallinn is a result of the macroeconomic impact of companies reducing their production volumes and implementing efficiency measures, supplemented by companies moving to surrounding municipalities.

The sales from the operation and maintenance of the storm water and fire-hydrant system decreased by 10.0% to 11.2 mln EEK in the 2nd quarter of 2009 compared to the same period in 2008 as result of low storm water volumes compared to 2008. This is in accordance with the terms and conditions of the contract whereby the storm water and fire hydrant costs are invoiced based on actual costs and volumes treated.

Cost of Goods Sold and Gross Margin

The cost of goods sold for the main operating activity was 68.0 mln EEK in the 2nd quarter of 2009, a decrease of 0.2 mln EEK or 0.3% from the equivalent period in 2008.

In the 2nd quarter of 2009 the Company did not achieve the beneficial 0.5 coefficient for pollution tax, and the amount of pollution tax payable was 5.7 mln EEK compared to 5.1 mln EEK in 2nd quarter of 2008. This increase in pollution tax was mainly due to the increase in tax rates year on year by 20%, partly offset by the reduction in treatment volumes. As the pollution level of the incoming sewerage has continued to increase the Company is actively analysing a range of alternatives to improve the waste water treatment processes and to use the optimum level of chemicals to achieve the 0.5 coefficient in the forthcoming quarters.

Chemical costs were 5.4 mln EEK, representing a 17.7% decrease compared to the corresponding period in 2008. This result is the combination of volumes treated, chemicals dosed and the favorable price impact.

Electricity costs increased by 1.5 mln EEK or 24.0% in the 2nd quarter of 2009 compared to the 2nd quarter of 2008 due to higher electricity prices.

Salary expenses decreased in the 2nd quarter of 2009, year on year, by 0.6 mln EEK or 3.5% due to some reduction in the performance related pay accrual.

Depreciation charges increased in the 2nd quarter of 2009 by 0.1 mln EEK or 0.2% year on year.

Transport costs decreased by 0.8 mln EEK, or 16.6% year on year, due to the combination of the reduction in fuel prices and reduced rates for rental machines.

Other cost of goods sold in the main operating activity stayed on the same level year on year. As a result of the successful negotiation of long term contracts the applicable unit rates were reduced for a number of support services and maintenance contracts.

As a result of all of the above the Company's gross profit for the 2nd quarter of 2009 was 121.0 mln EEK, which is an increase of 6.9 mln EEK, or 6.0%, compared to the gross profit of 114.1 mln EEK for the 2nd quarter of 2008.

Operating Costs and Operating Margin

Marketing expenses decreased by 0.5 mln EEK to 2.6 mln EEK during the 2nd quarter of 2009 compared to the corresponding period in 2008. This is partly the result of the cost savings, balanced by the minor increase in depreciation charges.

Mainly as a consequence of lower services costs the General administration expenses decreased by 1.4 mln EEK to 12.8 mln EEK in the 2nd quarter of 2009 year on year.

Via successful negotiation of a range of outsourced service contracts new, beneficial rates have been achieved for the most of the cost items. The management's target is to achieve further efficiencies through a thorough review of processes and work organization.

Other net income/expenses

Income/expenses from constructions and government grants totaled a net income of 5.2 mln EEK, in the 2nd quarter of 2009 compared to a net income of 4.7 mln EEK in the 2nd quarter of 2008. The rest of the other income/expenses totaled an expense of 3.8 mln EEK in the 2nd quarter of 2009 compared to an income of 0.1 mln EEK in the 2nd quarter of 2008, mainly due to slightly worsened debt collection. Still more than 99% of debt is collected in a timely manner.

As a result of all of the above the Company's operating profit for the 2nd quarter of 2009 was 107.0 mln EEK, an increase of 5.3 mln EEK compared to an operating profit of 101.7 mln EEK achieved in the 2nd quarter of 2008. Compared to the operating profit in the 2nd quarter of 2008, the operating profit has increased 5.2%.

Financial expenses

Net Financial expenses were 32.5 mln EEK in the 2nd quarter of 2009, which is an increase of 21.4 mln EEK or 193.4% compared to the 2nd quarter of 2008. The Company's interest costs have decreased by 23.5% compared to the 2nd quarter of 2008 as result of the reduction in Euribor rates. The financial costs were higher than in 2008 due to a one off payment of unwinding costs of 27 mln EEK, as explained below. The increase in expenses is partially offset by an increase in financial income earned during the 2nd quarter of 2009, as a result of a more favourable cash position and higher deposit rates.

The Company finalised the loan negotiations and concluded a 313 mln EEK (equal to 20 mln EUR), 10-year maturity loan agreement with the Nordic Investment Bank on the 9th of April. The necessity for this additional loan resource was triggered by the comprehensive 3-year network expansion program, the costs of which will be compensated to the Company over a period of ten years. The new capex loan agreement triggered the full repayment of the EBRD loan in May 2009. The EBRD

loan was hedged with a fixed interest rate, therefore we incurred unwinding costs of 27 mln EEK related to the early repayment of the loan and low Euribor rates.

