AS Tallinna Vesi

Results of operations – for the 3rd quarter of 2010

Currency	Thousand kroons
Start of reporting period	1 January 2010
End of reporting period	30 September 2010
Address	Tallinn, Ädala 10
Chairman of the Management Board	Ian John Alexander Plenderleith
Commercial register number	10 257 326
Telephone	+372 62 62 202
Telefax	+372 62 62 300
E-mail	tvesi@tvesi.ee
Web page	www.tallinnavesi.ee
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 3rd QUARTER 2010

Overview

During the first nine months of 2010 the Company's total sales increased, year on year, by 2.1% to 582.3 mln EEK. The Company's underlying operating profit for the first nine months of 2010, from water and wastewater related activities, decreased by 6.8% to 292.0 mln EEK compared to the nine months of 2009. Profits from other activities (mainly construction and developments) increased by 87.6% to 26.7 mln EEK compared to the same nine months of 2009. The Company's profit before taxes was 265.5 mln EEK, which is a decrease of 3.6% or 10.0 mln EEK, compared to the same nine months of 2009.

mln EEK	**3 Q 2010**	**3 Q 2009**	**Change**	**9 months 2010**	**9 months 2009**	**Change**
Sales	195,8	189,0	3,6%	582,3	570,6	2,1%
Gross profit	113,4	119,2	-4,8%	346,8	366,0	-5,2%
Gross profit margin %	57,9	63,1	-8,1%	59,6	64,1	-7,2%
Operating profit	101,5	109,8	-7,6%	318,7	327,7	-2,7%
Operating profit - main business	95,7	104,3	-8,2%	292,0	313,5	-6,8%
Operating profit margin %	51,9	58,1	-10,8%	54,7	57,4	-4,7%
Profit before taxes	92,9	102,6	-9,5%	265,5	275,5	-3,6%
Net profit	92,9	102,6	-9,5%	132,6	214,4	-38,1%
Net profit margin %	47,5	54,3	-12,6%	22,8	37,6	-39,4%
ROA %	3,5	4,0	-13,2%	5,0	8,4	-40,7%
Debt to total capital employed	61,7	50,7	21,9%	61,7	50,7	21,9%

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
Main business – water and wastewater activities, excl. connections profit and government grants

Profit and Loss Statement

3rd quarter 2010

Sales

In the 3rd quarter of 2010 the Company's total sales increased, year on year, by 3.6% to 195.8 mln EEK. Included within this is a contribution of 6.2 mln EEK from Maardu, a contract which commenced in the 3rd quarter of 2009. 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 174.2 mln EEK, a 0.1% increase compared to the 3rd quarter of 2009, resulting from the factors described below which were partially offset by the 0.9% decrease in tariffs from 1 January 2010 for the Company's residential and commercial customers.

Within the service area, sales to residential customers decreased by 0.1% to 91.3 mln EEK. Sales to commercial customers increased by 1.5% to 66.9 mln EEK. Sales to customers outside of the service area increased by 0.7% to 12.7 mln EEK, which includes the Maardu operating contract which commenced from 1st July 2009. Over pollution fees received were 3.3 mln EEK, a 20.7% decrease compared to the 3rd quarter of 2009.

In the 3rd quarter of 2010, the volumes sold to residential customers rose 0.8%. We believe that this is mainly due to the combination of the economic conditions getting gradually better during the last year, supported by the hot summer and the increased need for the gardening water.

The volumes sold to commercial customers inside the service area increased by 2.4% compared to the same period in 2009. The rise in sales can be attributed to better economic conditions and leisure sector picking up. Total selling volumes to the industrial sector are decreasing due to Coca-Cola's leave from our service area, eliminating its consumption also some increase can be noticed from the industrial sector.

Excluding Maardu volumes, then outside service area volumes were 5.7% lower than in the 3rd quarter of 2009. The main factor in this decrease was lower storm water volumes in the 3rd quarter of 2010 compared to 2009.

The sales from the operation and maintenance of the storm water and fire-hydrant system increased by 51.2% to 17.0 mln EEK in the 3rd quarter of 2010 compared to the same period in 2009. 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 82.4 mln EEK in the 3rd quarter of 2010, an increase of 12.6 mln EEK or 18.0% from the equivalent period in 2009 of which Maardu added 4.3 mln EEK compared to 4.9 mln EEK in 2009.

In the 3rd quarter of 2010 the Company did not achieve the beneficial 0.5 coefficient for pollution tax, and the amount of pollution tax payable was 9.6 mln EEK compared to 4.7 mln EEK in the 3rd quarter of 2009. In the 3rd quarter of 2009 we achieved the 0.5 coefficient. In addition to coefficient increase the higher pollution tax payable in 2010 is generated by the increase in tax rates year on year by 19%. To mitigate the tax risk we have started with the investment into an additional stage of waste water treatment and according to the construction schedule the works should be completed by the end of the 2nd quarter of 2011.

