



**Always in motion**

Annual Report 2002

*Tallinna Vesi*  


The background features several horizontal, wavy lines in a light blue color, creating a sense of movement and depth. The lines are soft and blurred, blending into the white background.

# We

value our colleagues

are committed to clients

are competent and willing to make things happen

keep our word and promises

are innovative

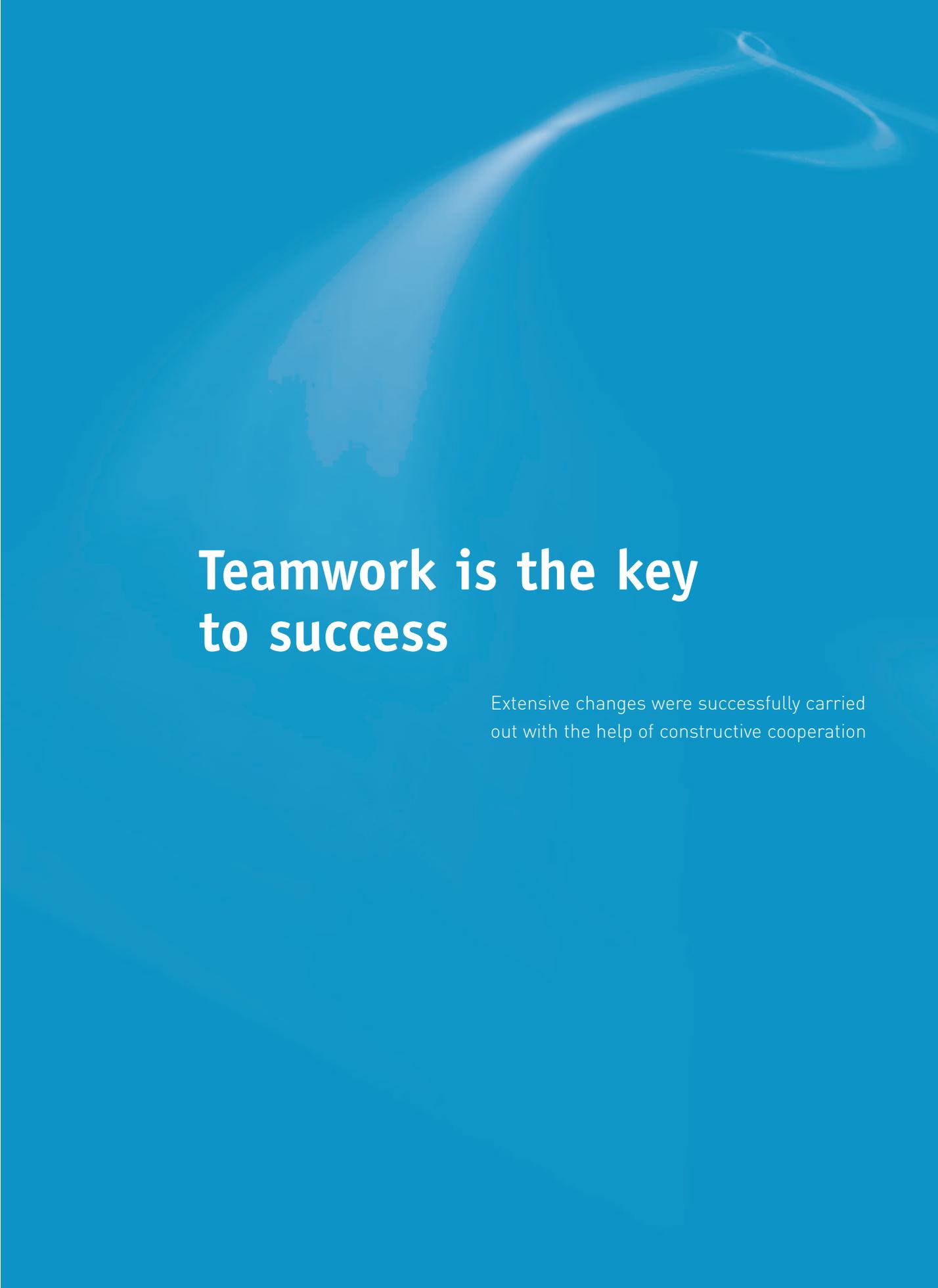
are team players

take initiative

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A hand is shown holding a glowing blue sphere. A bright white trail starts from the sphere and curves upwards and to the right, ending in a small loop. The background is a solid blue color.

# Teamwork is the key to success

Extensive changes were successfully carried out with the help of constructive cooperation

“ Our team’s commitment and professionalism has enabled us to continue further improvements to our levels of service „





## Address by the Chairman of the Management Board

I am pleased to be able to report that 2002 has been a successful year for AS Tallinna Vesi in a wide range of areas and we have built on the firm foundations put down during 2001, our first year as a privatised company.

The continuing development of the working relations with the City of Tallinn was a key priority and this was illustrated by the resolution of all the outstanding issues, which was successfully concluded in the Agreement on Amending the Project Agreements signed with the City of Tallinn on 30<sup>th</sup> September 2002. This comprehensive agreement covered the transfer of un-owned pipes; the relationship between the Company and the Supervisory Foundation of Water Undertakings in Tallinn; the reimbursement of network extension costs and the rates of tariff for the period up to 2010.

This Agreement clarifies and strengthens the previous agreements, delivers benefits for both parties and provides a firm base for moving forward.

Once again the Company has outperformed its financial targets. This has been achieved by further increases in efficiency and despite a background of lower than anticipated revenue from main service charges. As a result the operating profit increased by 5% to 174,6 million kroons and net profit increased by 1% to 169,5 million kroons compared to 2001. Total assets have decreased to 2,3 billion kroons from 2,4 billion kroons following the capital restructuring in 2002.

The EBRD Loan Agreement was finalised and signed in November 2002 and the first phase of the capital restructuring of the Company was commenced in late December. We plan to finalise the restructuring process during 2003.

To offset the general downward trend in main services consumption volumes we started the census of our overall customer base in 2002. It is intended to complete the programme during the year 2003. Also we have continued to look for opportunities to extend our service area. As a result we have renewed our contract to provide services to Viimsi District and negotiations are at a final stage with Jõelähtme Rural Municipality, Rae Rural Municipality and Maardu City. By taking these activities and continuing to pursue efficiencies within the business I am confident that the Company can achieve the targets we have set ourselves for 2003.

In the second half of the year 2002 our Customer Service staff started the programme to connect new customers to the water and sewer network extensions constructed in 2001. A fully documented set of guidelines was developed for all potential customers and by the end of the year over 500 customers had been successfully connected.

In 2002 we further enhanced the quality of service provided to our customers through the extension of our Call Centre working hours and the provision of a 24-hour telephone line for customers to phone in their meter readings at a time convenient to them. In environmental terms additional improvements were achieved in drinking water quality and treated wastewater quality.

A major achievement in 2002 was the certification of the management system in the Company to ISO 9001 quality management standards. AS Tallinna Vesi is the only Water Services Company in Estonia to achieve this for all its services and this demonstrates through independent certification the commitment to quality being made by all our employees. We are already taking the next steps to achieve ISO 14001, Environmental Management Certification in 2003.

During 2002 further changes in the organisational structure of the Company and the way of working were implemented. These were significant changes requiring the full involvement of all our managers. Their commitment, energy and professionalism during this period of extensive change was outstanding and has enabled us to continue to deliver further improvements to our levels of service.

I would also wish to mention the positive working relations we have with our Union and the support they provided during this period of change. During the period we finalised and agreed a new Collective Agreement. This Agreement includes new remuneration and performance related pay schemes, which recognised the changes in organisation and methods of working. The Collective Agreement, which was signed early in 2003, is the first in AS Tallinna Vesi since 1993.

The average number of employees during 2002 was 480 and the amount accounted in salaries and wages hereinafter excluding social tax was 50 687 027 kroons for the same period.

The amount paid to the Chairman of the Board was 300 000 kroons during 2002. The total remuneration paid to the other Management and Supervisory Board members was 246 151 kroons during 2002.



**Robert John Gallienne**

Chief Executive Officer / Chairman of the Management Board

### AS Tallinna Vesi key data in 2002

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- AS Tallinna Vesi services about 406.000 people in Tallinn and its surroundings
- AS Tallinna Vesi has about 17.000 customers
- Average daily water consumption in Tallinn is 104 l per person
- AS Tallinna Vesi operates almost 1.000 km water, over 1.000 km wastewater and about 150 km storm water network
- On average AS Tallinna Vesi produces about 80.000 m<sup>3</sup> of drinking water per day
- AS Tallinna Vesi Wastewater Treatment plant treats about 130.000 m<sup>3</sup> of sewage per day
- Total sales of AS Tallinna Vesi in 2002 was 509 million kroons
- Net profit of AS Tallinna Vesi in 2002 was 169,5 million kroons

“ We have fulfilled our objectives, but we stay open to any new challenge to improve ourselves „





## Operation's Report

### **Keeping up the pace and implementing changes**

The major challenge this year was to keep up the pace whilst, at the same time, implementing changes. We did succeed – all technical indicators improved, the levels of services were achieved and financial targets exceeded. We also succeeded in achieving the organisational change as presented below.

All this extraordinary work is the result of a very valuable team, strongly united and full of commitment.

### **Structural changes in Operations**

During the year 2002, our company made great progress in delivering efficiency whilst providing a good quality service to the people of Tallinn. One of the keys to this progress was the organisation structural changes that took place in the second half of the year. The major changes took place in the Operation's Division. The basic objectives of the programme were to become a more efficient, customer oriented company as well as a better place for our employees to work. Key activities to meet the set targets were the streamlining of the organisation and the elimination of duplication wherever possible. The end result was to achieve improved productivity, higher use of automation and reduced costs. Today we can say that we were able to fulfil all these objectives.

### **Creation of a Technical Support Department**

One of the major changes was to build one department with all the technical capabilities of the company. By having gathered the Development Group, the Design Group and the Works Supervision Group under the same authority, coordination has become more efficient in all of the projects undertaken by the company. Similarly, having the Geographic Information System (GIS) Group, the Network Diagnostic Group and the Metering Group under the same department has given an opportunity to better manage our network. With all of these specialities and asset management capacity, the newly reorganised department is now able to provide a full range of services to the production and treatment departments, customer service as well as to the network department.

### **Reorganised Asset Management**

In addition, we have centralised the work of the company's asset management. Previously the responsibilities for asset management were divided between different units of the company and some responsibilities were duplicated. The new system, however, is based on a servicing principle whereby all the company's units – the Water Treatment Plant, Networks, the Wastewater Treatment Plant – send their requests to a centralised asset management. This has enabled us to cut costs, share the existing knowledge between different departments and, primarily, to be more efficient.

### **Consolidation of Network Division**

When speaking of the organisational changes in more detail, one of the major parts of the reorganisation was the elimination of the previous division of AS Tallinna Vesi service area into Eastern, Western and Emergency Divisions. Instead, we have introduced one network division situated in one location. One central office has enabled us to reduce administration and office maintenance costs as well as to eliminate duplication of similar positions.

### **Implementation of a Centralised Purchase Department**

We have also started to reorganise the purchasing system of the company. We have set up a centralised purchase department, which is up to date in implementing the Procurement Act and better trained to negotiate with suppliers. In addition, internal purchasing procedures were reviewed and the systematisation of call for tender was implemented. This has given us more control over our expenditures. Moreover, centralisation and rationalisation of our warehouse should bring us more flexibility.

As a result of the reorganisation, the number of employees in the Operations Division was reduced from 401 to 286.

None of these achievements could have been attained without the commitment and dedication of our people. In spite of the implementation of major changes in the organisation structure, and especially in operations, people remained focused on achieving their targets in the new situation and they have succeeded!



**Roch Chérroux**

Chief Operating Officer / Member of the Management Board

## Water Production Report

In 2002 AS Tallinna Vesi continued to invest into increasing the reliability of the production process at the Ülemiste Water Treatment Plant and making it more environmentally friendly.



houses at Nõmme, Pirita and Merivälja, produce over 3 million m<sup>3</sup> of water a year.

In 2002 the average water consumption per person in Tallinn was 104 litres a day which is a little less than in 2001. The water consumption in Tallinn has, during the last ten years, decreased approximately three times and the period of retention of water in Lake Ülemiste has increased four times. Therefore the water stock of the lake has to be mixed with water from reservoirs in order to ensure the quality of the raw water. In 2002 the quality of the raw water complied with all indicators established by the requirements of the Council of the European Communities Directive 75/440/EC.

### Progress in increasing raw water quality

In order to improve water quality in Lake Ülemiste several projects were implemented in 2002. In spring the Kurna artificial water catchment area was completed which allowed a decrease in the load of nutrients flowing into the Lake from the

The majority of the population of Tallinn receives its daily drinking water from the Ülemiste Water Treatment Plant. In 2002 the Ülemiste Plant produced over 28 million m<sup>3</sup> of water. Ground water wells, which are located mainly in the regions of private

Kurna Canal. The natural self-purification process within the water catchment area of Kurna Stream improves the quality of raw water flowing into Lake Ülemiste. Water from the stream is directed onto a low waterside meadow of the former Katku Stream, which is covered with plants and where water can flow very slowly before it reaches Lake Ülemiste.



Last year preliminary research on the water-ecosystem of Lake Ülemiste was carried out in order to find ways to improve the quality of water by biological manipulation i.e. by creation of a classical food chain in the body of water. This consists of carnivorous fish – herbivorous fish - zoo plankton - phyto plankton. Currently the food chain of Lake Ülemiste does not function properly as the amount of carnivorous fish forms only 5% of the fish stock. During biological manipulation excessive amounts of herbivorous fish such as breams, roaches and ruffs are removed from the lake so that the reproduction of carnivorous fish such as pikeperches and pikes can be facilitated.

### Water Production (thousand m<sup>3</sup> / year)

Year	Surface Water	Ground Water	Total
1999	33.534	4.264	37.798
2000	30.105	3.271	33.376
2001	27.822	3.446	31.268
2002	27.411	3.234	30.645



By using this method the food chain of the lake can be kept in balance and the amount of micro algae, which may impair the quality of water, is kept under control.

In order to improve the administration of water resources within the water catchment area a water flow measuring point was installed on the Purdi canal and a sanitary protection zone was implemented for part of the Soodla-Raudoja-Kaunissaare system in 2002.