All loan agreements are currently based on a floating interest rate. To mitigate the interest rate risk the Company concluded fixed interest rate swap agreements worth 45 mln EUR with forward start dates in the 2nd quarter of 2009. For a base amount of 30 mln EUR the forward start date activates on 29 November 2009 and for the balance of 15 mln EUR the forward start date activates on 28 May 2010.

The current total available loan facility is 95 mln EUR, from which we have drawn down 75 mln EUR. The current weighted average interest margin is 0.55%, for the total available facility the margin is 0.67%.

Profit Before Tax

The Company's profit before taxes for the 2nd quarter of 2009 was 74.5 mln EEK, which is 16.1 mln EEK lower than the profit before taxes of 90.6 mln EEK for the 2nd quarter of 2008.

The Company recorded 61.1 mln EEK income tax as the result of 230.0 mln EEK dividends distributed in the 2nd quarter of 2009.

Results for the 1st six months of 2009

During the first six months of 2009 the Company's total sales increased, year on year, by 5.1% to 381.7 mln EEK. Sales of water and wastewater treatment were 351.0 mln EEK, a 4.8% increase compared to the six months of 2008.

The Company's profit before taxes for the six months of 2009 was 172.9 mln EEK, which is 7.2 mln EEK lower than the profit before taxes of 180.1 mln EEK in the relevant period in 2008. Lower profit before taxes for the six months of 2009 compared to 2008 is due to the one-off impact of the financial costs discussed above, worth 27 mln EEK.

The Company's net profit for the six months of 2009 was 111.8 mln EEK, which is 2.1 mln EEK lower than the net profit of 113.9 mln EEK in the equivalent period in 2008.

Balance sheet

During the six months of 2009 the Company invested 85.5 mln EEK into fixed assets. Non-current assets were 2,175.7 mln EEK at 30 June 2009. Current assets decreased by 18.0 mln EEK to 329.4 mln EEK in the first six months of the year, customer receivables increased by 5.3 mln EEK. During the six months of 2009 cash at bank decreased by 22.5 mln EEK.

Current liabilities decreased by 25.1 mln EEK to 167.3 mln EEK in the first six months of the year. This was mainly due to decreases in the Current portion of long-term borrowings by 78.9 mln EEK, as a result of the repayment of the loan, an increase in Trade payables by 40.4 mln EEK, and an increase in Customer prepayments by 1.2 mln EEK.

The Company continues to maintain its leverage level within its target range of 50% with total liabilities to total capital employed of 53.6% as of 30 June 2009. Long-term liabilities stood at 1,174.8 mln EEK at the end of June 2009, consisting almost entirely of the outstanding balance of three long-term bank loans.

Cash flow

During the six months of 2009, the Company generated 194.6 mln EEK of cash flows from operating activities, a decrease of 39.6 mln EEK compared to the corresponding period in 2008. The reduction in operating cash flows was explained by the payment of the discussed one off financial costs, in addition the first quarter of 2008 was positively impacted by proceeds of some big services invoices issued at end of 2007. Underlying operating profit still continues to be the main driver for growth.

In the first six months of 2009 net cash inflows from investing activities were 13.3 mln EEK, which is 15.1 mln EEK less than in 2008. This was mainly due to the change in constructions compensation mechanism that resulted from the 30 November 2007 agreement signed with the local municipality. In the 1st quarter of 2008 the Company received compensation for 2007 constructions. In 2009 the Company invested 85.5 mln EEK – 62.2 mln EEK on networks (including 43.9 mln EEK on extension and developments), 7.8 mln EEK at Paljassaare wastewater treatment plant and sludge treatment, 3.0 mln EEK on water quality (Ülemiste water treatment plant and raw water) and 12.5 mln EEK for other investments (IT, capital maintenance, meters, etc).

The cash outflows from financing activities were 230.3 mln EEK during the first six months of 2009 compared to a cash outflow of 249.0 mln EEK during the same six months of 2008, representing the payouts of the dividend. The Company repaid and fully refinanced the loan of EBRD due to the need to finance the extensive network extension program and related investment outflows until 2011, as explained above.

As a result of all of the above factors, the total cash outflow in the six months of 2009 was 22.5 mln EEK compared to a cash inflow of 13.5 mln EEK in the six months of 2008. Cash and cash equivalents stood at 207.4 mln EEK as at 30 June 2009.

Employees

At the end of the 2nd quarter of 2009, the total number of employees was 332 compared to 314 at the end of the 2nd quarter of 2008. The full time equivalent (FTE) was respectively 315 in 2009 compared to the 303 in 2008. The increase in FTE is due to the design, project management and supervision needs of the network extension program and partly supplemented by the need for the employees to provide the extra services under the trademark “Veemees” launched in 2008.

Dividends and share performance

Based on the results of the 2008 financial year, the Company paid 230,010,000 EEK of dividends. Of this 10,000 EEK was paid to the owner of the B-share and 230,000,000 EEK, i.e. 11.50 EEK per share to the owners of the A-shares. The dividends were paid out on 12 June 2009, based on the list of shareholders, which was fixed on 01 June 2009.