Chemical costs were 6.2 mln EEK, representing an 8.6% increase compared to the corresponding period in 2009. Although lower volumes were treated the main contributor to higher chemical costs are dosed methanol and other chemicals quantities related to the need to treat the increased pollution concentration in incoming sewerage.

Electricity costs increased by 2.9 mln EEK or 36.0% in the 3rd quarter of 2010 compared to the 3rd quarter of 2009 due to higher electricity prices as a result of three sites buying electricity from the open market.

Salary expenses decreased in the 3rd quarter of 2010, year on year, by 1.7 mln EEK or 11.1% mainly due to the reduced headcount.

Transport costs increased by 1.6 mln EEK, or 35.6% year on year, due to the combination of the increase in fuel prices and one-off increased usage of rented machinery to substitute the broken center-press technology.

Other cost of goods sold in the main operating activity increased 4.5 mln EEK, or 52.9% year on year, mainly due to the additional costs of repair services resulting from new city act related to the asphalting and exceptional maintenance costs related to biofilter project.

As a result of all of the above the Company's gross profit for the 3rd quarter of 2010 was 113.4 mln EEK, which is a decrease of 5.8 mln EEK, or 4.8%, compared to the gross profit of 119.2 mln EEK for the 3rd quarter of 2009.

Operating Costs and Operating Margin

Marketing expenses increased by 0.5 mln EEK to 3.0 mln EEK during the 3rd quarter of 2010 compared to the corresponding period in 2009. This is mainly the result of a slight increase in expenses due to OÜ Watercom start-up compared to corresponding period in 2009.

In the 3rd quarter of 2010 the General administration expenses increased by 2.2 mln EEK year on year to 14.4 mln EEK mainly due to the need for the consultancies related to the implication of the Anti Monopoly Bill and attempts to improve the image of the company insisting on the quality aspects.

Other net income/expenses

The majority of the income in Other net income/expenses relates to constructions and government grants. The driver for this income stream is the connections activity in Tallinn. Income and expenses from constructions and government grants totaled a net income of 5.8 mln EEK in the 3rd quarter of 2010 compared to a net income of 5.6 mln EEK in the 3rd quarter of 2009.

The rest of the other income/expenses totaled an expense of 0.3 mln EEK in the 3rd quarter of 2010 compared to an expense of 0.2 mln EEK in the 3rd quarter of 2009, mainly from less received penalties and interest of arrears compared to 2009. In addition it should be noted that more than 99% of debt is collected in a timely manner.

As a result the Company's underlying operating profit from sales of water and wastewater for the 3rd quarter of 2010 totaled 95.7 mln EEK compared to 104.3 mln EEK in the corresponding quarter in 2009. In total then the Company's operating profit for main and other activities for the 3rd quarter of 2010 was 101.5 mln EEK, a decrease of 8.3 mln EEK compared to an operating profit of 109.8 mln EEK achieved in the 3rd quarter of 2009. Year on year the operating profit for the 3rd quarter has decreased 7.6%.

Financial expenses

Net Financial expenses were 8.6 mln EEK in the 3rd quarter of 2010, which is an increase of 1.4 mln EEK or 19.5% compared to the 3rd quarter of 2009. Of this variance 1.0 mln EEK relates to a less received interest income in the 3rd quarter of 2010 due to lower interest rates.

The Company's interest costs have increased by 8.7% compared to the 3rd quarter of 2009 from 10.8 mln EEK to 11.7 mln EEK as a combined result of positive impact from the reduction in Euribor rates and adverse impact from negative value of and fixed rate payments based on swap agreements. The Company mitigated partly the long term floating interest risk with 3 interest swap agreements, each with a principal value of 15 mln EUR. For a base amount of 30 mln EUR the forward start date began on 30 November 2009, and for a base amount of 15 mln EUR the forward start date began on 28 May 2010. At this point in time the estimated fair value of these swap contracts is negative, totaling 52.8 mln EEK, with a further devaluation in the 3rd quarter 2010 in the amount of 1.7 mln EEK which more than offsets the interest costs savings and the financial income earned during the 3rd quarter of 2010 thus contributing to a net financial expense.

Profit Before Tax

The Company's profit before taxes for the 3rd quarter of 2010 was 92.9 mln EEK, which is 9.7 mln EEK lower than the profit before taxes of 102.6 mln EEK for the 3rd quarter of 2009.

Results for the nine months of 2010

During the nine months of 2010 the Company's total sales increased, year on year, by 2.1% to 582.3 mln EEK. Sales of water and wastewater treatment were 528.9 mln EEK, a 0.7% increase compared to the nine months of 2009.