#### **Investments into the water purification process**

In 2002 AS Tallinna Vesi continued to invest in increasing the reliability of the production process at the Ülemiste Water Treatment Plant and making it more environmentally friendly. A new thermal decomposer of waste ozone, which forms during the purification process, was purchased and installed in order to fully counteract the residual ozone emitted to air. The reconstruction of the fil-

ters of the flushing system was started and this will considerably save water used for filter cleaning. In addition to the above-mentioned projects the preliminary design of the new chlorine storage facilities was prepared. The construction of the chlorine storage will be started in 2003.

For a period of six weeks a new coagulant was tested in the water production process in order to further improve the quality of the water supply. The results of the tests were satisfactory leading to the conclusion that the new coagulant will continued to be used from 2003 onwards.

#### **Water quality stable**

Purified water quality in 2002 in the Water Treatment Plant and in ground water wells was 100 percent compliant with all quality parameters of the European regulation.

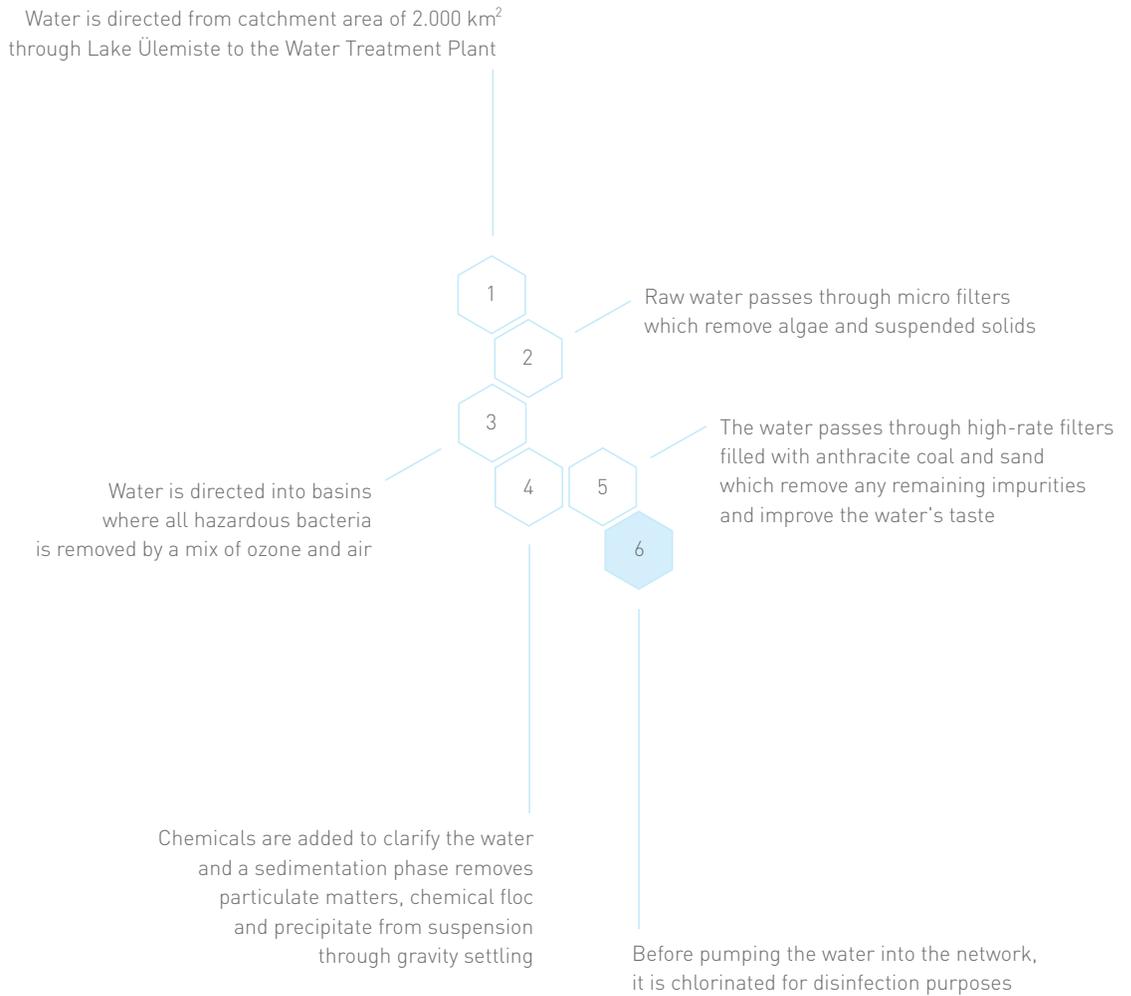
It is noteworthy that in 2002 all control samples taken from Ülemiste Water Treatment Plant were compliant with EV Drinking Water Standard quality class "very good" and with all the parameters of the Minister of Social Affairs Decree No. 82, which are more rigorous compared with those previously applied.

#### **General Information**

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- Almost 90 percent of the drinking water of the city of Tallinn is taken from surface water sources.
- Surface water is collected from an area of about 2.000 km<sup>2</sup>.
- Lake Ülemiste is the main surface water source of the city accounting for 17 million m<sup>3</sup> of water.
- In the Water Treatment Plant the water undergoes a 15-hour highly complicated purification process.
- The maximum capacity of the Ülemiste Water Treatment Plant is about 123.000 m<sup>3</sup> in 24 hours.
- There are over 40 ground water wells in use with the depths of up to 175 m
- All water quality samples taken in 2002 were compliant with the regulation.

## Water Purification Process Diagram in the Ülemiste Water Treatment Plant



## Wastewater Treatment Report

The Paljassaare Wastewater Treatment Plant collects all sewage and stormwater from the city of Tallinn and its environs where it is treated in an environmentally friendly manner.

In 2002 a total of 46,67 million m<sup>3</sup> of wastewater was treated. During the last decade the performance of the Paljassaare Wastewater Treatment Plant has improved year by year. This trend continued in 2002. We are glad to report that wastewater treatment efficiency in 2002 was excellent and the amount of contaminated water pumped into the sea was the lowest of all times. For the first time no untreated sewerage water was pumped into the Baltic Sea.

### Investment in nitrogen removal

Even though wastewater treatment efficiency is generally very high, more problems are being encountered when it comes to the removal of nitrogen contained in wastewater. As the environmental protection requirements are becoming more stringent and as the amount of nitrogen allowed in wastewater has consistently decreased we have to make additional investment to increase the efficiency of the process. As a first step, in 2002, several studies and projects were carried out

with a view to upgrading the wastewater treatment plant, which currently works on the basis of a classical activated sludge process, into a plant which also provide improved nitrogen removal. Construction will be started in 2003.

Another important challenge, which requires constant investment, is the removal of phosphorus from wastewater. For this purpose 1,2 tons of the chemical iron sulphate with an average concentration of 25,4 g/m<sup>3</sup> was used during a year.

### New gas motor to produce the air needed for the treatment process

The commissioning of a gas motor and its attachments was one of the most important investments made in the wastewater treatment plant in 2002. The gas motor is used for producing the air necessary for the activated sludge process in the biological treatment of the waste water. Biogas, produced on the spot during the treatment process and, where necessary, natural gas is used as the fuel for the gas motor.



### **New boiler house**

In order to produce the necessary amount of heat needed for the technological process of wastewater treatment a new fully automatic biogas boiler house with three boilers and a capacity of 3,6 MW was put into operation. As the boiler house is fully automatic there is no need for supervisory personnel.

### **The quality of sludge improves gradually**

The Paljassaare Wastewater Treatment Plant also processes sludge segregated during the treatment process. Over 292.000 m<sup>3</sup> of sludge was separated from the waste water and pumped into sludge processing during the sewerage treatment process. All of the sludge underwent an anaerobic fermentation process, which lasted about 25 days, and was followed by drying. During the year 32,5 tons of excess sludge of which approx. 28 percent was solid substance was accumulated. Over half of it i.e. 64 percent was used for the production of organic fertiliser and in forest planting tests. The rest was taken to a landfill. In order to reduce the volume of sludge and to secure the sludge processing against possible accidents the

Wastewater Treatment plant purchased an additional centrifugal press which, together with its installation, cost more than 5 million kroons.

In order to improve the quality of the produced sludge and to accelerate the composting process helical conveyers transporting dry sludge were replaced by belt conveyers, by which the blending of sludge and additives was substantially improved. The replacement of helical conveyers cost over 0,5 million kroons.

### **More efficient environmental monitoring**

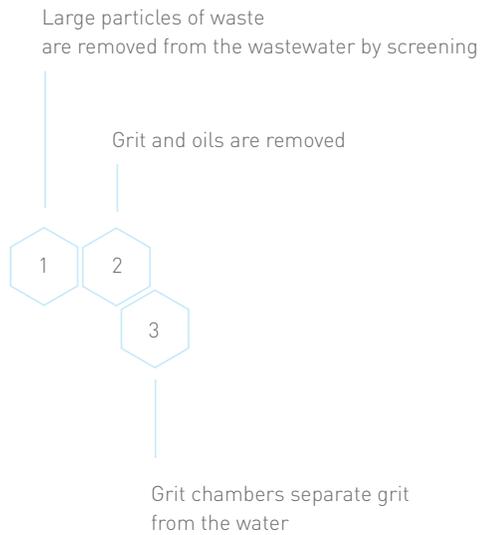
The work of the Wastewater Inspectorate, whose role is to check the sewerage management of sites connected to the city of Tallinn sewage network, the level of contamination of wastewater and who also carry out environmental monitoring, improved their efficiency in 2002. In order to get a better overview of the wastewater contamination level and its possible impact on the environment the Wastewater Inspectorate in the year 2002 took 1.370 wastewater samples from different sites. This represented a 33 percent increase over the previous year.

## **General Information**

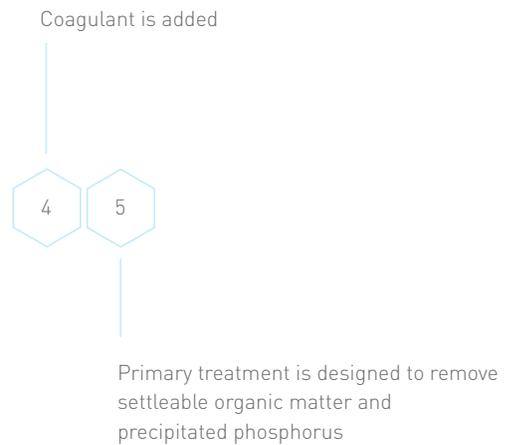
- The capacity of the Wastewater Treatment Plant is 350.000 m<sup>3</sup> a day
- In 2002 total of 46,67 million m<sup>3</sup> of waste water was treated

## Sewage Treatment Process Diagram in the Paljassaare Wastewater Treatment Plant

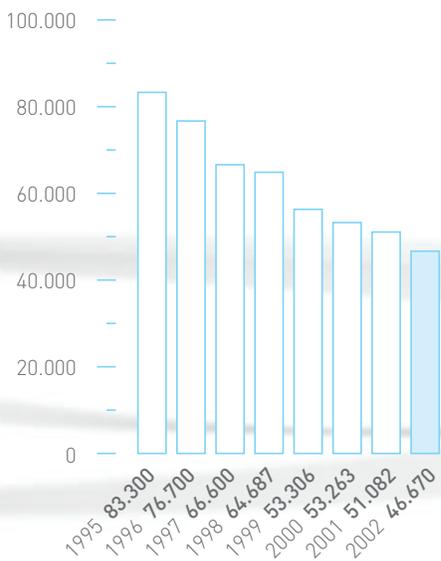
### Preliminary Treatment



### Primary Treatment

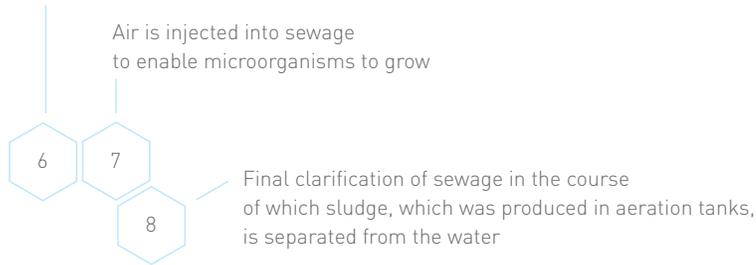


### Treated Wastewater Quantity in 1999-2002 (in thousands m<sup>3</sup>)



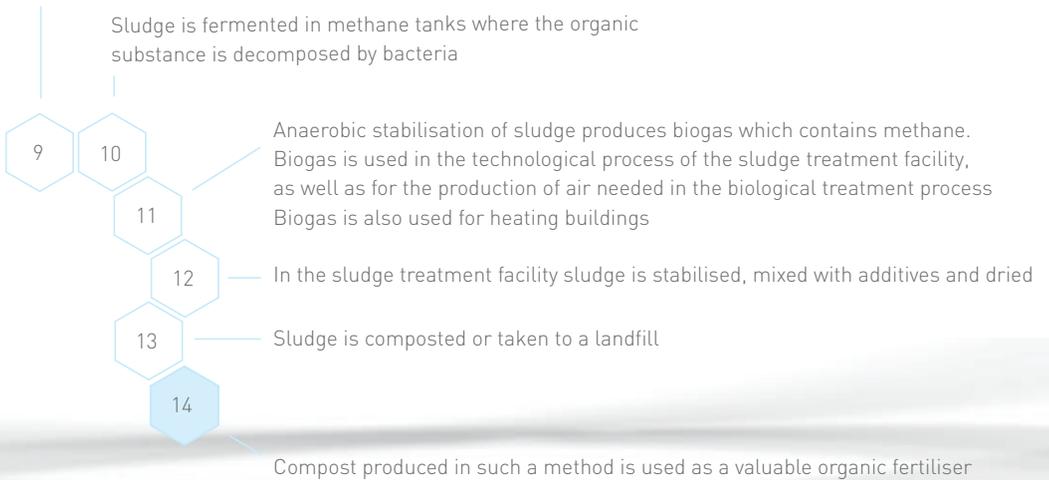
## Biological Treatment

In the aeration tanks microorganisms decompose the biodegradable substance and consume heavy pollution



## Sludge Treatment

Sludge produced at different stages of the treatment process is pumped into the sludge processing station





# We care for the environment

We provided around 700 households  
with the possibility to connect to  
environmental friendly sewerage system

## Technical Service Report

During the reorganisation of Technical Service carried out in 2002 a new department to deal with all technical aspects of the company was formed.