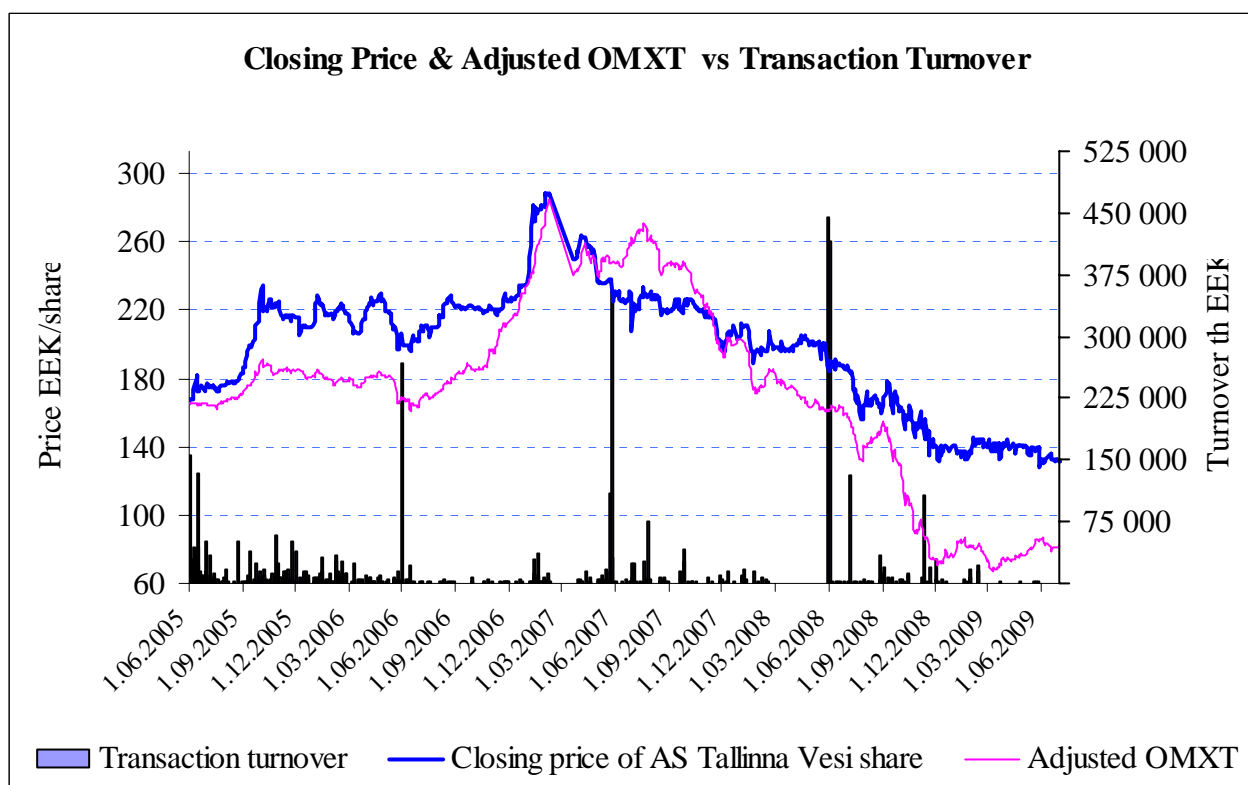
AS Tallinna Vesi is listed on OMX Main Baltic Market with trading code TVEAT and ISIN EE3100026436.

As of 30 June 2009 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, 30 June 2009, the closing price of the AS Tallinna Vesi share was 131.43 EEK (8.40 EUR), which is a 6.7% decrease compared to the closing price of 140.82 EEK (9.00 EUR) at the beginning of quarter. During the same period the OMX Tallinn index rose by 11.6% during the quarter.



Operational highlights in the six months of 2009

- The Company secured the long term loan facility in the 2nd quarter of 2009. The comprehensive negotiations with commercial banks and investment banks started a year ago and were finalised with the securities transfer agreements at the end of May 2009. We have increased the available loan facility from 1,173 mln EEK (equal to 75 mln EUR) to 1,486 mln EEK (equal to 95 mln EUR). The necessity for this additional loan resource was triggered by the extensive 3-year network expansion program, the costs of which will be compensated to the Company over a period of ten years.
- By the end of the 2nd quarter the Company signed all needed appendixes to implement the 30-years Maardu's operating agreement from 1st July 2009, to provide water, wastewater

and operations and maintenance. This will provide the citizens of Maardu with an access to Tallinna Vesi's EU compliant water and wastewater. This contract is the first of its kind and demonstrates the willingness of other cities and municipalities to partner with Tallinna Vesi for the benefit of their communities.

- In June the IR Magazine UK and Continental Europe Awards named the Company the best listed company in the field of investor relations among the companies listed on the Tallinn Stock Exchange.
- The Company has shared the 1st and 2nd place within the Corporate Social Responsibility ranking of 49 Estonian companies achieving a magnificent 93% score. This is a great accolade for the high quality service offered, the knowledge sharing and experience of employees and excellent results in environmental and work environment performance.
- Due to fall in sales volumes it has been a challenging half-year for the Company. We are still pleased to report that the cost efficiency programs we have initiated and successful contract negotiations have enabled us to compensate the fall in revenues.