The underlying operating profit from the Company's main business activity, sales of water and wastewater, for the nine months of 2010 decreased by 6.8% to 292.0 mln EEK compared to the nine months of 2009.

The Company's profit before taxes for the nine months of 2010 was 265.5 mln EEK, which is a 3.6% decrease compared to the profit before taxes in the relevant period in 2009.

The Company's net profit for the nine months of 2010 was 132.6 mln EEK, which is 81.8 mln EEK lower than the net profit of 214.4 mln EEK in the equivalent period in 2009.

Balance sheet

During the nine months of 2010 the Company invested 129.8 mln EEK into fixed assets. Non-current assets were 2,226.2 mln EEK at 30 September 2010. Current assets decreased by 39.0 mln EEK to 449.8 mln EEK in the nine months of the year, with customer receivables increasing by 3.9 mln EEK and cash at bank decreasing by 42.9 mln EEK.

Current liabilities increased by 73.8 mln EEK to 188.9 mln EEK in the nine months of the year. This was mainly due to a 14.4 mln EEK increase in Trade payables and also due to 58.4 mln EEK increase in Current portion of long-term borrowings.

The Company has a leverage level as expected of approximately 62% with the future target range within 60%. Long-term liabilities stood at 1,463.3 mln EEK at the end of September 2010, consisting almost entirely of the outstanding balance of three long-term bank loans. During 2nd quarter of 2010 we drew down an additional 20 mln EUR, and at the end of the 3rd quarter of 2010 the total loan balance is 95 mln EUR, which is the total available loan facility. The weighted average interest margin for the total available facility is 0.67%.

Cash flow

During the nine months of 2010, the Company generated 319.6 mln EEK of cash flows from operating activities, an increase of 17.9 mln EEK compared to the corresponding period in 2009. 2010 operating cash flows were above 2009 cash flows mainly due to the payment of unwinding costs in 2009, whereby in the nine month of 2010 the financial expenses included the one-off correction with non-cash fair value of the swap agreements. Underlying operating profit still continues to be the main contributor to operating cash flows.

In the nine months of 2010 net cash outflows from investing activities were 42.5 mln EEK, which is 56.6 mln EEK more than in 2009. This is mainly due to reduced inflow due to timing of compensations received for construction of pipelines. To date in 2010 the cash outflows in relation to fixed asset investments are 121.1 mln EEK.

The cash outflows from financing activities were 320.0 mln EEK during the nine months of 2010 compared to a cash outflow of 293.8 mln EEK during the same nine months of 2009, representing the payouts of the dividends and income tax on dividends and received loans following the loan drawdown.

As a result of all of the above factors, the total cash outflow in the nine months of 2010 was 42.9 mln EEK compared to a cash inflow of 22.0 mln EEK in the nine months of 2009. Cash and cash equivalents stood at 249.6 mln EEK as at 30 September 2010 which is 2.3 mln EEK lower than at the corresponding period of 2009.

Employees

At the end of the 3rd quarter of 2010, the total number of employees was 319 compared to 349 at the end of the 3rd quarter of 2009. The full time equivalent (FTE) was respectively 305 in 2010 compared to the 336 in 2009. The decrease in FTE is primarily due to reorganization in various departments at the end of 2009.

Corporate structure

At the end of the quarter, 30 September 2010, the Group consisted of 2 companies. The subsidiary Watercom OÜ is wholly owned by AS Tallinna Vesi and consolidated to the results of the Company.

Dividends and share performance

Based on the results of the 2009 financial year, the Company paid 500,010,000 EEK of dividends. Of this 10,000 EEK was paid to the owner of the B-share and 500,000,000 EEK, i.e. 25.00 EEK per share to the owners of the A-shares. The dividends were paid out on 11 June 2010, based on the list of shareholders, which was fixed on 01 June 2010.