With the formation of the new department the Development Group, the Design Group and the Works Supervision Group, as well as the Geographic Information System Group, the Network Diagnostic Group and Metering Group, which had been separate units, were grouped together under one structural unit. The main task of the Technical Service is to provide Customer Service, Production, Treatment and Network Departments with the necessary support services.

### Geographic Information Group

#### Geographic Information System (GIS)

AS Tallinna Vesi, is creating hydraulically calibrated GIS-based computer models of the water and sewer network of the city of Tallinn. In 2002 considerable progress was made in this area and over 1,6 million kroons was invested in the development of the whole project. The most important achievements included the final introduction and implementation of the GIS-software, the transfer of the existing digital information to the GIS database, the detection and correction of mistakes proceeding from the transfer of information, the web-based development of the GIS making the system accessible to all computer users of the company.

#### Development of network simulation models in the final stage

During the last three years AS Tallinna Vesi has, in co-operation with the Tallinn Technical University,

created simulation models of water networks of all the larger regions of Tallinn – Lasnamäe, Mustamäe, Õismäe, Nõmme, the City Centre with Kopli region, the Old Town and Toompea. The models were created on the basis of existing measurements, which have been regularly checked and adjusted.

#### The water model provides an overview of the condition of networks

Since the newly created models are connected with GIS databases the company has a good overview of the conditions and technical status of the water networks. This information can be subsequently used for the improvement of models and in planning the reconstruction and renovation of the network. These models enable the Company to successfully simulate the hydraulic operation of the water network and estimate the quality fluctuation of the water within the network by taking into account the time factor. The planned calibration of the model of the water network will be carried out in co-operation with the Tallinn Technical University in spring 2003.

#### Benefit to the customer

With the help of the GIS model, the Company can provide an improved service to the customers. We have a better understanding of the condition of the network, it also enables us to plan the rehabilitation work better, prevent blockages or detect water leakage.

### The sewerage model will be completed in 2004

The planning of optimal reconstruction works of the systems, the analysis of pollution risks and the assessment of the capacity of the systems are based on precipitation and waste water sewerage network computing models. The first computer model was created in June 2002 for the Lilleküla and Mustamäe catchment area. The creation of sewerage models is much more labour-intensive task than developing water network models. However, the first, larger model made for the Mustamäe and Lilleküla catchment area was the most labour-consuming. The next models for other areas will be completed much quicker.

### The GIS increases the accessibility of information

Since May 2002 the financial costing and reporting concerning water and sewerage networks has been based on the GIS. This enables the Networks Department, as well as the Customer Service, to obtain, besides cost information, also technical data on the condition of the water supply and sewerage networks. The GIS can, for example, provide data on the diameter, material and the year of installation of pipes. It also includes statistics on emergency repairs giving their dates and locations.

### Leakage and Diagnostics Group

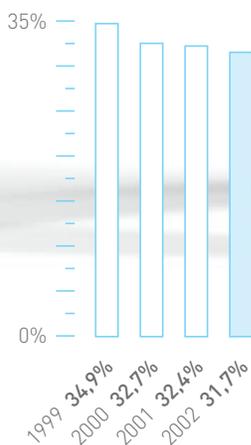
#### The Leakage Group became more efficient

Most of the work, as well as the investments of the Leakage Group, was related to the detection of hidden leaks. In order to make the work more efficient a new pipeline detector was purchased in 2002. This tool helps to detect the exact location of water and sewerage pipelines through the ground. In addition three noise detectors and one acoustics detectors were purchased for the detection of leakages. These detectors enable to find the exact location of any leakage by the sound of water pressure in pipelines. Besides that, new spindle detectors, which locate a spindle of a main valve of a pipe through soil or asphalt, were procured.

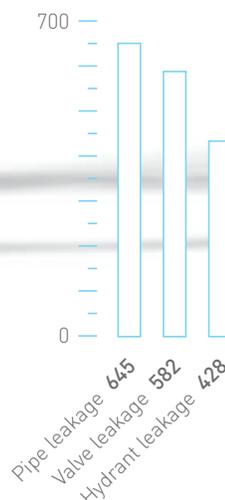
#### The water lost in leakages has decreased

Water loss and the volume of unaccounted water has been falling constantly - decreasing by the end of 2002 to 31.7 percent. This figure has been falling since 1999 as presented below.

Percentage of unaccounted water



Distribution of leaks by type in 2002 (total number)





**Ground water quality monitored  
by a ground water well camera**

The largest investment of the Diagnostic Group in 2002 was the purchase of a ground water well camera which, together with its installation and the training of an operating team, cost 1,7 million kroons. The camera enables the assessment of the condition of ground water wells and their inner casing. This service is also available to other water companies and owners of ground water wells so as they can assess the condition of their own well.

**Design Group formed**

Another important change in 2002 was the formation of the Design Group. This Group prepares connection drawings for individuals who want to connect their household to the public water supply and sewerage network. They also design the reconstruction projects for the water supply and sewerage network planned by AS Tallinna Vesi.

Owners of private houses benefit most from the formation of the Design Group. The service of preparing connection drawings for connecting their house to the public network is now available to them in house.

## Development Group

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### **Close co-operation with Real Estate Developers has continued**

In 2002 co-operation with different real estate companies who are developing new regions has continued. Several projects were carried out in the Tiskre and Männimetsa-Pajudesae dwelling district, as well as in Pirita and the areas around the Paldiski Road, which all will provide new homes for the people of Tallinn.

### **Water Metering Department**

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The regular replacement of water meters was continued in 2002, which led to the installation of 7.630 new meters during the year. According to the Water Measuring Act water meters must be replaced after every 5 years. AS Tallinna Vesi has, however, during the last couple of years, carried out regular replacements of water meters much more often, after every 2 – 3 years, depending on the diameter of the water meter to guarantee the accuracy of meters.

In order to check and calibrate water meters AS Tallinna Vesi has purchased one of the most modern calibration benches in the Nordic countries.

By the end of 2002 a total of 17.665 water meters had been installed for customers of AS Tallinna Vesi.

## Networks Report

The year 2002 was remarkable for the networks department due to the significant improvements in efficiency.

As a result of the reorganisation of work, a reduction of over 20% in costs was achieved whilst increasing the quality of service provided.

In addition Tallinna Vesi constructed more than 4 km of new storm water network in 2002.

Stormwater network extension was carried out mainly in Pirita and Nõmme.

AS Tallinna Vesi operates almost a 1.000 km water supply network, a 1.000 km long sewerage network and a 150 km storm water network for the city of Tallinn.

Alltogether there are 64 water pumping stations and 63 waste water pumping stations in Tallinn. Most of them are almost fully automated and the Networks Department carries out their remote supervision.

In 2002 the substantial construction of the water supply network was continued in the city of Tallinn. Tallinna Vesi built or almost replaced 15 km of new water network. The main construction works were focused on Nõmme but new pipelines were also built in the Haabersti, Kristiine, Mustamäe and Pirita areas.

Also, the active construction work of the sewerage network was continued. Almost 21 km of new sewerage network was built or replaced. The major part of the network was built in Nõmme and Pirita. In 2002, a total of over 700 households were provided with the opportunity to connect to the public water and sewerage network.

### **Pressure washing and pipe flushing produced good results**

In 2002, AS Tallinna Vesi continued regular flushing of the water network using the air-water flush method, to ensure good drinking water quality. In the course of the flushing air is injected into the network.

The air mixes with water and cleans the pipes of the sediment, which has settled on the inner surface of the pipes. This method has proved to be very successful.

In 2002 the company flushed more than 90 km of water network.

A similar pressure washing program has been developed for sewer pipes, however, the mechanism is slightly different. The aim of the program is to prevent sewer blockages. The success of the method is also proved by the fact that, in 2002, the number of blockages decreased by more than 34% compared to year 1999 i.e. from 2.444 blockages to 1.601. As this form of preventative maintenance has proved to be very successful the company will continue implementing the flushing program during 2003.



During 2002 the company installed 423 new hydrants in Tallinn, which meet the current fire safety standards.

### Installation of hydrants and valves continued

Fire hydrants ensure that there is an adequate water supply for fire fighting. Following the Service Agreements concluded with the City of Tallinn, AS Tallinna Vesi will, by the end of 2005, replace all old fire hydrants with new ones, which comply with the Estonian Fire Fighting and Rescue Equipment Standards.

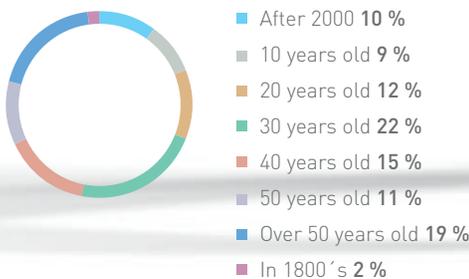
Substantial work was done in 2002 in fitting valves to water pipelines in Tallinn. New gate valves, and butterfly valves facilitate considerably

the work of the Network Department and improve customer service. For example, in the case of a major incident or leakage it is possible to close the valves and eliminate the problem quickly with the water supply of as few as possible people being disturbed. In 2002 AS Tallinna Vesi reconstructed 11,9 km of water and 5,3 km of sewerage network.

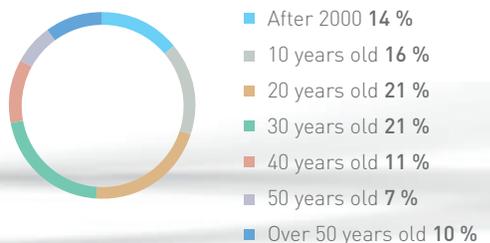
### Water network pipe material



### Age of water network



### Age of sewerage network



## Laboratories Report

At the end of 2001 the Estonian Accreditation Centre awarded the internationally recognised ISO 17025 certificate to the water and wastewater laboratories of AS Tallinna Vesi.

The international recognition certifies that the laboratories are competent to make chemical and microbiological analyses of ground, surface, drinking and waste water and the laboratory services offered by them are of the highest quality.

AS Tallinna Vesi laboratories use very modern lab equipment like gas and liquid chromatographs, automatic analysators and spectrophotometers. We are especially proud of the inductively connected plasma mass-spectrophotometer, which is unique in Estonia and enables to determine the content of practically all metals in water already in microgram quantities ( $10^{-6}$  g/l).

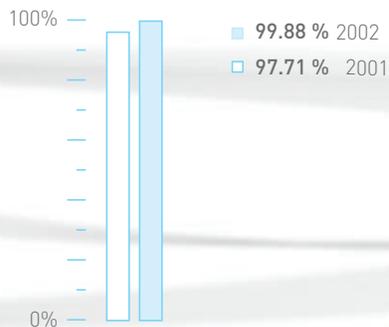
One of the requirements the laboratories of AS Tallinna Vesi have to meet is participation in international reference tests carried out by the laboratories of different countries in order to assess the accuracy of methods of analysis. It is also a good opportunity for such laboratories to have an independent evaluation of their competence to prove to their customers, as well as to other parties concerned, that their work is of a high quality. The laboratories of AS Tallinna Vesi have set a goal to participate, at least once a year, in all the competence tests of analysis methods. In reality, the laboratories participate with most of the samples several times a year in the above-mentioned tests, and all of the results have been very successful.

### Water laboratory

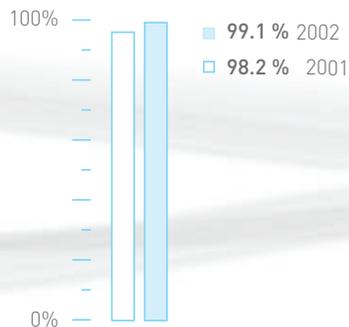
The Minister of Social Affairs Decree No. 82, adopted on July 31 2001, on "Drinking water quality and control requirements and analysis methods" changed the control requirements of the quality of drinking water on June 1, 2002. The new Regulation has several stricter parameters. Following this Regulation "The Control Plan of Drinking Water Control Plan from June 2002 to June 2005" has been reviewed and agreed with Harju County Tallinn Health Protection Office. This plan includes separate sections related to quality control in the Water Treatment Plant, the ground water system and within the city's water network. AS Tallinna Vesi been operating according to this plan. The accredited water laboratory makes all the water analyses on behalf of Harju County.

**As the following table reveals the quality of drinking water increased in 2002 compared with the year 2001.**

**Compliance percentage of microbiological samples**



**Compliance percentage of all samples**





The water laboratory of AS Tallinna Vesi takes quality samples from surface water, inlet channels into Lake Ülemiste, the lake itself, different stages of the water treatment process, purified drinking water, groundwater wells, pumping stations and the supply network.

During the year AS Tallinna Vesi took regular samples of water on network twice a month in 105 pre-determined sites in the city.

**Wastewater laboratory**

In the year 2002 AS Tallinna Vesi carried out all required tests and analyses according to established regulations and water use authorisation.

The wastewater laboratory of AS Tallinna Vesi makes analyses on the whole wastewater treatment process starting from the wastewater entering the Paljassaare Main Pumping Station to the

treated wastewater directed out to the sea, as well as the excess sludge and treatment products.

The wastewater laboratory also analyses the wastewater samples taken by the Wastewater Inspectorate from the city sewerage network and industrial enterprises.

In comparison with the results of analyses made by the wastewater laboratory it is obvious that since 1999 progress has been made in reducing the amount of phosphorus and suspended solids in the wastewater. The analyses show that the main challenge for the company is to continuously reduce the concentration of nitrogen.

The main reason for the high concentration of nitrogen, which was more than 25 percent higher than in 1999, was the exceptionally dry summer of 2002. However, at the same time the treatment efficiency of the Plant was substantially better than in 1999.