Additional information:

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Chief Financial Officer

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AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements

for the 1st half-year of financial year 2009 ended 30 June 2009

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 2009 ended 30 June 2009. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the 1st half-year of financial year 2009 ended 30 June 2009 have been prepared following the accounting policies and the manner of presenting the information in line with the International Financial Reporting Standards as adopted by the EU. The condensed financial statements provide a true and fair view of the assets, liabilities, financial position and profit of the company. During the preparation of condensed financial statements, the Management has made no changes in critical estimates that would have cast a significant impact on the results.

The interim management report gives a true and fair view of the main events that occurred during the first 6 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 6 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 16 July 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 July 2009

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
for the 1st half-year of financial year 2009 ended 30 June 2009

CONDENSED STATEMENTS OF FINANCIAL POSITION

(thousand EEK)

| ASSETS | Note | as of 30 June | | as of 31 December |
|---|------|------------------|------------------|-------------------|
| | | 2009 | 2008 | 2008 |
| CURRENT ASSETS | | | | |
| Cash and equivalents | 2 | 207 364 | 191 892 | 229 860 |
| Customer receivables, accrued income and prepaid expenses | | 117 894 | 122 021 | 112 638 |
| Inventories | | 3 111 | 4 107 | 3 760 |
| Non-current assets held for sale | | 1 057 | 1 109 | 1 140 |
| TOTAL CURRENT ASSETS | | 329 426 | 319 129 | 347 398 |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | 3 | 2 130 584 | 2 118 935 | 2 168 225 |
| Intangible assets | 3 | 45 131 | 44 813 | 43 428 |
| TOTAL NON-CURRENT ASSETS | | 2 175 715 | 2 163 748 | 2 211 653 |
| TOTAL ASSETS | | 2 505 141 | 2 482 877 | 2 559 051 |
| LIABILITIES AND EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Current portion of long-term borrowings | | 3 937 | 82 942 | 82 843 |
| Trade and other payables | | 127 627 | 165 778 | 87 270 |
| Short-term provisions | | 3 693 | 2 486 | 2 486 |
| Prepayments and deferred income | | 32 045 | 47 854 | 19 797 |
| TOTAL CURRENT LIABILITIES | | 167 302 | 299 060 | 192 396 |
| NON-CURRENT LIABILITIES | | | | |
| Borrowings | | 1 174 055 | 1 084 474 | 1 084 642 |
| Other payables | | 735 | 121 | 735 |
| TOTAL NON-CURRENT LIABILITIES | | 1 174 790 | 1 084 595 | 1 085 377 |
| TOTAL LIABILITIES | | 1 342 092 | 1 383 655 | 1 277 773 |
| EQUITY | | | | |
| 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 |
| Retained earnings | | 556 048 | 492 221 | 674 277 |
| TOTAL EQUITY | | 1 163 049 | 1 099 222 | 1 281 278 |
| TOTAL LIABILITIES AND EQUITY | | 2 505 141 | 2 482 877 | 2 559 051 |

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

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements

for the 1st half-year of financial year 2009 ended 30 June 2009

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(thousand EEK)

| | | Quarter 2 | | 6 months | | for the year ended |
|----------------------------------|------|----------------|----------------|----------------|----------------|--------------------|
| | Note | 2009 | 2008 | 2009 | 2008 | 31 December |
| | | | | | | 2008 |
| Revenue | 4 | 188 959 | 182 344 | 381 717 | 363 231 | 719 923 |
| Costs of goods sold | 6 | -68 004 | -68 225 | -134 686 | -134 376 | -272 752 |
| GROSS PROFIT | | 120 955 | 114 119 | 247 031 | 228 855 | 447 171 |
| Marketing expenses | 6 | -2 597 | -3 061 | -6 010 | -6 434 | -12 310 |
| General administration expenses | 6 | -12 758 | -14 194 | -26 898 | -28 721 | -54 546 |
| Other income/ expenses (-) | 7 | 1 424 | 4 823 | 3 746 | 8 215 | 25 045 |
| OPERATING PROFIT | | 107 024 | 101 687 | 217 869 | 201 915 | 405 360 |
| Financial income | 8 | 5 993 | 5 382 | 11 917 | 9 201 | 15 606 |
| Financial expenses | 8 | -38 491 | -16 460 | -56 863 | -31 011 | -58 805 |
| PROFIT BEFORE TAXES | | 74 526 | 90 609 | 172 923 | 180 105 | 362 161 |
| Income tax on dividends | 9 | -61 142 | -66 193 | -61 142 | -66 193 | -66 193 |
| NET PROFIT FOR THE PERIOD | | 13 384 | 24 416 | 111 781 | 113 912 | 295 968 |
| Attributable to: | | | | | | |
| Equity holders of A-shares | | 13 374 | 24 406 | 111 771 | 113 902 | 295 958 |
| B-share holder | | 10 | 10 | 10 | 10 | 10 |
| Earnings per A share (in kroons) | 10 | 0,67 | 1,22 | 5,59 | 5,70 | 14,80 |
| Earnings per B share (in kroons) | 10 | 10 000 | 10 000 | 10 000 | 10 000 | 10 000 |