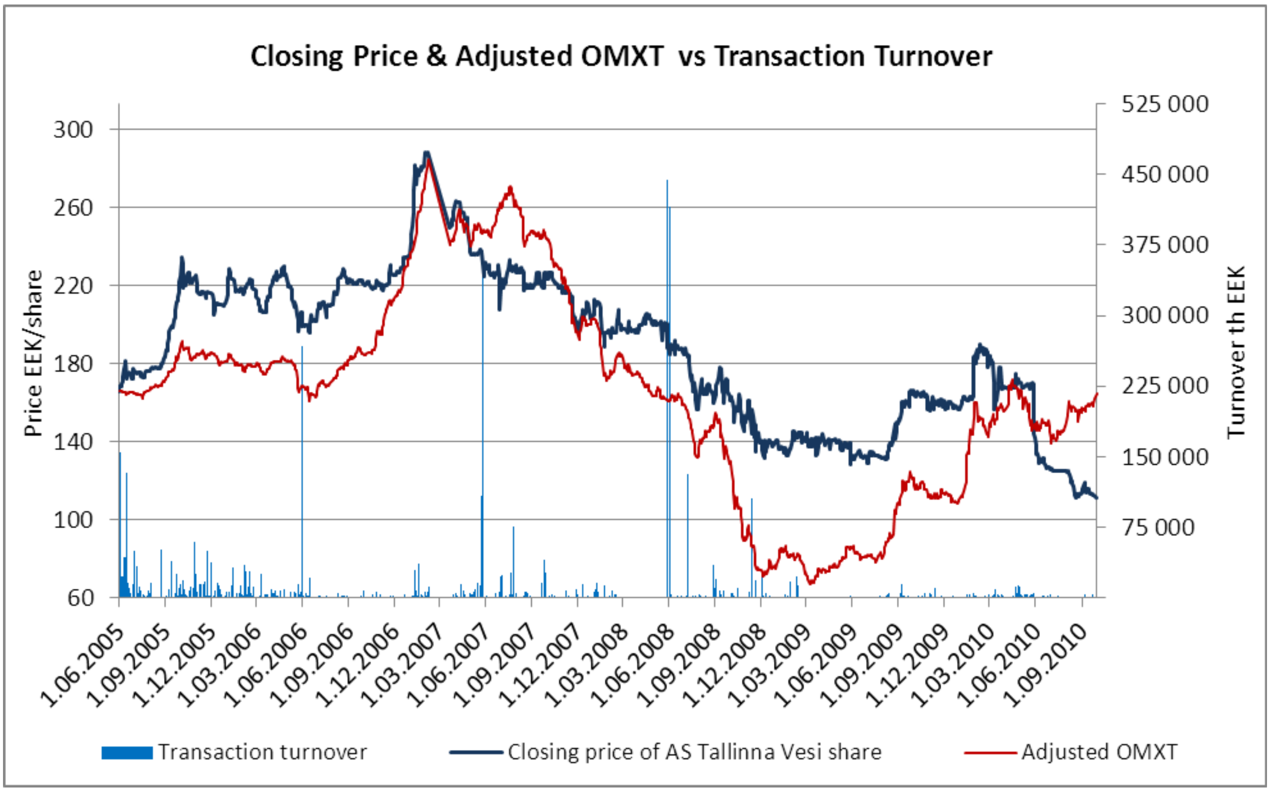
AS Tallinna Vesi is listed on OMX Main Baltic Market with trading code TVEAT and ISIN EE3100026436.

As of 30 September 2010 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%

We have seen the next two biggest shareholders Parvus AM and AKO Capital reducing their holdings in the Company in the quarter. Parvus AM has declared that their shareholding in the clients' accounts is below 10% and AKO Capital has declared their indirect ownership below 5% of the share capital.

At the end of the quarter, 30 September 2010, the closing price of the AS Tallinna Vesi share was 111.09 EEK (7.10 EUR), which is a 12.02% decrease compared to the closing price of 126.27 EEK (8.07 EUR) at the beginning of the quarter. During the same period the OMX Tallinn index rose by 15.99%.



Operational highlights in the first nine months of 2010

- Company's overall operating performance is continuously good, most of the quality aspects exceeding the level of 2009 as described in TSE notice on 20 October 2010.
- Baltic Corporate Governance Institute awarded the Company as the best Corporate Governance in Estonia.

- In the 3rd quarter the Anti Monopoly Bill (AMB) was passed by the Parliament and approved by the President. The key impact for the Company will be related to the fact that from 1 November onwards the tariff approval process of the Company will be transferred from the City of Tallinn to the Competition Authority (CA). The main aim of the AMB is to control the profits of the water companies. The CA has issued a first draft of their recommendations how to calculate the allowed return and revenues for the water companies. The early draft presented by the Competition Authority does not define the full objectives of regulation. The Company finds it regrettable that the regulator-to-be has yet only considered the price sensitivity of the customers and ignored fully their expectations regarding the product and service quality.
  Furthermore, the current regulation suggests that any appeal against a decision for the Competition Authority needs to be made to the Competition Authority, which is in clear violation of any best practice governance principles. Another major issue arising from the proposed draft methodology for calculating water and wastewater tariffs concerns one of the primary objectives of any regulator - to guarantee an acceptable return on invested capital for investors. Within the current methodology it appears that the Competition Authority is excluding the privatisation value of the Company from the calculation of justified profitability, which since 2001 has been included in the calculation of justified profitability of the Company under current regulation within the Services Agreement signed with the City of Tallinn. Therefore to be in accordance with best practice regulation for privatized utilities, such as that favoured by Ofwat in the UK, ASTV has requested that the Competition Authority should expand the definition of regulated asset base to include the privatisation value of the utility. This would ensure the privatisation contract was not unilaterally broken and would respect the investments made in good faith into Estonia by our investors on the basis of that contract. The Company has published its comments to the Competition Authority on its website and to the Tallinn Stock Exchange and will keep its investors informed of all future developments regarding the future calculation of its water and wastewater tariffs.
- In accordance with the signed Services Agreement the Company submitted the 2011 tariff application to the City of Tallinn. Discussions with City of Tallinn are ongoing and, as in previous years, the application is being analyzed based upon the original business plan and the Ofwat regulatory model. However, it should be noted that as a consequence of the AMB the City of Tallinn can only recommend but no longer approve the tariffs that will be applied from 1 January 2011, final approval can only be given by the CA. Therefore, at this point in time the Company is unable to say what next year's tariffs will be as it is unclear at the moment how the CA intends to analyze and proceed with the tariff applications.