**Overview of samples taken and tests made by laboratories of AS Tallinna Vesi**

2002	Samples	Tests
Wastewater laboratory	9.102	70.612
Water laboratory	43.373	84.162
Microbiology laboratory	5.561	8.050
Hydrobiology laboratory	1.175	1.878
<b>Total:</b>	<b>59.211</b>	<b>164.702</b>

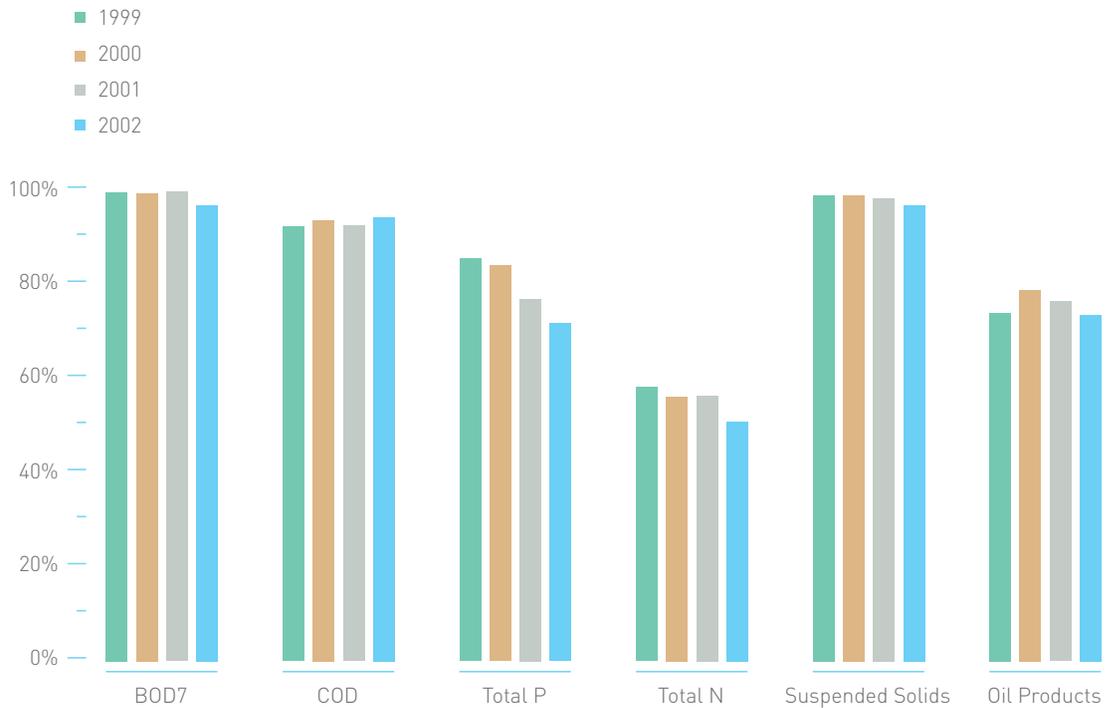
## Quality of Purified Water in 2002

Characteristics	Unit	Max	Min	Average	MSA Regulation	EU Directive
					No. 82*	98/83/EC
Temperature	° C	24,4	1	10		
Odour	point	1	1	1	Acceptable customer	Acceptable customer
Taste	point	1	1	1	Acceptable customer	Acceptable customer
Colour	Pt mg/l	8	1	3	Acceptable customer	Acceptable customer
Turbidity	NTU	0,63	0,09	0,24	1	1
pH		7,42	6,73	6,97	6,5 - 9,5	6,5 - 9,5
Permanganate acidification (COD <sub>Mn</sub> )	O <sub>2</sub> mg/l	4,1	1,5	2,93	5	5
General organic carbon	mg/l	7,7	5	6,3	No unusual changes	No unusual changes
Chloroform (THM)	mg/l	71	6	16,9	100	100
Aluminium, Al <sup>3+</sup>	mg/l	190	60	118	200	200
Iron Fe	mg/l	0	0	0	200	200
Coliform bacteria	bact./100 ml	0	0	0	0	0
Escherichia coli	bact./100 ml	0	0	0	0	0
Clostridium perfringens	bact./100 ml	0	0	0	0	0
General content of alkali	mg-equiv/l	3,34	1,62	2,40		
Dry residue	mg/l	322	229	268		
General hardness	mg-equiv/l	5,09	3,37	4,02		
Chlorides	mg/l	27,6	11,0	13,5	250	
Ammonium	mg/l	0,017	0,003	0,007	0,5	
PAH (polyaromatic hydrocarbons)	mg/l	< 0,001	< 0,001	< 0,001	0,1	
Pesticides	mg/l	< 0,001	< 0,001	< 0,001	0,1	
Arsenic	mg/l	0,85	0,22	0,45	10	
Cadmium	mg/l	0,15	< 0,09	< 0,09	5,0	
Lead	mg/l	1,70	0,046	0,275	10	
Mercury	mg/l	0,05	< 0,02	< 0,02	1,0	

\* - Minister of Social Affairs Decree No. 82 adopted on 31 July 2001 "Drinking water quality and control requirements and analysis method".

### Wastewater Treatment Efficiency 1999-2002

	1999	2000	2001	2002
BOD7	95,1%	97,9%	97,6%	97,8%
COD	92,6%	90,8%	91,9%	90,6%
Total P	70,4%	75,5%	82,5%	83,9%
Total N	49,9%	55,3%	55,2%	57,1%
Suspended Solids	95,1%	96,5%	97,1%	97,1%
Oil Products	72,2%	75,0%	77,4%	72,6%







“ Flexibility and dedication are the two words that characterise the trends we are following „



## Customer Service Report

AS Tallinna Vesi Customer Service is focused on meeting the requirements of the Service Agreement, as well as, to live up to the expectations of our customers.

The real measure of the quality of our customer service is the satisfaction of all customers who communicate with the company on a daily basis. These are the main principles upon which the 2002 Customer Service Action Plan was developed.

### **Flexibility and dedication**

These are the two words, which characterise best the trends we have followed in customer services in 2002. The development of the Customer Service Contact Centre, which was formed a year ago with the aim of managing all the written and oral contacts with our customers, has continued. However, the mere managing of contacts is not as important as reacting to problems as promptly and competently as possible. Therefore the consistent and reliable handling of customers requests and an analysis of their needs has been initiated in order to develop a customer service which fully meet our customers expectations.

### **Longer opening hours at the Call Centre**

One of these important changes includes the extension of the opening hours at the call centre by two hours i.e. up to 7 p.m. This allows customers to contact the customer service after normal working hours, at a time more convenient for them.

### **Meter readings phone line open 24-hours a day**

In order to make daily communications more effective for our customers, a special 24-hour phone line has been implemented where customers can leave the reading of their water meters at any time and on any day of the week.

### **New phone system**

An innovative phone system has been put in place to enable a better response to incoming calls, to answer them more effectively and, in cases where a call happens to be disrupted, to immediately return the call.

### **Correspondence with customers**

A good example to characterise developments in this area is the length of time taken in answering customers requests. The company is obligated to answer customers claims within 10 days according to the Services Agreement. In reality, however, all written requests and claims are processed much faster, on an average basis of within 3 days.

### **Unified procedure for settling private customers accounts**

At the end of 2002 the company introduced a unified procedure for settling private customers accounts to ensure a quicker and better service. The new arrangement means that the payment books, which had been in use up until then became invalid. Now, instead of having to come to the premises of AS Tallinna Vesi to pay for the water bill a customer may notify the company of

the water meter reading either by phone, fax or e-mail on the date set in the contract. The bill will be sent accordingly. Customers can still pay for water and sewerage services at post offices and the cost of this service will be paid by AS Tallinna Vesi.

#### **Closer co-operation within the company**

During the reorganisation of the company customer services procedures were also rearranged. All customer contacts were centralised under the Customer Service Division, which has to find answers to all problems the customers may have.

Another important step towards the integration of the work of different units was the introduction of a Geographic Information System (GIS) to different working processes. The GIS gives a precise overview of geodetic data related to our customers and facilitates the co-operation between the Customer Service, the Technical Service and the Networks Department in servicing our customers. The development of the GIS will continue and, in the longer perspective, we will have a precise overview of each customer's connections with the water and sewerage system; the amount of water carried away and its influence on the whole system. At the same time we will be able to assess the effect of water disruptions and sewerage blockages on customers, as well as the quality of water within the system, etc.

#### **Possibility for customers to connect to the public water supply and sewerage network**

In 2002 work on the construction of public water supply and sewerage pipelines was continued and resulted in over 700 households having the opportunity to connect to the public water supply and sewerage system.

AS Tallinna Vesi aim is to make the connection process as customer friendly as possible in that the customer only has to come a maximum of twice to the water company to settle the details concerned with their connection to the water and sewerage network.

In 2002 many residents of Tallinn took advantage of the opportunity to connect to the public water and sewerage network. No doubt one of the reasons for such a large number of connections was the decision of the Tallinn City Government to compensate 100 per cent of the connection fee to people in regions which had not previously been covered by the public water supply and sewerage networks.

In 2002, a total of 750 water supply and sewerage connection contracts, with compensation, and 620 ordinary supply and sewerage connection contracts were concluded.

#### **General Information:**

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- AS Tallinna Vesi provides water and sewerage services to about 406.000 persons in Tallinn
- The company has almost 17.000 contractual customers
  - More than 12.000 private persons
  - Over 4.500 legal entities

### **Good customer database provides precise answers**

In autumn 2002 a pilot project, "Customer Count", was started by Customer Services in co-operation with the Networks Department. During the project customers in buildings and constructions located in the industrial regions of Tallinn and the Old Town were visited. Over 2.000 buildings located in the industrial area and 800 houses situated in the Old Town were visited during the project.

#### **The main objectives of the project were:**

- To make corrections to the customer database and improve the quality of data
- To get feed-back from clients and establish personal contact
- To detect unauthorised use of water

During these visits several problems were addressed such as: whether the customer is connected to the water supply and/or sewerage network of AS Tallinna Vesi, whether the connection has been registered, how has the customer been paying the bills and whether the payments have been made based on correct tariffs. Customer contact data was also checked during these visits.

Both feed-back and results of the project have been positive in every way and, therefore, it will be continued in 2003 until all the main areas of Tallinn have been covered.



**Virginie Sarazin**

Customer Service Director / Member of the Management Board

### **Objectives for 2003**

#### **Customer administrator system**

In order to make the service more personal, the Customer Service Department is making preparations for introducing a system of customer administrators in 2003. The aim of such a system is to establish the procedure whereby, instead of having to deal with a variety of different persons, every customer will have one stable contact officer who resolves all of his/her problems in AS Tallinna Vesi.

#### **Customer friendly office**

The Customer Service is also planning to make rearrangements to its offices during 2003 in order to make customer access to services as comfortable and convenient as possible.

#### **Introduction of new software for billing**

In 2003 new software for settling accounts will be purchased and introduced. The new software for billing will ensure a modern, high quality and rapid service for customers such as services through the Internet, direct payment orders, etc.

## Corporate Activities

If we want to change a situation, we first have to change ourselves. And to change ourselves effectively, we first have to change our perceptions.

### **Organisational change**

The year 2002 brought along several changes in the corporate side of the business.

Our organisation has set its goals for the coming years,

which include efficient management, improved customer service, environmental-friendly production, better work conditions for our employees and business profitability. In order to reach all these goals, the organisation had to review its working procedures, measure efficiency and restructure units where needed.

The company carried out a thoroughly planned reorganisation program during the second half of the year.

The overall objective of the program was to improve the services provided to the customers, improve the company's efficiency, reduce duplications, increase level of automation as well as to offer rewarding jobs and satisfaction to our employees.

During the reorganisation process, approximately 150 employees left the company on mutual agreement. To provide support to these employees, we put in place and agreed with the Trade Union a comprehensive compensation package the aim of

which was to ensure that employees who left the company did so with a feeling that under the circumstances the company has dealt with them in a fair and supportive manner. The company also provided counselling and helped in finding jobs elsewhere. The new organisation structure will fully be implemented and working by the first half of the year 2003.

As a part of the reorganisation program, a new remuneration structure together with performance related pay was introduced.

During the reorganisation process we also carried out discussions on the values of our organisation and employees. In the course of our joint meetings across the company, we phrased what we value in our teams when we do our daily work, how we interact with our customers, what we expect from our colleagues and how we ourselves behave. A general moto was born in the joint discussions, which in translation from Estonian means "We care".

**We** value our colleagues  
**are committed to clients**  
**are competent and willing to make things happen**  
**keep our word and promises**  
**are innovative**  
**are team players**  
**take initiative**



Customer



Environment



Quality

#### A new corporate face

Since privatisation, the company has undergone a process of continuous change, primarily in internal working processes. Now it was time to reflect this change in the presentation our external image and adopting a new logo is part of this approach. It supports the company's internal development and drive for a more unified and effective organisation.

Thus, in 2002, AS Tallinna Vesi made preparations to adopt a new corporate logo. The launch preparations among other things included setting up new signs on all Tallinna Vesi buildings, adding new logos on all vehicles, replacing the company's stationary, business cards, work clothes, etc.



The new corporate logo was officially launched at the beginning of 2003.

AS Tallinna Vesi new logo is in unity with the logos of the other daughter companies of International Water UU. It depicts a blue wave motif, which symbolises moving water. Similarly, Tallinna Vesi in its activities is always in motion and aims at providing an even better service to our customers.

### **Company awarded with ISO 9001**

A major achievement in 2002 was the certification of the management system in the company to ISO 9001 quality management standards. AS Tallinna Vesi is the only water services company in Estonia to achieve this for all its services. This act demonstrates through an independent certification the commitment to quality being made by all our employees.

However, this is just one important milestone in our daily routine. By implementing the quality management system, we also take the responsibility to constantly monitor and improve the system. All possible nonconformities that may occur in the system will have our full attention and we will take all measures to rectify and prevent them.

### **Internal company events unify employees**

AS Tallinna Vesi believes that every employer should think of how to provide the employees with a possibility to relax after a busy workday and promote healthy lifestyle. Therefore, annual summer and winter days for our employees have become a good tradition of the company where people come to relax with their colleagues and families. We also continued with the monthly sports competitions between the company's departments including swimming, volleyball, basketball, relay running,

skiing and other sports. In addition, the employees also have the opportunity to play sports in the company's own facilities.

### **Sponsorship program supports sports and education**

Among other sports events, AS Tallinna Vesi encourages its employees' participation in Ülemiste Running Race, which has been the key sponsorship object for the company for the past 6 years. In 2002, when Ülemiste Race celebrated its 30<sup>th</sup> anniversary, the run had the greatest number of participants of all times. We are also proud that Pavel Loskutov, the silver medal winner from the European Champions in long-distance running took part in the run and set the new record for Ülemiste Race.

The company also continued supporting Tallinn Ice-hockey Championship. Under the agreement, the championships held were named "Tallinna Vesi Cup".

In 2002, Tallinna Vesi and British Embassy jointly funded the Queens Jubilee Scholarship, which was aimed at graduate students and young professionals of proven academic ability who have the potential to become leaders, decision makers and opinion formers in Estonia. After a series of interviews and long consideration of all applicants, Maria



Mälksoo was selected and awarded the scholarship. She started a one-year MA program in international relations in Cambridge University.