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

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
for the 1st half-year of financial year 2009 ended 30 June 2009

CONDENSED CASH FLOW STATEMENTS

(thousand EEK)

| | Note | 6 months | | for the year ended |
|--|------|-----------------|-----------------|--------------------|
| | | 2009 | 2008 | 31 December |
| | | | | 2008 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Operating profit | | 217 869 | 201 915 | 405 360 |
| Adjustment for depreciation/amortisation | 3 | 44 833 | 44 394 | 89 669 |
| Adjustment for profit from government grants and connection fees | | -8 680 | -8 188 | -27 920 |
| Other finance expenses | 8 | -33 616 | -803 | -1 614 |
| Profit from sale of property, plant and equipment, and intangible assets | | -132 | -6 | -455 |
| Expensed property, plant and equipment | | 0 | 0 | -19 |
| Change in current assets involved in operating activities | | -5 983 | 18 556 | 22 780 |
| Change in liabilities involved in operating activities | | 6 999 | 6 556 | 906 |
| Interest paid | | -26 698 | -28 275 | -57 569 |
| Total cash flow from operating activities | | 194 592 | 234 149 | 431 138 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Acquisition of property, plant and equipment, and intangible assets | | -94 937 | -118 539 | -332 407 |
| Compensations received for construction of pipelines | | 98 426 | 137 039 | 250 190 |
| Proceeds from sale of property, plant and equipment, and intangible assets | | 121 | 8 | 480 |
| Interest received | | 9 648 | 9 825 | 16 906 |
| Total cash flow used in investing activities | | 13 258 | 28 333 | -64 831 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Received short-term loans | | 156 466 | 0 | 0 |
| Repayment of short-term loans | | -156 466 | 0 | 0 |
| Received long-term loans | | 544 501 | 0 | 42 246 |
| Repayment of long-term loans | | -544 837 | 0 | -41 910 |
| Dividends paid | 9 | -230 010 | -249 010 | -249 010 |
| Income tax on dividends | 9 | 0 | 0 | -66 193 |
| Total cash flow used in financing activities | | -230 346 | -249 010 | -314 867 |
| Change in cash and cash equivalents | | -22 496 | 13 472 | 51 440 |
| CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD | | 229 860 | 178 420 | 178 420 |
| CASH AND EQUIVALENTS AT THE END OF THE PERIOD | 2 | 207 364 | 191 892 | 229 860 |

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

AS TALLINNA VESIUnaudited Interim Condensed Financial Statements
for the 1st half-year of financial year 2009 ended 30 June 2009**CONDENSED STATEMENTS OF CHANGES IN EQUITY**

(thousand EEK)

| | Share capital | Share premium | Statutory legal reserve | Retained earnings | Total equity |
|------------------------------------|----------------------|----------------------|------------------------------------|--------------------------|---------------------|
| as of 31 December 2007 | 200 001 | 387 000 | 20 000 | 627 319 | 1 234 320 |
| Dividends | 0 | 0 | 0 | -249 010 | -249 010 |
| Net profit of the financial year | 0 | 0 | 0 | 295 968 | 295 968 |
| as of 31 December 2008 | 200 001 | 387 000 | 20 000 | 674 277 | 1 281 278 |
| as of 31 December 2007 | 200 001 | 387 000 | 20 000 | 627 319 | 1 234 320 |
| Dividends | 0 | 0 | 0 | -249 010 | -249 010 |
| Net profit of the financial period | 0 | 0 | 0 | 113 912 | 113 912 |
| as of 30 June 2008 | 200 001 | 387 000 | 20 000 | 492 221 | 1 099 222 |
| as of 31 December 2008 | 200 001 | 387 000 | 20 000 | 674 277 | 1 281 278 |
| Dividends | 0 | 0 | 0 | -230 010 | -230 010 |
| Net profit of the financial period | 0 | 0 | 0 | 111 781 | 111 781 |
| as of 30 June 2009 | 200 001 | 387 000 | 20 000 | 556 048 | 1 163 049 |

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

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements

for the 1st half-year of financial year 2009 ended 30 June 2009

NOTES TO THE INTERIM FINANCIAL STATEMENT

(thousand EEK)

NOTE 1. ACCOUNTING PRINCIPLES

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

NOTE 2. CASH AND CASH EQUIVALENTS

| | as of 30 June | | as of 31 December |
|--|----------------------|----------------|--------------------------|
| | 2009 | 2008 | 2008 |
| Cash in hand and in bank | 4 369 | 3 188 | 1 551 |
| Short-term deposits | 202 995 | 188 704 | 228 309 |
| Total cash and cash equivalents | 207 364 | 191 892 | 229 860 |