Additional information:
Siiri Lahe
Chief Financial Officer
+372 6262 262
siiri.lahe@tvesi.ee

MANAGEMENT CONFIRMATION

The Management Board of AS Tallinna Vesi (hereinafter the company) has prepared the interim accounts in the form of consolidated condensed financial statements for the 9 months period of financial year 2010 ended 30 September 2010. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 30 September 2010 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 occured during the 9 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 3 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 21 October 2010 have been assessed as part of this review.

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

I.J.A. Plenderleith

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

Stephen Benjamin Howard
Member of the Management Board
Chief Financial Officer

Robert Thomas Yuille
Member of the Management Board
Chief Operating Officer

Siiri Lahe
Member of the Management Board

21 October 2010

Introduction and photos of the Management Board members are published in 2009 Yearbook and the information regarding any changes is available at www.tallinnavesi.ee

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(thousand EEK)

		as of 30 September		as of 31 December
ASSETS	**Note**	**2010**	**2009**	**2009**
CURRENT ASSETS				
Cash and equivalents	2	249 553	251 826	292 474
Customer receivables, accrued income and prepaid expenses		195 213	110 303	191 317
Inventories		3 842	3 331	3 819
Non-current assets held for sale		1 197	1 052	1 209
TOTAL CURRENT ASSETS		**449 805**	**366 512**	**488 819**
NON-CURRENT ASSETS				
Property, plant and equipment	3	2 193 137	2 156 580	2 152 952
Intangible assets	3	33 044	42 565	40 319
TOTAL NON-CURRENT ASSETS		**2 226 181**	**2 199 145**	**2 193 271**
TOTAL ASSETS		**2 675 986**	**2 565 657**	**2 682 090**
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current portion of long-term borrowings		60 333	1 671	1 936
Trade and other payables		112 244	81 386	97 866
Short-term provisions		2 624	5 298	3 570
Prepayments and deferred income		13 659	36 671	11 687
TOTAL CURRENT LIABILITIES		**188 860**	**125 026**	**115 059**
NON-CURRENT LIABILITIES				
Borrowings		1 461 523	1 174 230	1 174 034
Other payables		1 795	735	1 795
TOTAL NON-CURRENT LIABILITIES		**1 463 318**	**1 174 965**	**1 175 829**
TOTAL LIABILITIES		**1 652 178**	**1 299 991**	**1 290 888**
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		416 807	658 665	784 201
TOTAL EQUITY		**1 023 808**	**1 265 666**	**1 391 202**
TOTAL LIABILITIES AND EQUITY		**2 675 986**	**2 565 657**	**2 682 090**

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (thousand EEK)

		Quarter 3		9 months		for the year ended 31 December
	Note	**2010**	**2009**	**2010**	**2009**	**2009**
Revenue	4	195 765	188 960	582 291	570 678	772 446
Costs of goods sold	6	-82 360	-69 790	-235 519	-204 698	-284 064
GROSS PROFIT		**113 405**	**119 170**	**346 772**	**365 980**	**488 382**
Marketing expenses	6	-2 971	-2 452	-8 960	-8 430	-11 213
General administration expenses	6	-14 442	-12 265	-41 209	-38 973	-53 493
Other income/ expenses (-)	7	5 531	5 372	22 146	9 118	38 264
OPERATING PROFIT		**101 523**	**109 825**	**318 749**	**327 695**	**461 940**
Financial income	8	3 279	4 270	10 519	16 187	25 267
Financial expenses	8	-11 893	-11 479	-63 737	-68 342	-86 131
PROFIT BEFORE TAXES		**92 909**	**102 616**	**265 531**	**275 540**	**401 076**
Income tax on dividends	9	0	0	-132 914	-61 142	-61 142
NET PROFIT FOR THE PERIOD		**92 909**	**102 616**	**132 617**	**214 398**	**339 934**
COMPREHENSIVE INCOME FOR THE PERIOD		**92 909**	**102 616**	**132 617**	**214 398**	**339 934**
Attributable profit to:						
Equity holders of A-shares		92 899	102 606	132 607	214 388	339 924
B-share holder		10	10	10	10	10
Earnings per A share (in kroons)	10	4,64	5,13	6,63	10,72	17,00
Earnings per B share (in kroons)	10	10 000	10 000	10 000	10 000	10 000