For several years, AS Tallinna Vesi has been in close co-operation with Ristiku School, an educational establishment for children with special needs. This year, AS Tallinna Vesi provided the children with different sports equipment, helped to organise a summer camp, and awarded the best pupils a ticket to Eurovision's rehearsal concert.

**The Ülemiste Water Treatment Plant celebrates 75<sup>th</sup> anniversary**

The year 2002 was noteworthy also from a historical aspect for AS Tallinna Vesi. Namely,

the Ülemiste Water Treatment Plant celebrated its 75<sup>th</sup> anniversary. In 1924, the Ülemiste Water Treatment Plant designing and construction contract was signed with the English company W. Paterson Engineering Co. Ltd. After 3 years of work, the plant was opened on November 29<sup>th</sup> in 1927 and has been providing the people of Tallinn with water ever since.

In honour of the day, AS Tallinna Vesi organised an Open Door Day for the people of Tallinn to visit the Ülemiste Water Treatment Plant and get an overview where and how drinking water is produced before reaches their taps.



# Always driving for better

Our goal is to make the life of our customers  
richer by taking care of the constant flow  
of pure water

“ Due to improved efficiency  
we outperformed our financial targets ”



## Financial report

The year 2002 was very successful for the company both in operational and financial terms. Once again we outperformed our financial targets. The company's improved financial performance has mainly been achieved by further increases in efficiency in all business areas of the company coupled with strong treasury management. Additional efforts have also been put into the strengthening of our procurement function and procedures. This is an ongoing process, which is yielding positive results. It is noteworthy that we managed the excellent results despite a background of lower than anticipated revenue from main service charges.

As a result, the company's operating profit increased by 5% to 174,6 million kroons and net profit increased by 1% to 169,5 million kroons compared to 2001. Total assets of the company have decreased from 2,4 billion kroons to 2,3 billion kroons following the capital restructuring in 2002.

One of the highlights of the year was the signing of the loan agreement with European Bank of Reconstruction and Development (EBRD). After extensive negotiations the agreement was finalised and signed in November 2002. The first phase of

the capital restructuring of the Company was commenced in late December and is aimed to be completed during 2003.

Water consumption has annually been decreasing over the last 10 years. To offset the general downward trend in main services consumption volumes we started the census of our overall customer base in 2002. The main objectives of the project were to gather information on whether the client is legally connected to the public network and whether the payments have been made according to the correct tariffs mainly in industrial areas of Tallinn and in the Old Town. The results of the project provided a thorough overview of the situation and, therefore, the project will be continued in 2003 until main areas of Tallinn have been covered. We have also continued to look for opportunities to extend our service area.

Looking forward to 2003 we anticipate continued strong operational and financial performance and we are confident that all financial targets remain fully achievable.



**David Ordman**

Chief Commercial Officer / Member of the Management Board



## Management Declaration

The Management Board has prepared the management report and the annual accounts on 28 February 2003.

The Supervisory Council of AS Tallinna Vesi has reviewed the annual report, prepared by the Management Board, consisting of the management report, the annual accounts and the notes to the annual accounts, the Board's proposal for profit distribution and the independent auditors' report, and has approved the annual report for presentation on the Shareholder's General Meeting.

The annual report has been signed by all the members of the Management Board and Supervisory Council.

Name	Position	Signature
Robert John Gallienne	Chairman of the Board	
Roch Jean Guy Antoine Ch�eroux	Member of the Board	
Virginie Sarazin	Member of the Board	
David Andrew Ordman	Member of the Board	
Patrick Raymond Jeantet	Head of the Supervisory Board	
Leslie Anthony Bell	Member of the Supervisory Board	
David Kilgour	Member of the Supervisory Board	
Robert Pierce	Member of the Supervisory Board	
Toivo Tootsen	Member of the Supervisory Board	
Igor Gr�zin	Member of the Supervisory Board	
Vladimir Panov	Member of the Supervisory Board	

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**Deloitte  
& Touche**

## INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Tallinna Vesi:

We have audited the annual accounts of AS Tallinna Vesi (hereinafter "the Company") for the year ended 31 December 2002. These annual accounts are the responsibility of the Company's Management Board. Our responsibility is to express an opinion on these annual accounts based on our audit.

We conducted our audit in accordance with Estonian Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the annual accounts. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the annual accounts present fairly, in all material respects, the financial position of the Company as at 31 December 2002, and the results of its operations for the year then ended, in accordance with Estonian Accounting Law.



Sander Kallasmaa  
Certified Auditor  
28 February 2003



AS Deloitte & Touche Audit

**Deloitte  
Touche  
Tohmatsu**

## ○ Balance sheet at 31 December 2002 and 2001

ASSETS	Note	2002	EEK 2001
<b>CURRENT ASSETS</b>			
<b>Cash at bank and in hand</b>		<b>185 304 929</b>	<b>321 842 006</b>
<b>Securities</b>	2	<b>0</b>	<b>5 823 196</b>
<b>Customer receivables</b>			
Accounts receivable		101 256 095	78 574 010
Allowance for doubtful debts	25	-14 782 717	-6 485 251
<b>Total</b>		<b>86 473 378</b>	<b>72 088 759</b>
<b>Other receivables</b>			
Receivables from parent company	19	0	219 976
Receivables from subsidiary company	19	3 971 584	3 903 033
Other receivables		111 599	1 615 548
<b>Total</b>		<b>4 083 183</b>	<b>5 738 557</b>
<b>Accrued income</b>			
Interest		0	2 897 768
Other accrued income		106 428	20 472
<b>Total</b>		<b>106 428</b>	<b>2 918 240</b>
<b>Prepaid expenses</b>			
Prepaid taxes	9	9 571	3 238
Other prepaid expenses		21 706 828	2 255 903
<b>Total</b>		<b>21 716 399</b>	<b>2 259 141</b>
<b>Inventories</b>			
Raw materials		7 271 537	7 857 497
Goods for resale		4 630 902	169 903
Prepayments to suppliers		57 931	109 324
<b>Total</b>		<b>11 960 370</b>	<b>8 136 724</b>
<b>TOTAL CURRENT ASSETS</b>		<b>309 644 687</b>	<b>418 806 623</b>

## ○ Balance sheet at 31 December 2002 and 2001

	Note	2002	EEK 2001
<b>NON-CURRENT ASSETS</b>			
<b>Long-term financial investments</b>			
Shares of subsidiary companies	3	4 996 459	4 764 249
Shares of associated companies	4	8 504 478	7 837 613
Other shares	5	1 200 000	1 200 000
Other long-term receivables		2 070	7 727
<b>Total</b>		<b>14 703 007</b>	<b>13 809 589</b>
<b>Fixed assets</b>			
	7		
Land and buildings (at cost value)		314 451 668	311 166 341
Facilities (at cost value)		1 819 172 099	1 705 348 581
Machinery and equipment (at cost value)		441 343 372	410 101 309
Other equipment and fixtures (at cost value)		14 538 774	14 382 626
Accumulated depreciation		-811 622 949	-756 925 437
Uninstalled equipment		3 040 706	3 890 590
Construction in progress		51 168 427	88 061 789
Unfinished pipelines - new connections		99 254 447	126 383 777
Prepayments for fixed assets		18 934 318	19 468 231
<b>Total</b>		<b>1 950 280 862</b>	<b>1 921 877 807</b>
<b>Intangible assets</b>			
	7		
Development costs	15	2 946 799	2 978 085
Acquired software and licenses		8 879 163	3 902 955
<b>Total</b>		<b>11 825 962</b>	<b>6 881 040</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1 976 809 831</b>	<b>1 942 568 436</b>
<b>TOTAL ASSETS</b>		<b>2 286 454 518</b>	<b>2 361 375 059</b>
<b>LIABILITIES AND EQUITY CAPITAL</b>			
	Note	2002	2001
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
<b>Debt obligations</b>			
Unsecured debt	8, 12	3 007 468	2 985 403
Current portion of long-term debt	12	76 003 554	108 326 077
<b>Total</b>		<b>79 011 022</b>	<b>111 311 480</b>
<b>Customer advances for goods and services</b>		<b>269 552</b>	<b>229 082</b>
<b>Supplier payables</b>			
Accounts payable		<b>46 867 239</b>	<b>77 331 472</b>

## ○ Balance sheet at 31 December 2002 and 2001

			EEK
<b>Other payables</b>			
Payables to parent company	19	42 682 679	16 177 925
Payables to subsidiary company	19	34 220	61 360
Payables to associated company	19	412 109	941 626
Payables to minority shareholder for shares	19	71 737 547	0
<b>Total</b>		<b>114 866 555</b>	<b>17 180 911</b>
<b>Taxes payable</b>	9	<b>18 387 954</b>	<b>10 817 371</b>
<b>Accrued expenses</b>			
Payables to employees	11	8 725 043	4 606 668
Interest payable		2 429 313	748 789
Other accrued expenses		45 159	27 098
<b>Total</b>		<b>11 199 515</b>	<b>5 382 555</b>
<b>Short-term provisions</b>		<b>1 707 519</b>	<b>0</b>
<b>Other unearned income</b>		<b>25 850 957</b>	<b>25 060 577</b>
<b>Total current liabilities</b>		<b>298 160 313</b>	<b>247 313 448</b>
	<b>Note</b>	<b>2002</b>	<b>2001</b>
<b>Non-current liabilities</b>			
<b>Long-term debt obligations</b>			
Non-convertible debt obligation	8, 12	5 587 018	4 961 354
Bank loans	12	1 129 864 611	305 090 709
<b>Total</b>		<b>1 135 451 629</b>	<b>310 052 063</b>
<b>Other long-term payables</b>			
Payables to suppliers	13	11 254 947	26 785 834
<b>Total non-current liabilities</b>		<b>1 146 706 576</b>	<b>336 837 897</b>
<b>TOTAL LIABILITIES</b>		<b>1 444 866 889</b>	<b>584 151 345</b>
<b>EQUITY CAPITAL</b>			
<b>Share capital</b>	6	<b>200 001 000</b>	<b>1 150 001 000</b>
<b>Share premium</b>		<b>387 000 000</b>	<b>387 000 000</b>
<b>Reserves</b>			
Statutory legal reserve		93 394 233	85 000 100
<b>Accumulated loss</b>	6	<b>-8 358 668</b>	<b>-12 660 045</b>
<b>Net profit for the financial year</b>		<b>169 551 064</b>	<b>167 882 659</b>
<b>TOTAL EQUITY CAPITAL</b>		<b>841 587 629</b>	<b>1 777 223 714</b>
<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>		<b>2 286 454 518</b>	<b>2 361 375 059</b>

## Income statement for the years 2002 and 2001

	Note	2002	EEK 2001
Net sales	14	509 912 740	423 084 434
Cost of goods sold		272 182 251	216 883 750
<b>GROSS PROFIT</b>		<b>237 730 489</b>	<b>206 200 684</b>
Marketing expenses		6 601 753	4 945 737
General administration expenses		39 709 667	32 841 502
Other income		1 022 626	2 432 375
Other expenses		17 821 592	4 795 395
<b>OPERATING PROFIT</b>		<b>174 620 103</b>	<b>166 050 425</b>
<b>Financial income</b>			
Financial income from subsidiary company	3	232 210	321 898
Financial income from associated company	4	666 865	572 111
Foreign exchange income		63	1 635
Other interest and financial income		8 900 577	28 163 411
<b>Total financial income</b>		<b>9 799 715</b>	<b>29 059 055</b>
<b>Financial expenses</b>			
Foreign exchange loss		135 938	242 997
Interest expense		13 241 668	26 166 121
Other financial expenses		1 491 148	817 703
<b>Total financial expenses</b>		<b>14 868 754</b>	<b>27 226 821</b>
<b>NET PROFIT FOR THE FINANCIAL YEAR</b>		<b>169 551 064</b>	<b>167 882 659</b>

## ○ Cash flow statement for the years 2002 and 2001

	Note	2002	EEK 2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net profit for the financial year		169 551 064	167 882 659
Adjustment for depreciation	7	69 315 746	65 217 749
Adjustment for income and expenses from constructions	22	-9 310 863	-3 841
Adjustment for shares and interest income and expenses		3 458 076	-2 891 299
Profit from sale of privatization vouchers (EVP)	2	0	-6 151 020
Income from sale of fixed assets		-21 034	-1 271 922
Write off of fixed assets		4 712 924	208 052
Capitalization of operating expenses	23, 24	-37 614 753	-62 676 763
Change in current assets involved in operating activities		-2 910 791	-1 601 840
Change in liabilities involved in operating activities		-1 989 184	14 992 451
Interest paid	23, 24	-20 310 859	-34 008 362
<b>Total cash flow from operating activities</b>		<b>174 880 326</b>	<b>139 695 864</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of long-term stock	5	0	-1 200 000
Sale of EVP	2	0	14 636 483
Acquisition of fixed assets	23, 24	-112 043 752	-82 643 256
Payment of pipeline financed by construction income	22	-64 379 786	-80 440 050
Proceeds from pipeline financed by construction income	22	51 440 928	29 454 142
Repayments of loans to third parties		18 752	3 015 723
Proceeds from sale of fixed assets		167 026	1 911 016
Interest received		11 798 345	25 265 835
<b>Total cash flow from investing activities</b>		<b>-112 998 487</b>	<b>-90 000 107</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Financed privatization costs		0	-40 000
Decrease/increase in share capital	6	-837 916 523	687 000 000
Repayment of short-term loans		0	-104 981 774
Taken up long-term loans	12	1 110 863 723	0
Repayment of long-term loans	12	-318 412 344	-108 323 800
Finance lease payments	8	-3 573 759	-2 622 137
Dividends paid		-131 828 481	-182 154 463
Dividends income tax		-23 358 668	-12 620 045
<b>Total cash flow from financing activities</b>		<b>-204 226 052</b>	<b>276 257 781</b>
<b>Change in cash and bank accounts</b>		<b>-142 344 213</b>	<b>325 953 538</b>
<b>CASH AND EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		<b>327 649 142</b>	<b>1 695 604</b>
<b>CASH AND EQUIVALENTS AT THE END OF THE YEAR</b>	<b>20</b>	<b>185 304 929</b>	<b>327 649 142</b>