AS TALLINNA VESI

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NOTES TO THE INTERIM FINANCIAL STATEMENT

(thousand EEK)

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

| | Property, plant and equipment | | | Assets in progress | | | Intangible assets | | | Total property, plant and equipment and other intangible assets |
|--|-------------------------------|------------------|-------------------------|--------------------|--------------------------|--|-----------------------------|------------------------------|-------------------|---|
| | Land and buildings | Facilities | Machinery and equipment | Other equipment | Construction in progress | Construction progress - unfinished pipelines | Prepayment for fixed assets | Unfinished intangible assets | Development costs | |
| as of 31 December 2007 | | | | | | | | | | |
| Acquisition cost | 364 188 | 2 134 970 | 566 408 | 17 708 | 45 253 | 90 057 | 5 399 | 2 781 | 19 006 | 66 817 |
| Accumulated depreciation | -63 393 | -673 373 | -342 016 | -11 514 | 0 | 0 | 0 | 0 | -12 980 | -23 706 |
| Book value | 300 795 | 1 461 597 | 224 392 | 6 194 | 45 253 | 90 057 | 5 399 | 2 781 | 6 026 | 43 111 |
| Transactions in the period 01.01.2008 - 31.12.2008 | | | | | | | | | | |
| Acquisition in book value | 0 | 0 | 0 | 0 | 113 524 | 189 651 | 0 | 3 082 | 0 | 0 |
| Write off and sale of property, plant and equipment, and intangible assets in book value | 283 | 12 | -19 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Compensated by government grants | 0 | 0 | 0 | 0 | 0 | -186 282 | 0 | 0 | 0 | 0 |
| Reclassification | 3 925 | 100 384 | 31 701 | 1 149 | -136 695 | -1 452 | -3 546 | -3 137 | 5 873 | -2 736 |
| Depreciation | -4 221 | -38 023 | -34 635 | -1 218 | 0 | 0 | 0 | 0 | -8 931 | -2 641 |
| Total transactions in the period 01.01.2008 - 31.12.2008 | -13 | 62 373 | -2 953 | -69 | -23 171 | 1 917 | -3 546 | -55 | -3 058 | -5 377 |
| as of 31 December 2008 | | | | | | | | | | |
| Acquisition cost | 368 045 | 2 234 538 | 585 674 | 18 373 | 22 082 | 91 974 | 1 853 | 2 726 | 17 742 | 62 372 |
| Accumulated depreciation | -67 263 | -710 568 | -364 236 | -12 247 | 0 | 0 | 0 | 0 | -14 774 | -24 638 |
| Book value | 300 782 | 1 523 970 | 221 438 | 6 126 | 22 082 | 91 974 | 1 853 | 2 726 | 2 968 | 37 734 |
| Transactions in the period 01.01.2009 - 30.06.2009 | | | | | | | | | | |
| Acquisition in book value | 0 | 0 | 0 | 0 | 34 747 | 43 867 | 0 | 6 907 | 0 | 0 |
| Write off and sale of property, plant and equipment, and intangible assets in book value | 0 | 0 | 3 | -3 | 0 | 0 | 0 | 0 | 0 | 0 |
| Compensated by government grants | 0 | 0 | 0 | 0 | 0 | -76 185 | 0 | 0 | 0 | 0 |
| Reclassification | 2 985 | 9 660 | 9 999 | 83 | -22 748 | -72 | -348 | -8 000 | 1 535 | 6 465 |
| Depreciation | -2 098 | -19 444 | -17 498 | -589 | 0 | 0 | 0 | 0 | -1 099 | -4 105 |
| Total transactions in the period 01.01.2009 - 30.06.2009 | 887 | -9 784 | -7 496 | -509 | 11 999 | -32 390 | -348 | -1 093 | 436 | 2 360 |
| as of 30 June 2009 | | | | | | | | | | |
| Acquisition cost | 371 032 | 2 244 130 | 593 064 | 17 548 | 34 081 | 59 584 | 1 505 | 1 633 | 14 796 | 72 539 |
| Accumulated depreciation | -69 360 | -729 945 | -379 122 | -11 932 | 0 | 0 | 0 | 0 | -8 476 | -35 362 |
| Book value | 301 669 | 1 514 186 | 213 942 | 5 617 | 34 081 | 59 584 | 1 505 | 1 633 | 3 404 | 40 094 |

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Property, plant and equipment and intangible assets are written off if the conditions of the asset do not enable further usage for production purposes.
As of 31 December 2008 there were no contracts for financial lease.

For the period ended 30 June the net balance sheet value of finance leases was 5 792 thousand kroons for 2009.