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

CONSOLIDATED CASH FLOW STATEMENTS (thousand EEK)

	Note	9 months 2010	9 months 2009	for the year ended 31 December 2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit		318 749	327 695	461 940
Adjustment for depreciation/amortisation	3	65 948	67 208	89 153
Adjustment for profit from government grants and connection fees		-26 717	-14 241	-47 512
Other finance expenses	8	-925	-34 338	-29 203
Profit from sale of property, plant and equipment, and intangible assets		0	-140	-150
Expensed property, plant and equipment		2 701	0	0
Change in current assets involved in operating activities		-18 407	-18 989	-14 675
Change in liabilities involved in operating activities		231	774	6 160
Interest paid		-21 988	-26 283	-38 793
Total cash flow from operating activities		**319 592**	**301 686**	**426 920**
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of property, plant and equipment, and intangible assets		-121 099	-154 448	-243 906
Compensations received for construction of pipelines		67 240	152 151	155 772
Proceeds from sale of property, plant and equipment, and		18	129	238
Interest received		11 320	16 220	15 077
Total cash flow used in investing activities		**-42 521**	**14 052**	**-72 819**
CASH FLOWS FROM FINANCING ACTIVITIES				
Received loans		312 932	700 968	700 968
Repayment of loans		0	-701 303	-701 303
Dividends paid	9	-500 010	-230 010	-230 010
Income tax on dividends	9	-132 914	-61 142	-61 142
Total cash flow used in financing activities		**-319 992**	**-293 772**	**-291 487**
Change in cash and cash equivalents		**-42 921**	**21 966**	**62 614**
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**292 474**	**229 860**	**229 860**
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	2	**249 553**	**251 826**	**292 474**

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(thousand EEK)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2008	**200 001**	**387 000**	**20 000**	**674 276**	**1 281 277**
Dividends	0	0	0	-230 010	-230 010
Net profit of the financial year	0	0	0	339 934	339 934
as of 31 December 2009	**200 001**	**387 000**	**20 000**	**784 200**	**1 391 201**
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	214 398	214 398
as of 30 September 2009	200 001	387 000	20 000	658 664	1 265 665
as of 31 December 2009	**200 001**	**387 000**	**20 000**	**784 200**	**1 391 201**
Dividends	0	0	0	-500 010	-500 010
Net profit of the financial period	0	0	0	132 617	132 617
as of 30 September 2010	**200 001**	**387 000**	**20 000**	**416 807**	**1 023 808**

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

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 September		**as of 31 December**
	2010	**2009**	**2009**
Cash in hand and in bank	2 948	1 117	376
Short-term deposits	246 605	250 709	292 098
Total cash and cash equivalents	**249 553**	**251 826**	**292 474**

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		
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Construction in progress - unfinished pipelines	Prepayment for fixed assets	Unfinished intangible assets	Development costs	Acquired licenses and other intangible assets	Total property, plant and equipment and intangible assets
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	3 405 379
Accumulated depreciation	-67 263	-710 568	-364 236	-12 247	0	0	0	0	-14 774	-24 638	-1 193 726
Book value	**300 782**	**1 523 970**	**221 438**	**6 126**	**22 082**	**91 974**	**1 853**	**2 726**	**2 968**	**37 734**	**2 211 653**
Transactions in the period 01.01.2009 - 31.12.2009											
Acquisition in book value	0	0	0	0	99 293	144 141	0	7 698	0	0	251 132
Write off and sale of property, plant and equipment, and intangible assets in book value	-2	0	-44	-54	0	0	0	0	0	0	-100
Compensated by government grants	0	0	0	0	0	-178 646	0	0	0	0	-178 646
Reclassification	6 123	43 729	26 302	2 063	-78 323	-1 103	-406	-8 938	4 740	4 198	-1 615
Depreciation	-4 196	-38 733	-34 188	-1 229	0	0	0	0	-2 200	-8 607	-89 153
Total transactions in the period 01.01.2009 - 31.12.2009	**1 925**	**4 996**	**-7 930**	**780**	**20 970**	**-35 608**	**-406**	**-1 240**	**2 540**	**-4 409**	**-18 382**
as of 31 December 2009											
Acquisition cost	374 151	2 275 666	603 762	18 441	43 052	56 366	1 447	1 486	15 083	73 172	3 462 626
Accumulated depreciation	-71 444	-746 700	-390 254	-11 535	0	0	0	0	-9 575	-39 847	-1 269 355
Book value	**302 707**	**1 528 966**	**213 508**	**6 906**	**43 052**	**56 366**	**1 447**	**1 486**	**5 508**	**33 325**	**2 193 271**
Transactions in the period 01.01.2010 - 30.09.2010											
Acquisition in book value	0	0	0	0	67 030	61 065	0	492	0	0	128 587
Write off and sale of property, plant and equipment, and intangible assets in book value	0	0	2 600	4	0	0	0	0	0	0	2 604
Compensated by government grants	0	0	0	0	0	-29 344	0	0	0	0	-29 344
Reclassification	1 463	30 761	5 707	294	-40 833	-40	-326	-81	66	0	-2 989
Depreciation	-3 187	-29 512	-24 534	-963	0	0	0	0	-1 132	-6 620	-65 948
Total transactions in the period 01.01.2010 - 30.09.2010	**-1 724**	**1 249**	**-16 227**	**-665**	**26 197**	**31 681**	**-326**	**411**	**-1 066**	**-6 620**	**32 910**
as of 30 September 2010											
Acquisition cost	375 615	2 306 345	605 870	18 646	69 249	88 047	1 122	1 897	13 973	74 348	3 555 112
Accumulated depreciation	-74 630	-776 130	-408 588	-12 410	0	0	0	0	-10 707	-46 466	-1 328 931
Book value	**300 983**	**1 530 215**	**197 281**	**6 241**	**69 249**	**88 047**	**1 121**	**1 897**	**4 442**	**26 705**	**2 226 181**