## Statement of changes in equity for the years ended 31 December 2002 and 2001

	Share capital	Share premium	Statutory legal reserve	Investment reserve	Accumulated loss	Net profit	EEK Total equity
<b>31 December 2000</b>	<b>850 001 000</b>	<b>0</b>	<b>85 000 000</b>	<b>159 202 115</b>	<b>-1 106 232</b>	<b>24 058 680</b>	<b>1 117 155 563</b>
Transfer of financial year profit to the accumulated loss	0	0	0	0	1 106 232	-1 106 232	0
Increase of reserves	0	0	100	-100	0	0	0
Dividend income tax	0	0	0	0	-12 620 045		-12 620 045
Expenses relating to issuance of shares	0	0	0	0	-40 000	0	-40 000
Share subscription	300 000 000	387 000 000	0	0	0	0	687 000 000
Announced dividends	0	0	0	-159 202 015	0	-22 952 448	-182 154 463
Net profit of the financial year	0	0	0	0	0	167 882 659	167 882 659
<b>31 December 2001</b>	<b>1 150 001 000</b>	<b>387 000 000</b>	<b>85 000 100</b>	<b>0</b>	<b>-12 660 045</b>	<b>167 882 659</b>	<b>1 777 223 714</b>
Transfer of financial year profit to the accumulated loss	0	0	0	0	167 882 659	-167 882 659	0
Increase of reserves	0	0	8 394 133	0	-8 394 133	0	0
Announced dividends	0	0	0	0	-131 828 481	0	-131 828 481
Dividend income tax	0	0	0	0	-23 358 668	0	-23 358 668
Reduction of shares	-950 000 000	0	0	0	0	0	-950 000 000
Net profit of the financial year	0	0	0	0	0	169 551 064	169 551 064
<b>31 December 2002</b>	<b>200 001 000</b>	<b>387 000 000</b>	<b>93 394 233</b>	<b>0</b>	<b>-8 358 668</b>	<b>169 551 064</b>	<b>841 587 629</b>

## NOTE 1. ACCOUNTING PRINCIPLES

Annual accounts for the year 2002 have been prepared according to Generally Accepted Accounting Principles. The requirements of such Generally Accepted Accounting Principles are stipulated in the Estonian Accounting Law enforced at 1 January 1995, the decrees of The Government of the Estonian Republic and the Minister of Finance which are supplemented by instructions prepared by the Estonian Accounting Standards Board. The annual accounts are prepared in Estonian kroons (EEK) if not otherwise indicated. The main accounting principles applied in the preparation of the financial statements are detailed below.

### Foreign currency transactions

Foreign currency transactions are recorded on the basis of the foreign currency exchange rates of the Bank of Estonia at the date of the transaction. Assets and liabilities recorded in foreign currencies in the financial statements have been converted into Estonian kroons based on foreign currency exchange rates valid at 31 December 2002.

### Cash and cash equivalents

Cash and cash equivalents within the Cash Flow Statement comprises of cash held on premises, cash in bank accounts, bills and short-term bank deposits convertible into cash within a 3 month period without penalty.

### Receivables

Receivables are recorded on the Balance Sheet based on the estimated collectible amount. Account receivables that are considered to be doubtful, are expensed during the financial year and a respective reserve on the Balance Sheet is recorded. Receivables which cannot be collected or the collection can be considered to be economically not justified, are evaluated to be non-collectible and written-off from the

Balance Sheet. Account receivables from previous periods that were recorded as doubtful, but that were received during the year, are recorded on the same expense account as a reversing entry.

### Short-term financial investments

Short-term financial investments are recorded on the Balance Sheet at the lower of acquisition cost or net realisation value, and any change in value of short-term investments is recorded as financial income or loss within the Income Statement.

The balance of securities has been determined according to FIFO method.

### Long-term financial investments

Shares of associates, subsidiaries and other securities acquired for periods greater than one year are recorded as long-term financial investments. Investments in associated companies and subsidiaries are accounted using equity method. Equity method includes adjusting the investment balance with the income from the investment in amount of the Company's share of the subsidiary's profit or loss for the year and with received dividends. Under complete equity method unearned profit and loss from the transactions between the parent company and subsidiaries are also accounted for.

Negative goodwill is calculated as the difference in residual value and expert valuation of fixed assets accounted as a non-monetary contribution into a subsidiary company. Negative goodwill is depreciated over the useful lifetime of the asset.

### **Accounting for inventories**

Inventories are recorded on the Balance Sheet at the lower of acquisition price or net realisable value. The acquisition cost of inventories is determined by using weighted average of acquisition cost method. Any inventories received at nil cost are recorded at zero value.

### **Tangible and intangible fixed assets**

Assets with useful life greater than one year and with a minimum value of 2 000 EEK are capitalised as fixed assets.

Fixed assets are recorded at acquisition cost, which comprises of purchase price, non-recoverable taxes and other directly related costs of taking the fixed asset object into operation including internal labour costs. Capitalisation of internal labour costs is based on hours worked on the acquisition of asset. In addition to salary costs the employees transportation, communication, work space and other costs are included to be capitalized in the same proportion as the salary costs.

The interest cost of company debt during the acquisition period of any fixed assets is capitalized during the construction process, incl. unfinished pipelines – new connections, calculated as the proportion of the amount of construction in progress compared to the balance of the corresponding debt.

Unfinished pipelines – new connections include costs of acquiring water or sewerage pipelines. After completion of construction and the concluding of connection contracts with customers the costs related to the acquisition of these pipelines are recorded within costs of goods sold to ensure the correct matching of revenues and expenses in the same accounting period.

If the construction works of new connections is not compensated by the property owner and takes place in a different accounting period from the connection contract completion

date, then the the revenue and costs are booked in the accounting period when compensation confirmation is received. Remaining expenses relating to the construction, that are not directly compensated to the company, are recorded within the Balance Sheet as "Facilities" within fixed assets.

If the anticipated realisable value of a fixed asset is consistently lower than the residual value, the asset is written down to the lower amount.

Depreciation is calculated on a straight-line method. The depreciation rate of each fixed asset is based on the fixed asset's useful life, based on the following rates:

buildings 1,25-2,0 % per annum;

facilities 1,0-8,33 % per annum;

machinery and equipment 3,33-50 % per annum;

instruments, facilities etc. 10-20 % per annum;

intangible assets 20 % per annum.

In exceptional circumstances rates may differ from the above rates if it is evident that the useful lifetime of the asset varies materially from the rate assigned to the respective category.

Uninstalled equipment, prepayments for fixed assets and construction-in-process are recorded as fixed assets and are not depreciated.

Improvements to fixed assets are capitalised if the properties of that asset are improved substantially or if as a result of the improvement the useful lifespan of the asset will be extended, or if it forseen that additional future revenues will result from the asset. Maintenance and repair works are expensed in the period incurred.

Costs of development projects which are likely to earn future revenues and the acquisition costs of computer software are capitalised as intangible assets on the Balance Sheet to be depreciated on a straight-line basis over 5 years. If the software is necessary to take computer hardware into use, the acquisition cost of such software is capitalised in the acquisition cost of the hardware and depreciated according to the useful life of the hardware.

### **Liabilities**

All known liabilities and provisions are recorded on the Balance Sheet if their value can be estimated fairly and they are considered to be genuine. Liabilities with payment terms greater than one year after the balance sheet date are considered to be long-term liabilities. Contingent liabilities, guarantees and warranties are disclosed as off-balance sheet items.

### **Holiday reserve**

Holiday payment costs are recorded in the period the holiday is earned, i.e. when employee has the right to claim the holiday. Holiday payment earned or the change in the holiday payment is recorded on the Income Statement as an expense and on the Balance Sheet as a short-term liability.

### **Annual bonuses reserve**

Year 2000 annual bonus liability or reserve is calculated in accordance with the annual bonus allocation order implemented within the company during 2000. In accordance with this order 2/3 of the 2000 annual bonuses were disbursed during 2001 and the balance is recorded as a liability until payment at the beginning of 2003. In accordance with the Boards decision an annual bonus reserve was created during 2001 and 2002. Such payments require the approval of the Management Board.

The annual bonus liability is recorded as short-term liabilities within accruals on the Balance Sheet. Any difference between this provision and the actual payments is recorded within the salaries and wages and social tax expense accounts.

### **Provisions**

Legal or contractual liabilities, which are reasonably expected to result in costs that can be reliably measured at any point in the future, are accounted as provisions. The provisions are based on management estimates.

### **Revenues**

Sales revenue is recorded on an accrual basis based on the realisation principle. Net sales are comprised of the income received from the goods and services sold after deduction of sales discounts and taxes. Sales income from services is recorded in the period when the service has been provided. Interest income is recorded on the accrual basis.

### **Reserves**

Statutory legal reserve is recorded based on the requirements of the Commercial Code and comprises of the provisions made from net profits. The annual provision must be at least 5% of the approved net profit of the financial year until achieving the statutory legal reserve equal to 10% of paid-in capital.

### **Accounting for leases**

Lease transactions are accounted for as operating leases for all cases where both the following conditions are met:

the lessee can unilaterally terminate the lease agreement without making additional payments before the terms of the lease agreement are satisfied or the end of lease term;

ownership of the asset is not transferred during or at the end of the lease period to the lessee.

If the above mentioned conditions are not met, the transaction is recorded as finance lease. In terms of operating lease the lease payments are recorded during the period incurred i.e. the asset is not recorded as a fixed asset nor is depreciated.

Assets acquired under a finance lease and finance lease liabilities are recognised on the balance sheet of the lessee. If ownership is expected to be transferred to the lessee, depreciation is calculated in the usual manner. If the leased asset is to be returned to the lessor then the maximum depreciation period is equal to the lease term.

#### Subsequent events

There were no such significant factors between the balance sheet date at 31 December 2002 and the preparation date of the annual accounts at 28 February 2003 that in the opinion of management, would have a material impact on the disclosure of the assets, liabilities and equity capital of AS Tallinna Vesi.

#### Use of estimates

The preparation of the annual report according to Generally Accepted Accounting Principles includes estimates by the management board on the assets and liabilities of AS Tallinna Vesi as at balance sheet date, and on income earned and expenses covered during the financial year. These evaluations are based on the latest information about the state of AS Tallinna Vesi and considering the plans and risks as at the date of the annual report preparation. The final results of these economic transactions recorded may differ from those estimates.

## NOTE 2. SHARES AND SECURITIES

	Privatisation vouchers at Hansapank EEK	Privatisation vouchers at Ühispank EEK	SEB bonds EEK	SWEDBANK bonds EEK	Total EEK
<b>Book value as of 31 December 2000</b>	<b>8 485 463</b>	<b>16 060</b>	<b>0</b>	<b>0</b>	<b>8 501 523</b>
Purchased	0	0	5 807 136	14 824 948	20 632 084
Sold	-14 636 483	0	0	-15 000 000	-29 636 483
Income from sales	6 151 020	0	0	175 052	6 326 072
<b>Book value as of 31 December 2001</b>	<b>0</b>	<b>16 060</b>	<b>5 807 136</b>	<b>0</b>	<b>5 823 196</b>
Sold	0	0	-6 000 000	0	-6 000 000
Income from sales	0	0	192 864	0	192 864
Loss from liquidation	0	-16 060	0	0	-16 060
<b>Book value as of 31 December 2002</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

	Privatisation vouchers at Hansapank No	Privatisation vouchers at Ühispank No	SEB bonds No	SWEDBANK bonds No
<b>31 December 2000</b>	<b>25 329 738</b>	<b>47 940</b>	<b>0</b>	<b>0</b>
Purchased	0	0	600	1 500
Sold	-25 329 738	0	0	-1 500
<b>31 December 2001</b>	<b>0</b>	<b>47 940</b>	<b>600</b>	<b>0</b>
Write off	0	-47 940	0	0
Sold	0	0	-600	0
<b>31 December 2002</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

### NOTE 3. LONG-TERM INVESTMENT IN SUBSIDIARY

EEK

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<b>Book value of shares at 31 December 2000</b>	<b>4 442 351</b>
Income calculated using equity method	321 898

<b>Book value of shares at 31 December 2001</b>	<b>4 764 249</b>
Income calculated using equity method	232 210

<b>Book value of shares at 31 December 2002</b>	<b>4 996 459</b>
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#### Equity capital of subsidiary at 31 December 2002

Share capital	6 501 500
Reserves	48 000
Retained earnings	196 193
Net profit for the financial year	225 563

<b>Total equity capital</b>	<b>6 971 256</b>
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#### Equity %

<b>at 31 December 2001</b>	<b>100</b>
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<b>at 31 December 2002</b>	<b>100</b>
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#### AS Tallinna Vesi share in the equity capital of subsidiary

<b>at 31 December 2002</b>	<b>6 971 256</b>
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<b>Negative goodwill at 31 December 2000</b>	<b>-2 001 518</b>
Depreciation of goodwill 2001	20 074

<b>Negative goodwill at 31 December 2001</b>	<b>-1 981 444</b>
Depreciation of goodwill 2002	6 647

<b>Negative goodwill at 31 December 2002</b>	<b>-1 974 797</b>
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<b>Number of shares at 31 December 2000</b>	<b>650 150</b>
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<b>Number of shares at 31 December 2001</b>	<b>650 150</b>
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<b>Number of shares at 31 December 2002</b>	<b>650 150</b>
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**NOTE 4. LONG-TERM INVESTMENT IN ASSOCIATED COMPANY**

EEK

**AS Kemivesi**

<b>Book value of shares at 31 December 2000</b>	7 265 502
Income calculated using equity method	572 111
<b>Book value of shares at 31 December 2001</b>	<b>7 837 613</b>
Income calculated using equity method	666 865
<b>Book value of shares at 31 December 2002</b>	<b>8 504 478</b>

**Equity capital of subsidiary at 31 December 2002**

Share capital	15 562 500
Reserves	438 002
Retained earnings	7 571 274
Net profit for the financial year	2 005 610
<b>Total equity capital</b>	<b>25 577 386</b>

**Equity %**

<b>at 31 December 2001</b>	33,25%
<b>at 31 December 2002</b>	33,25%

**AS Tallinna Vesi share in the equity capital  
of associated company at 31 December 2002**

8 504 478

<b>Number of shares at 31 December 2000</b>	6 900
<b>Number of shares at 31 December 2001</b>	6 900
<b>Number of shares at 31 December 2002</b>	<b>6 900</b>

**NOTE 5. OTHER SHARES**

In 2001 AS Tallinna Vesi acquired 8 B - shares of AS Rocca al Mare Suurhall with nominal value of 10 kroons and in a total amount of 1 200 000 kroons, based on a contract signed between AS Tallinna Vesi and AS Rocca al Mare Suurhall during the financial year ended 31 December 2000.