AS TALLINNA VESI

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NOTES TO THE INTERIM FINANCIAL STATEMENT

(thousand EEK)

| NOTE 4. REVENUE | Quarter 2 | | 6 months | | for the year ended |
|--|----------------|----------------|----------------|----------------|---------------------|
| | 2009 | 2008 | 2009 | 2008 | 31 December 2008 |
| Revenues from main operating activities | | | | | |
| Total water supply and waste water disposal service, incl: | 174 020 | 166 559 | 351 025 | 335 046 | 658 305 |
| <u>Private clients, incl:</u> | <u>94 755</u> | <u>87 178</u> | <u>191 592</u> | <u>175 995</u> | <u>346 836</u> |
| Water supply service | 52 845 | 48 657 | 106 788 | 98 273 | 193 688 |
| Waste water disposal service | 41 910 | 38 521 | 84 804 | 77 722 | 153 148 |
| <u>Corporate clients, incl:</u> | <u>68 924</u> | <u>69 862</u> | <u>138 937</u> | <u>139 812</u> | <u>271 231</u> |
| Water supply service | 38 900 | 39 201 | 77 706 | 77 804 | 150 669 |
| Waste water disposal service | 30 024 | 30 661 | 61 231 | 62 008 | 120 562 |
| <u>Outside service area clients, incl:</u> | <u>6 571</u> | <u>5 936</u> | <u>12 902</u> | <u>12 179</u> | <u>26 401</u> |
| Water supply service | 668 | 509 | 1 282 | 1 006 | 2 160 |
| Waste water disposal service | 5 903 | 5 427 | 11 620 | 11 173 | 24 241 |
| <u>Overpollution fee</u> | <u>3 770</u> | <u>3 583</u> | <u>7 594</u> | <u>7 060</u> | <u>13 837</u> |
| Stormwater treatment and disposal service | 10 539 | 11 863 | 22 079 | 21 219 | 46 158 |
| Fire hydrants service | 672 | 595 | 1 344 | 1 185 | 2 687 |
| Other works and services | 3 728 | 3 327 | 7 269 | 5 780 | 12 773 |
| Total revenue | 188 959 | 182 344 | 381 717 | 363 230 | 719 923 |

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

| NOTE 5. STAFF COSTS | Quarter 2 | | 6 months | | for the year ended |
|---|----------------|----------------|----------------|----------------|---------------------|
| | 2009 | 2008 | 2009 | 2008 | 31 December 2008 |
| Salaries and wages | -15 763 | -16 487 | -34 020 | -34 187 | -66 330 |
| Social security and unemployment insurance taxation | -5 250 | -5 491 | -11 331 | -11 397 | -22 093 |
| Staff costs total | -21 013 | -21 978 | -45 351 | -45 584 | -88 423 |
| Number of employees at the end of reporting period | | | 332 | 314 | 327 |

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
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NOTES TO THE INTERIM FINANCIAL STATEMENT

(thousand EEK)

NOTE 6. COST OF GOODS SOLD, MARKETING AND GENERAL ADMINISTRATIONS EXPENSES

| | Quarter 2 | | 6 months | | for the year ended |
|--|----------------|----------------|-----------------|-----------------|---------------------|
| | 2009 | 2008 | 2009 | 2008 | 31 December 2008 |
| Cost of goods sold | | | | | |
| Tax on special use of water | -2 800 | -2 715 | -5 565 | -5 424 | -10 804 |
| Chemicals | -5 401 | -6 561 | -9 111 | -11 016 | -22 841 |
| Electricity | -7 909 | -6 376 | -16 063 | -13 852 | -29 759 |
| Pollution tax | -5 734 | -5 112 | -9 037 | -7 983 | -17 010 |
| Staff costs | -15 367 | -15 932 | -32 537 | -32 489 | -63 516 |
| Development | 0 | -2 | -23 | -24 | -26 |
| Depreciation and amortization | -20 367 | -20 321 | -40 875 | -40 601 | -82 081 |
| Transport | -4 092 | -4 907 | -8 410 | -9 547 | -19 693 |
| Other costs of goods sold | -6 334 | -6 299 | -13 065 | -13 440 | -27 022 |
| Total cost of goods sold | -68 004 | -68 225 | -134 686 | -134 376 | -272 752 |
| Marketing expenses | | | | | |
| Staff costs | -979 | -1 390 | -2 488 | -2 936 | -5 417 |
| Depreciation and amortization | -1 302 | -1 285 | -2 603 | -2 489 | -5 065 |
| Other marketing expenses | -316 | -386 | -919 | -1 009 | -1 828 |
| Total cost of marketing expenses | -2 597 | -3 061 | -6 010 | -6 434 | -12 310 |
| General administration expenses | | | | | |
| Staff costs | -4 667 | -4 656 | -10 326 | -10 159 | -19 490 |
| Depreciation and amortization | -694 | -642 | -1 355 | -1 304 | -2 523 |
| Other general administration expenses | -7 397 | -8 896 | -15 217 | -17 258 | -32 533 |
| Total cost of general administration expenses | -12 758 | -14 194 | -26 898 | -28 721 | -54 546 |