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 2009 and 30 September 2010 the net balance sheet value of finance leases was respectively 5 203 thousand kroons and 4 319 thousand kroons.

NOTES TO THE INTERIM FINANCIAL STATEMENT (thousand EEK)

NOTE 4. REVENUE	Quarter 3		9 months		for the year ended 31 December
	2010	**2009**	**2010**	**2009**	**2009**
Revenues from main operating activities					
Total water supply and waste water disposal service, incl:	174 186	174 227	528 919	525 253	707 408
Private clients, incl:	91 334	91 442	278 056	283 035	379 322
Water supply service	50 750	51 007	154 594	157 795	211 379
Waste water disposal service	40 584	40 435	123 462	125 240	167 943
Corporate clients, incl:	66 854	65 867	199 876	204 805	273 338
Water supply service	37 284	36 882	110 556	114 589	152 092
Waste water disposal service	29 570	28 985	89 320	90 216	121 246
Outside service area clients, incl:	12 685	12 742	40 508	25 643	40 003
Water supply service	3 264	3 326	9 883	4 608	7 841
Waste water disposal service	9 421	9 416	30 625	21 035	32 162
Overpollution fee	3 313	4 176	10 479	11 770	14 745
Stormwater treatment and disposal service	16 210	10 540	39 647	32 619	46 957
Fire hydrants service	748	672	2 243	2 015	3 083
Other works and services	4 621	3 521	11 482	10 791	14 998
Total revenue	**195 765**	**188 960**	**582 291**	**570 678**	**772 446**

100 % of AS Tallinna Vesi revenue was generated within the Estonian Republic.
Code of Estonian Classification of Economic Activities (EMTAK) is 36001.

NOTE 5. STAFF COSTS	Quarter 3		9 months		for the year ended 31 December
	2010	**2009**	**2010**	**2009**	**2009**
Salaries and wages	-14 367	-14 912	-47 356	-48 933	-71 400
Social security and unemployment insurance taxation	-4 766	-4 967	-15 674	-16 298	-23 777
Staff costs total	**-19 133**	**-19 879**	**-63 030**	**-65 231**	**-95 177**
Number of employees at the end of reporting period			**319**	**349**	**336**

NOTES TO THE INTERIM FINANCIAL STATEMENT (thousand EEK)

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

	Quarter 3		9 months		for the year ended 31 December
	2010	**2009**	**2010**	**2009**	**2009**
Cost of goods sold					
Tax on special use of water	-3 220	-2 903	-9 994	-8 467	-11 479
Chemicals	-6 245	-5 749	-16 572	-14 860	-20 082
Electricity	-11 034	-8 113	-30 914	-24 176	-33 422
Pollution tax	-9 569	-4 719	-24 230	-13 757	-16 918
Staff costs	-13 505	-15 183	-44 553	-47 720	-70 273
Development	0	-3	0	-26	-29
Depreciation and amortization	-19 828	-20 217	-59 809	-61 092	-81 006
Transport	-6 014	-4 435	-14 970	-12 845	-17 427
Other costs of goods sold	-12 945	-8 468	-34 477	-21 755	-33 428
Total cost of goods sold	**-82 360**	**-69 790**	**-235 519**	**-204 698**	**-284 064**
Marketing expenses					
Staff costs	-1 154	-822	-3 507	-3 311	-4 516
Depreciation and amortization	-1 308	-1 302	-3 925	-3 905	-5 207
Other marketing expenses	-509	-328	-1 528	-1 214	-1 490
Total cost of marketing expenses	**-2 971**	**-2 452**	**-8 960**	**-8 430**	**-11 213**
General administration expenses					
Staff costs	-4 474	-3 874	-14 970	-14 200	-20 388
Depreciation and amortization	-739	-856	-2 214	-2 211	-2 940
Other general administration expenses	-9 229	-7 535	-24 025	-22 562	-30 165
Total cost of general administration expenses	**-14 442**	**-12 265**	**-41 209**	**-38 973**	**-53 493**