## NOTE 6. SHARE CAPITAL AND ACCUMULATED LOSS

### Shares

At the end of the financial year the nominal value for the share capital is 200 001 000 (two hundred million one thousand) kroons, composed of 20 000 000 shares with nominal value of 10 kroons and one preferred share with nominal value of 1 000 kroons.

One B-share has been issued giving the right of veto to the shareholder when voting on the following issues: change in statute, increase and decrease of share capital, issuance of replacement bonds, termination of company activities, joining, sharing and rearrangements, acquisition of own shares, and on demand of management or supervisory board deciding the other related issues.

As of 31.12.2002 International Water UU (Tallinn) B.V. owns 10 086 957 AS Tallinna Vesi A-shares and Tallinn City 9 913 043 A-shares and 1 B-share.

The reduction of share capital was registered in September 2002. Share capital was reduced by 950 000 000 kroons and was partly paid to the investors. The unpaid amount as of 31.12.2002 was 71 737 547 kroons to Tallinn City Government and 40 345 930 kroons to International Water UU (Tallinn) B.V.

### Accumulated loss

At 31.12.2001 the distributable equity capital was 155 222 614 kroons, of which 8 394 133 kroons was transferred to the statutory legal reserve and 15 000 000 kroons retained as an investment reserve within the balance sheet. The balance of 131 828 481 kroons was distributed to shareholders. The income tax paid on dividends was 23 358 668 kroons.

The accumulated loss of 8 358 668 kroons is therefore the result of the 2001 profit distribution and taxation payments.

## NOTE 7. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS

Movement of tangible and intangible assets are as follows:

	Land and buildings	Facilities	Machinery and equipment	Other equipment	Uninstalled equipment
<b>Acquisition cost at</b>					
<b>31.12.2000</b>	<b>268 879 280</b>	<b>1 718 562 110</b>	<b>401 280 774</b>	<b>9 069 796</b>	<b>5 546 009</b>
Acquisition	0	770 290	3 248 273	3 328 491	4 267 002
Improvements	9 401 402	28 201 897	5 165 446	0	0
Sale of fixed assets	0	0	-7 862 017	0	0
Write-off of fixed assets	-623	-73 146	-820 397	-132 087	0
Reclassification within balance sheet	0	0	0	0	-406 899
Reclassification to expenses	0	0	0	0	-151 182
Expensed pipelines	0	0	0	0	0
Reclassification	32 886 282	-42 112 570	9 089 230	2 116 426	-5 364 340
<b>31.12.2001</b>	<b>311 166 341</b>	<b>1 705 348 581</b>	<b>410 101 309</b>	<b>14 382 626</b>	<b>3 890 590</b>
Acquisition	0	37 284	2 108 673	1 002 704	4 451 889
Improvements	6 664 359	72 673 298	11 679 810	63 205	0
Sale of fixed assets	0	0	-599 784	-5 000	0
Write-off of fixed assets	-171 325	-4 132 635	-8 868 085	-1 015 090	0
Reclassification within balance sheet	-4 911 015	-449 681	-30 776	0	-323 086
Reclassification to expenses	0	0	0	0	-6 314
Expensed pipelines	0	0	0	0	0
Reclassification	1 703 308	45 695 252	26 952 225	110 329	-4 972 373
<b>31.12.2002</b>	<b>314 451 668</b>	<b>1 819 172 099</b>	<b>441 343 372</b>	<b>14 538 774</b>	<b>3 040 706</b>
<b>Accumulated depreciation</b>					
<b>31.12.2000</b>	<b>42 293 489</b>	<b>488 241 142</b>	<b>169 705 267</b>	<b>5 490 922</b>	<b>0</b>
Depreciation	3 768 979	24 628 089	33 933 003	1 087 508	0
Depreciation of fixed assets sold and written-off (-)	-623	-73 146	-8 034 970	-117 160	0
Reclassification	-1 907 240	5 076 929	-9 733 560	2 566 808	0
<b>31.12.2001</b>	<b>44 154 605</b>	<b>517 873 014</b>	<b>185 869 740</b>	<b>9 028 078</b>	<b>0</b>
Depreciation	3 880 519	25 075 535	36 108 770	1 132 935	0
Depreciation of fixed assets sold and written-off (-)	-821 164	-2 598 864	-7 158 033	-922 186	0
Reclassification	-25 159	268 739	-243 580	0	0
<b>31.12.2002</b>	<b>47 188 801</b>	<b>540 618 424</b>	<b>214 576 897</b>	<b>9 238 827</b>	<b>0</b>
<b>Net book value</b>					
<b>31.12.2001</b>	<b>267 011 736</b>	<b>1 187 475 567</b>	<b>224 231 569</b>	<b>5 354 548</b>	<b>3 890 590</b>
<b>31.12.2002</b>	<b>267 262 867</b>	<b>1 278 553 675</b>	<b>226 766 475</b>	<b>5 299 947</b>	<b>3 040 706</b>

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

Construction in progress	Unfinished pipelines - new connections	Prepayment for fixed assets	Development costs	Acquired licenses and software	Total
<b>29 625 176</b>	<b>32 419 532</b>	<b>19 394 134</b>	<b>2 032 536</b>	<b>1 913 014</b>	<b>2 488 722 361</b>
106 055 596	98 712 163	4 258 135	533 941	416 358	221 590 249
-42 768 745	0	0	0	0	0
0	0	0	0	0	-7 862 017
0	0	0	0	0	-1 026 253
0	0	-41 670	0	0	-448 569
0	0	-33 592	0	0	-184 774
0	-8 859 105	0	0	0	-8 859 105
-4 850 238	4 111 187	-4 108 776	4 457 570	3 775 229	0
<b>88 061 789</b>	<b>126 383 777</b>	<b>19 468 231</b>	<b>7 024 047</b>	<b>6 104 601</b>	<b>2 691 931 892</b>
93 120 828	75 070 039	6 002 338	0	784 657	182 578 412
-91 892 182	0	0	811 510	0	0
0	0	0	0	0	-604 784
0	0	0	-133 400	-662 624	-14 983 159
-13 166	0	-533 993	0	0	-6 261 717
-11 984	-108 461	-271 949	0	0	-398 708
0	-69 962 592	0	0	0	-69 962 592
-38 096 858	-32 128 316	-5 730 309	498 952	5 967 790	0
<b>51 168 427</b>	<b>99 254 447</b>	<b>18 934 318</b>	<b>8 201 109</b>	<b>12 194 424</b>	<b>2 782 299 344</b>
<b>0</b>	<b>0</b>	<b>0</b>	<b>407 016</b>	<b>43 359</b>	<b>706 181 195</b>
0	0	0	1 258 823	541 347	65 217 749
0	0	0	0	0	-8 225 899
0	0	0	2 380 123	1 616 940	0
<b>0</b>	<b>0</b>	<b>0</b>	<b>4 045 962</b>	<b>2 201 646</b>	<b>763 173 045</b>
0	0	0	1 341 748	1 776 239	<b>69 315 746</b>
0	0	0	-133 400	-662 624	<b>-12 296 271</b>
0	0	0	0	0	<b>0</b>
<b>0</b>	<b>0</b>	<b>0</b>	<b>5 254 310</b>	<b>3 315 261</b>	<b>820 192 520</b>
<b>88 061 789</b>	<b>126 383 777</b>	<b>19 468 231</b>	<b>2 978 085</b>	<b>3 902 955</b>	<b>1 928 758 847</b>
<b>51 168 427</b>	<b>99 254 447</b>	<b>18 934 318</b>	<b>2 946 799</b>	<b>8 879 163</b>	<b>1 962 106 824</b>

**NOTE 8. FIXED ASSETS ACQUIRED UNDER FINANCE LEASE**
**EEK**

	<b>Machinery and equipment</b>
<b>Acquisition cost at 31 December 2001</b>	<b>16 213 484</b>
Acquisition of fixed assets	4 221 488
Terminated rental agreements	-1 090 800
<b>at 31 December 2002</b>	<b>19 344 172</b>
<b>Accumulated depreciation at 31 December 2001</b>	<b>4 479 869</b>
Depreciation	1 699 633
Depreciation of fixed assets of terminated rental	-1 071 769
<b>at 31 December 2002</b>	<b>5 107 733</b>
<b>Net book value at 31 December 2002</b>	<b>14 236 439</b>

**Finance lease liability**

<b>Balance at 31 December 2002</b>	<b>8 594 486</b>
Short-term portion	3 007 468
Long-term portion	5 587 018
Principal payments in the financial year	3 573 759
Interest expense in the financial year	569 347
Annual interest rate %	3.56-9.28

**NOTE 9. PREPAID TAXES AND TAXES PAYABLE**
**EEK**

	<b>31.12.2001 Prepayment</b>	<b>31.12.2001 Debt</b>	<b>2002 Account</b>	<b>2002 Paid</b>	<b>31.12.2002 Prepayment</b>	<b>31.12.2002 Debt</b>
Income tax on fringe benefits	0	97 657	623 246	582 104	0	138 799
Non-resident income tax	0	13 022	92 699	109 236	3 515	0
Land tax	3 238	0	523 209	526 027	6 056	0
Personal income tax	0	2 408 092	13 258 478	13 950 929	0	1 715 641
VAT	0	1 482 602	50 216 842	41 413 862	0	10 285 582
Water usage tax	0	2 527 477	10 124 445	9 998 560	0	2 653 362
Pollution taxes	0	617 713	2 625 232	2 679 031	0	563 914
Social security tax	0	3 671 006	19 650 652	20 438 939	0	2 882 719
Unemployment tax	0	0	838 130	720 780	0	117 350
Pension insurance	0	0	81 566	50 583	0	30 983
Maternity holiday from social security tax	0	-198	-3 578	-3 380	0	-396
<b>Total</b>	<b>3 238</b>	<b>10 817 371</b>	<b>98 030 921</b>	<b>90 466 671</b>	<b>9 571</b>	<b>18 387 954</b>

#### NOTE 10. POTENTIAL INCOME TAX ON DIVIDENDS

According to the Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to tax, instead the tax is due on dividend distribution. Pursuant to the Income Tax Act Section 50 effective since 1 January 2003 resident legal entities are liable to income tax on all dividends paid and other profit distribution irrespective of the recipient. The tax rate applicable is 26/74 on the amount of the dividends paid.

The potential tax liability that may occur if all distributable retained earnings should be paid out as dividends is not reported on the Balance Sheet. The income tax due on dividend distribution is recorded as tax cost of the month in the Income Statement when dividend is actually paid out.

The company's retained earnings that may be distributed as at 31 December 2002 amounted to 161 192 396 EEK. Consequently, the maximum possible tax liability which would become payable if retained earnings were fully distributed is 56 635 166 EEK.

Tax due on dividend distribution may be reduced by up to 26/74 calculated on dividends received from subsidiaries and associated companies.

#### NOTE 11. PAYABLES TO EMPLOYEES

EEK

	31.12.2002	31.12.2001
<b>Payables to employees</b>		
<b>at 31 December 2001 and 2002 were:</b>		
Salary accruals	2 611 948	0
Holiday payment liability	2 329 258	2 693 511
Other salary related liabilities, including annual bonus reserves	3 783 837	1 913 157
<b>Total</b>	<b>8 725 043</b>	<b>4 606 668</b>

**NOTE 12. SHORT-TERM AND LONG-TERM DEBT OBLIGATIONS**

EEK

The Company's long-term obligations are as follows:

Bank loans	Loan date	Loan received	Residual amount 31.12.2001	Residual amount 31.12.2002	Short-term portion	Long-term portion	Interest %	Maturity date
DePfa bank	04.1999	304 013 438	171 007 412	95 004 442	76 003 554	19 000 888	Euribor +3	04.2004
EBRD bank I	07.1995	355 530 969	242 409 374	0	0	0	Euribor +1	-
EBRD bank II	12.2002	1 110 863 723	0	1 110 863 723	0	1 110 863 723	Euribor+1,8	05.2015
<b>Total bank loans</b>		<b>1 770 408 130</b>	<b>413 416 786</b>	<b>1 205 868 165</b>	<b>76 003 554</b>	<b>1 129 864 611</b>		
<b>Finance lease</b>		<b>18 273 241</b>	<b>7 946 757</b>	<b>8 594 486</b>	<b>3 007 468</b>	<b>5 587 018</b>	3.56-9.28	06.2007
<b>Total long-term debt obligations</b>		<b>1 788 681 371</b>	<b>421 363 543</b>	<b>1 214 462 651</b>	<b>79 011 022</b>	<b>1 135 451 629</b>		

The amount not drawdown from EBRD bank II as of 31.12.2002 is 140 867 477 kroons, which is intended to draw-down during 2003.

Short-term portion of finance lease in the amount of 3 007 468 kroons is recorded on the Balance Sheet line "Unsecured debt".

Long-term portion of financial lease in the amount of 5 587 018 kroons is recorded on the Balance Sheet line "Nonconvertible debt obligation".

The underwriter of the loan from EBRD is indicated in the NOTE 18. The company has been acting in accordance with all significant requirements established in the loan agreements between the Company and Depfa Investments Bank and between the Company and EBRD and aforementioned creditors will not demand repayment of the whole loan balance in 2003.

**Name of the bank Repayments period**

DePfa bank	Quarterly repayments 19 000 888 kroons
EBRD bank II	The repayment starts from 2005

The repayments including the amount of EBRD bank II loan drawdown in 2003 during the following financial years are as follows:

	Less than 1 year	1-5 years	Over 5 years	Total	Repayments period
DePfa bank	76 003 554	19 000 888	0	95 004 442	5 years
EBRD bank II	0	402 279 314	849 451 886	1 251 731 200	10 years
<b>Total</b>	<b>76 003 554</b>	<b>421 280 202</b>	<b>849 451 886</b>	<b>1 346 735 642</b>	

**NOTE 13. OTHER LONG-TERM LIABILITIES**

EEK

Liabilities	Residual amount 31.12.2001	Residual amount 31.12.2002	Short-term portion	Long-term portion	Maturity date
Factorings	10 426 699	5 608 947	4 354 000	1 254 947	04.2004
Instalment payments of technical facilities	36 203 357	23 090 666	13 090 666	10 000 000	06.2004
<b>Total</b>	<b>46 630 056</b>	<b>28 699 613</b>	<b>17 444 666</b>	<b>11 254 947</b>	

The short-term portion of the factoring and the instalment payments for technical facilities in the amount 17 444 666 kroons is shown on the Balance Sheet line "Accounts payable".