NOTE 7. OTHER INCOME / EXPENSES

| | Quarter 2 | | 6 months | | for the year ended |
|--------------------------------------|--------------|--------------|--------------|--------------|---------------------|
| | 2009 | 2008 | 2009 | 2008 | 31 December 2008 |
| Profit from connection fees | 368 | 717 | 1 942 | 1 960 | 4 430 |
| Profit from government grant | 4 850 | 4 003 | 6 738 | 6 228 | 23 490 |
| Other income / expenses (-) | -3 794 | 103 | -4 934 | 27 | -2 875 |
| Total other income / expenses | 1 424 | 4 823 | 3 746 | 8 215 | 25 045 |

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
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NOTES TO THE INTERIM FINANCIAL STATEMENT

(thousand EEK)

| NOTE 8. FINANCE INCOME AND EXPENSES | Quarter 2 | | 6 months | | for the year ended |
|--|----------------|----------------|----------------|----------------|--------------------|
| | 2009 | 2008 | 2009 | 2008 | 31 December |
| Interest income | 5 993 | 5 382 | 11 917 | 9 201 | 15 606 |
| Interest expense | -10 590 | -16 070 | -23 247 | -30 208 | -57 191 |
| Other financial expenses | -27 901 | -390 | -33 616 | -803 | -1 614 |
| Total finance income / expenses | -32 498 | -11 078 | -44 946 | -21 810 | -43 199 |

| NOTE 9. DIVIDENDS | Quarter 2 | | 6 months | | Year ended |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2009 | 2008 | 2009 | 2008 | 31 December |
| Dividends declared during the period | 230 010 | 249 010 | 230 010 | 249 010 | 249 010 |
| Dividends paid during the period | 230 010 | 249 010 | 230 010 | 249 010 | 249 010 |
| Income tax on dividends paid | -61 142 | -66 193 | -61 142 | -66 193 | -66 193 |
| Income tax accounted for | -61 142 | -66 193 | -61 142 | -66 193 | -66 193 |
| <i>Paid-up dividends per shares:</i> | | | | | |
| Dividends per A-share (in kroons) | 11,50 | 12,45 | 11,50 | 12,45 | 12,45 |
| Dividends per B-share (in kroons) | 10 000 | 10 000 | 10 000 | 10 000 | 10 000 |

The income tax rates were 21/79 in 2009 and 2008.

NOTE 10. EARNINGS PER SHARE

| Earnings per share: | Quarter 2 | | 6 months | | for the year ended |
|---|------------|------------|------------|------------|--------------------|
| | 2009 | 2008 | 2009 | 2008 | 31 December |
| Net profit for the period ended 31.12 minus B-share preference rights (in kroons) | 13 374 | 24 406 | 111 771 | 113 902 | 295 958 |
| Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces) | 20 000 000 | 20 000 000 | 20 000 000 | 20 000 000 | 20 000 000 |
| Earnings per A share (in kroons) | 0,67 | 1,22 | 5,59 | 5,70 | 14,80 |
| Earnings per B share (in kroons) | 10 000 | 10 000 | 10 000 | 10 000 | 10 000 |

Diluted earnings per share for the periods ended 30 June 2009 and 2008 and 31 December 2008 do not vary significantly from the earnings per share figures stated above.

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
for the 1st half-year of financial year 2009 ended 30 June 2009

NOTES TO THE INTERIM FINANCIAL STATEMENT

(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.

Shareholders having the significant influence

| Balances recorded in working capital on the balance sheet of the Company | as of 30 June | | as of 31 December |
|---|----------------------|-------------|--------------------------|
| | 2009 | 2008 | 2008 |
| Accounts receivable | 25 003 | 21 499 | 24 935 |
| Accrued income | 0 | 13 291 | 0 |
| Prepayments and deferred income | 6 491 | 0 | 0 |
| Accounts payable - short-term trade and other payables | 5 974 | 8 549 | 3 972 |

| | Quarter 2 | | 6 months | | for the year ended |
|--|------------------|-------------|-----------------|-------------|---------------------------|
| | 2009 | 2008 | 2009 | 2008 | 31 December |
| | | | | | 2008 |
| Transactions with the related parties | | | | | |
| Sales services | 11 211 | 12 458 | 23 422 | 22 404 | 48 845 |
| Compensations received from the local governments for constructing new pipelines | 40 761 | 44 972 | 79 890 | 69 406 | 159 310 |
| Purchase of administrative and consulting services | 3 969 | 5 113 | 9 143 | 10 696 | 20 585 |
| Management Board fees excluding social tax | 645 | 524 | 1 290 | 1 127 | 2 295 |
| Supervisory Board fees excluding social tax | 150 | 150 | 300 | 300 | 500 |

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

The market prices were implemented in transactions with related parties.

Company shares belonging to the Management Board members

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

AS TALLINNA VESI

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for the 1st half-year of financial year 2009 ended 30 June 2009

NOTES TO THE INTERIM FINANCIAL STATEMENT

NOTE 12. LIST OF SUPERVISORY BOARD MEMBERS

| | |
|-----------------------|-----------------------------------|
| Robert John Gallienne | Chairman of the Supervisory Board |
| Leslie Anthony Bell | Member of the Supervisory Board |
| Matti Hyrynen | Member of the Supervisory Board |
| Andrew James Prescott | 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 Boroditš | Member of the Supervisory Board |