NOTE 7. OTHER INCOME / EXPENSES

	Quarter 3		9 months		for the year ended 31
	2010	**2009**	**2010**	**2009**	**2009**
Profit from connection fees	545	937	1 856	2 879	6 139
Profit from government grant	5 289	4 624	24 861	11 362	41 373
Other income / expenses (-)	-303	-189	-4 571	-5 123	-9 248
Total other income / expenses	**5 531**	**5 372**	**22 146**	**9 118**	**38 264**

NOTES TO THE INTERIM FINANCIAL STATEMENT (thousand EEK)

NOTE 8. FINANCIAL INCOME AND EXPENSES	Quarter 3		9 months		for the year ended 31 December
	2010	**2009**	**2010**	**2009**	**2009**
Interest income	3 279	4 270	10 519	16 187	25 267
Interest expense	-10 033	-10 758	-26 140	-29 004	-35 241
Other financial expenses	-1 860	-721	-37 597	-39 338	-50 890
Total financial income / expenses	**-8 614**	**-7 209**	**-53 218**	**-52 155**	**-60 864**

NOTE 9. DIVIDENDS	Quarter 3		9 months		for the year ended 31 December
	2010	**2009**	**2010**	**2009**	**2009**
Dividends declared during the period	0	0	500 010	230 010	230 010
Dividends paid during the period	0	0	500 010	230 010	230 010
Income tax on dividends paid	0	0	-132 914	-61 142	-61 142
Income tax accounted for	**0**	**0**	**-132 914**	**-61 142**	**-61 142**
Paid-up dividends per shares:					
Dividends per A-share (in kroons)	0	0	25,00	11,50	11,50
Dividends per B-share (in kroons)	0	0	10 000	10 000	10 000

The income tax rates were 21/79 in 2010 and 2009.

NOTE 10. EARNINGS PER SHARE

	Quarter 3		9 months		for the year ended 31 December
	2010	**2009**	**2010**	**2009**	**2009**
Net profit minus B-share preference rights (in kroons)	92 899	102 606	132 607	214 388	339 924
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)	4,64	5,13	6,63	10,72	17,00
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 September 2010 and 2009 and 31 December 2009 do not vary significantly from the earnings per share figures stated above.

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

	as of 30 September		as of 31 December
Balances recorded in working capital on the balance sheet of the Company	**2010**	**2009**	**2009**
Accounts receivable	61 489	0	2 160
Accrued income	36 727	10 733	93 200
Prepayments and deferred income	0	10 244	0
Accounts payable - short-term trade and other payables	3 763	3 703	3 836

	Quarter 3		9 months		for the year ended 31 December
	2010	**2009**	**2010**	**2009**	**2009**
Transactions with the related parties					
Sales services	16 809	11 211	41 440	34 634	49 740
Compensations received from the local governments for constructing new pipelines	27 413	18 860	51 902	98 750	186 533
Purchase of administrative and consulting services	3 547	5 035	12 543	14 178	19 357
Financial income	2 627	1 497	6 061	4 038	10 047
Management Board fees excluding social tax	740	645	1 926	1 935	2 558
Supervisory Board fees excluding social tax	150	150	450	450	600

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 and Supervisory Board members
As at report generation date Siiri Lahe owned 700 AS Tallinna Vesi shares.

NOTE 12. LIST OF SUPERVISORY COUNCIL MEMBERS

Robert John Gallienne	Chairman of the Supervisory Council
Leslie Anthony Bell	Member of the Supervisory Council
Matti Hyyrynen	Member of the Supervisory Council
Andrew James Prescott	Member of the Supervisory Council
Ardo Ojasalu	Member of the Supervisory Council
Mart Mägi	Member of the Supervisory Council
Rein Ratas	Member of the Supervisory Council
Valdur Laid	Member of the Supervisory Council
Deniss Boroditš	Member of the Supervisory Council

Introduction and photos of the Supervisory Council members are published in 2009 Yearbook and the information regarding any changes is available at www.tallinnavesi.ee