**NOTE 14. NET SALES**

EEK

	2002	2001
<b>1. Revenues from main operating activities</b>		
Water supply service	201 245 187	196 265 003
Waste water disposal service	178 026 034	172 378 727
<b>Total revenue</b>	<b>379 271 221</b>	<b>368 643 730</b>
<b>2. Other revenue from main operating activities</b>		
Stormwater disposal service	42 682 404	34 713 560
Fire hydrants service	1 869 348	1 520 339
Water and sewerage network construction	79 273 455	8 862 946
Connection fee	303 720	2 684 971
Technical inspection services	354 656	729 710
Other work and services	311 138	376 843
Water and sewerage network repair and maintenance	684 389	1 716 959
Recalibration and installation of water meters	216 309	171 290
Technical inspections - TV-camera	80 821	485 196
Sale of soil	754 782	924 404
Disposal service	213 670	181 937
Connection, disconnection and transportation of water	558 132	413 463
Archiving services	0	134
Chemical analysis of water	120 868	26 727

Sale of material	252 584	336 029
Lease services	1 238 344	1 296 196
Services relating with rent of premises*	1 194 024	0
Design of customer connection pipelines	532 875	0
<b>Total</b>	<b>130 641 519</b>	<b>54 440 704</b>
<b>TOTAL NET SALES</b>	<b>509 912 740</b>	<b>423 084 434</b>

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

\* Sale of services relating with rent of premises in amount of 1 190 358 were recorded under other business revenues in year 2001 report.

#### NOTE 15. DEVELOPMENT COSTS

As of 31.12.2002 the development cost are recorded on balance sheet in residual value of 2 946 799 kroons. The design documents and development projects, which implementation will result in additional water or sewerage connection, revenue or reduction in costs in next years, are treated as

development costs. The development costs are depreciated over 5 years.

#### NOTE 16. LEASED ASSETS

EEK

Asset description	Operating lease expense 2002	Operating lease expense 2001	
Hewlett Packard and Siemens Finantsinvesteeringute AS	computers	1 820 404	1 661 205
Hansa Liising Eesti AS	vehicles	117 278	100 737
Balti Autoliisingu AS	vehicles	3 934 003	3 551 346
AS Nordea Finance Estonia	vehicles	55 192	0
AS Rentacar	vehicles	148 268	0
<b>Total operating lease expenses</b>	<b>6 075 145</b>	<b>5 313 288</b>	

Minimum operating lease payments are as follows:

Less than 1 year	4 454 412
1-5 year	1 424 382
<b>Total minimum lease payments</b>	<b>5 878 794</b>

**NOTE 17. OFF-BALANCE SHEET ASSETS**

EEK

	Value of assets 2002	Value of assets 2001
Fixed assets received free of charge *	158 987 892	158 987 892
Fixed assets with nil value *	479 088	0
Uncollectible receivables	11 484 905	11 399 378
Assets received free of charge	1 500 329	1 500 329
Other assets with nil value	18 706	0
<b>Total</b>	<b>172 470 920</b>	<b>171 887 599</b>

\* Value of assets represents value recorded at customs.

In addition the following assets were rented on 31 December 2002: 67 vehicles, 74 computers, 1 printer.

**NOTE 18. COLLATERAL OF LOANS  
AND PLEDGED ASSETS**

In connection with the loan contract concluded between the European Bank for Reconstruction and Development (hereafter EBRD) and AS Tallinna Vesi (hereafter the Company) on 8 November 2002, the following guarantee contracts were concluded, which concern the assets of the Company and/or the assets of shareholders of the Company:

**[a]** Account Pledge Agreement, which was concluded between EBRD, the Company, and AS Hansapank on 11 November 2002. All the open accounts and accounts to be opened in Hansapank have been pledged as security in favour of EBRD within the contract;

**[b]** Account Pledge Agreement, which was concluded between EBRD and the Company on 11 November 2002. All the open accounts and accounts to be opened in Nordea Bank have been pledged as security in favour of EBRD within the contract;

**[c]** Commercial Pledge Agreement, which was concluded between EBRD and the Company on 11 November 2002 in favour of EBRD in the amount of 1 877 592 000 kroons;

**[d]** Buildings Pledge Agreement, which was concluded between EBRD and the Company on 11 November 2002. All buildings and facilities at address Järvevana tee 3 which are in possession of the Company have been pledged in favour of EBRD within the contract;

**[e]** Insurance Pledge Agreement, which was concluded between EBRD and the Company on 11 November 2002. According to the contract, EBRD has been established as beneficiary in the Company's asset contracts, business interruption contracts, and liability insurance contracts.

## NOTE 19. RELATED PARTIES

Transactions with related parties are considered to be transactions with parent, subsidiary and associated companies, members of the Supervisory

Board and Management Board, their relatives and the companies in which they hold majority interest. Dividend payments are indicated in Statements of Changes in Equity.

The transactions with related parties and respective balances as of 31.12.2002 are recorded as follows:

EEK

	Subsidiary	Associated company		Parent company	Company in the International Water Group
	Vesimer Investeeringute AS	AS Kemivesi	Tallinn City Government and related boards	International Water UU (Tallinn) B.V.	International Water (Estonia) B.V.
<b>AS Tallina Vesi accounts receivable total</b>	<b>3 971 584</b>	<b>0</b>	<b>38 005 176</b>	<b>0</b>	<b>0</b>
Including:					
Customer receivables	0	0	38 005 176	0	0
Loan to subsidiary company	3 971 584	0	0	0	0
<b>AS Tallina Vesi accounts payable total</b>	<b>34 220</b>	<b>412 109</b>	<b>91 737 547</b>	<b>42 682 679</b>	<b>1 173 498</b>
Including:					
Shares payable	0	0	71 737 547	40 345 930	0
Short-term payables to suppliers	34 220	412 109	10 000 000	2 336 749*	1 173 498
Long-term payables to suppliers	0	0	10 000 000	0	0
<b>Transactions recorded to the Income Statement</b>					
Net sales	465 135	0	104 976 083	0	0
Cost of goods sold	0	8 941 039	0	0	0
General administration cost	536 000	0	0	3 557 208	0
Financial cost	0	0	0	1 297 519	0
<b>Transactions recorded to the other accounts of Balance Sheet</b>					
Prepaid expenses of future periods	0	0	0	0	1 173 498
Unfinished constructions - new connections	0	0	0	12 189 133*	0
Other prepaid revenues of future periods	0	0	3 284 957	0	0

\* 1 564 664 is the estimated value based upon works done and services provided in 2002.

**NOTE 20. CASH AND CASH EQUIVALENTS**

EEK

	2002	2001
Cash and bank accounts	28 838 529	21 842 006
Short-term deposits	156 466 400	300 000 000
Readily realisable securities	0	5 807 136
<b>Total of cash and cash equivalents</b>	<b>185 304 929</b>	<b>327 649 142</b>

**NOTE 21. NON-MONETARY MOVEMENTS**

EEK

<b>Offset transactions</b>	2002	2001
----------------------------	------	------

During the year 2001 the offset transactions were not made.

In 2002 the non-monetary movements were as follows:

Accounts receivables for construction fees	-517 680	0
Relating accounts payable:		
Supplier payables	517 680	0

**NOTE 22. PIPELINES FINANCED BY CONSTRUCTION FEES**

EEK

	2002	2001
<b>Revenue</b>		
Construction fees from pipeline taken into use	79 273 455	8 862 946
Change in prepayments for pipelines	790 381	20 052 130
Change in accounts receivable from pipeline	-28 105 228	539 066
Offset with liabilities	-517 680	0
<b>Construction fees received</b>	<b>51 440 928</b>	<b>29 454 142</b>
<b>Expenses</b>		
Acquisition costs of pipelines taken into use	-69 962 592	-8 859 105
Change in pipelines not in use	27 129 330	-93 964 245
Change in payables to suppliers for pipelines	-21 546 524	22 383 300
<b>Payment for pipelines</b>	<b>-64 379 786</b>	<b>-80 440 050</b>

**NOTE 23. RECLASSIFICATION**

EEK

In the year 2002 the following lines of the cash flow statement of 2001 were reclassified:

<b>Line of cash flow statement</b>	<b>Opening balance</b>	<b>Adjustment</b>	<b>Revised Balance</b>
Capitalization of operating expenses	0	-62 676 763	-62 676 763
Interest paid	-26 858 215	-7 150 147	-34 008 362
Acquisition of fixed assets	-152 470 166	69 826 910	-82 643 256

**NOTE 24. PAYMENTS FOR FIXED ASSETS**

EEK

	<b>2002</b>	<b>2001</b>
Acquisition of fixed assets	-182 578 412	-221 590 249
Adjustments:		
Acquisition cost of pipelines taken into use	69 962 592	8 859 105
Change in pipelines not taken into use	-27 129 330	93 964 245
Additional finance lease	4 221 488	861 428
Additional factoring	466 953	8 689 020
Payment for factoring	-5 284 706	-14 822 663
Change in instalment payments for technical facilities	-13 112 690	-13 662 690
Change in accounts payable related to investments	-4 954 115	-14 768 362
Interest capitalization	8 749 715	7 150 147
Capitalization of operating expenses	37 614 753	62 676 763
<b>Total payments for fixed assets</b>	<b>-112 043 752</b>	<b>-82 643 256</b>

**NOTE 25. DOUBTFUL DEBTS**

EEK

	<b>2002</b>	<b>2001</b>
Allowance for doubtful debts beginning balance	-6 485 251	-5 927 281
Allowance for doubtful debts	-9 874 432	-6 779 700
Proceeds of invoices treated as doubtful debts	1 476 841	4 795 863
Write off of uncollectible receivables	100 125	1 425 867
<b>Balance as of 31 December</b>	<b>-14 782 717</b>	<b>-6 485 251</b>

### Proposal for the profit distribution

The distributable equity capital of AS Tallinna Vesi is as follow:

<b>Accumulated loss</b>	<b>-8 358 668 kroons</b>
<b>Net profit for the financial year</b>	<b>169 551 064 kroons</b>
<b>Total</b>	<b>161 192 396 kroons</b>

The Management Board of AS Tallinna Vesi proposes to distribute 45 000 000 kroons to shareholders as dividends from the available equity capital accumulated by end of the year 2002.

30 April 2003



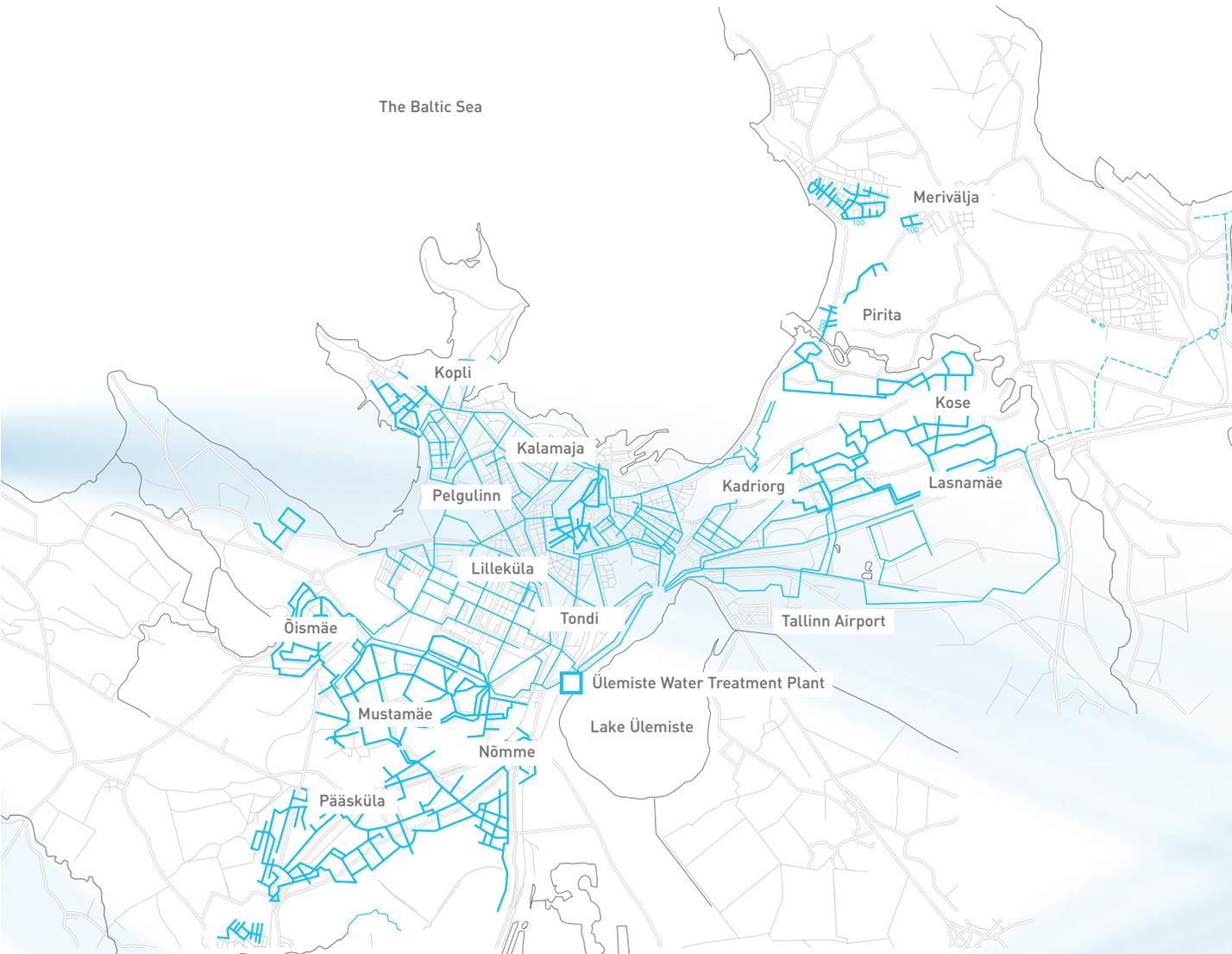
**Robert John Gallienne**

Chief Executive Officer / Chairman of the Management Board

### Tallinn City water, sewage and stormwater network in 2002

-  water network
-  sewage network
-  stormwater network

Water network in Tallinn (scale 1:1000)



Sewage network in Tallinn (scale 1:1000)



## AS Tallinna Vesi Annual Report 2002

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