AS Tallinna Vesi

Results of operations – for the 1st half-year of 2010

Currency	Thousand kroons
Start of reporting period	1 January 2010
End of reporting period	30 June 2010
Address	Tallinn, Ädala 10
Chairman of the Management Board	Ian John Alexander Plenderleith
Commercial register number	10 257 326
Telephone	+372 62 62 202
Telefax	+372 62 62 300
E-mail	tvesi@tvesi.ee
Web page	www.tallinnavesi.ee
Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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MANAGEMENT REPORT
RESULTS OF OPERATIONS - FOR THE 1st HALF-YEAR 2010

Overview

During the first six months of 2010 the Company's total sales increased, year on year, by 1.4% to 387.0 mln EEK. The Company's underlying operating profit for the first six months of 2010, from water and wastewater related activities, decreased by 6.0% to 196.6 mln EEK compared to the six months of 2009. Profits from other activities (mainly construction and developments) increased by 140.6% to 20.9 mln EEK compared to the same six months of 2009. The Company's profit before taxes was 172.9 mln EEK, which is on the same level compared to the same six months of 2009.

mln EEK	**2 Q 2010**	**2 Q 2009**	**Change**	**6 months 2010**	**6 months 2009**	**Change**
Sales	195,6	189,0	3,5%	387,0	381,7	1,4%
Gross profit	114,6	121,0	-5,2%	233,7	247,0	-5,4%
Gross profit margin %	58,6	64,0	-8,4%	60,4	64,7	-6,7%
Operating profit	112,4	107,0	5,0%	217,5	217,9	-0,2%
Operating profit - main business	95,9	101,8	-5,8%	196,6	209,2	-6,0%
Operating profit margin %	57,5	56,6	1,4%	56,2	57,1	-1,5%
Profit before taxes	91,0	74,5	22,1%	172,9	172,9	0,0%
Net profit	-41,9	13,4	-413,1%	40,0	111,8	-64,2%
Net profit margin %	-21,4	7,1	-402,5%	10,3	29,3	-64,7%
ROA %	-1,6	0,5	-391,0%	1,5	4,5	-66,7%
Debt to total capital employed	65,5	53,6	22,2%	65,5	53,6	22,2%

Gross profit margin – Gross profit / Net sales
Operating profit margin – Operating profit / Net sales
Net Profit margin – Net Profit / Net sales
ROA – Net profit /Total Assets
Debt to Total capital employed – Total Liabilities / Total capital employed
Main business – water and wastewater activities, excl. connections profit and government grants

Profit and Loss Statement

2nd quarter 2010

Sales

In the 2nd quarter of 2010 the Company's total sales increased, year on year, by 3.5% to 195.6 mln EEK. Included within this is a contribution of 6.2 mln EEK from Maardu, a contract which commenced in the 3rd quarter of 2009. Without Maardu, total sales would have been down by 3.2% compared to the 2nd quarter of 2009. Sales in the main operating activity principally comprise of sales of water and treatment of wastewater to domestic and commercial customers within and outside of the service area, and fees received from the City of Tallinn for operating and maintaining the storm water system.

Sales of water and wastewater services were 178.6 mln EEK, a 2.7% increase compared to the 2nd quarter of 2009, resulting from the factors described below which were partially offset by the 0.9% decrease in tariffs from 1 January 2010 for the Company's residential and commercial customers.

Within the service area, sales to residential customers decreased by 2.2% to 92.6 mln EEK. Sales to commercial customers decreased by 1.4% to 67.9 mln EEK. Sales to customers outside of the service area increased by 117.3% to 14.3 mln EEK, which now includes the Maardu operating contract which commenced from 1st July 2009. Over pollution fees received were 3.8 mln EEK, a 0.01% increase compared to the 2nd quarter of 2009.

In the 2nd quarter of 2010, the volumes sold to residential customers dropped 1.3%. We believe that this is due to the combination of the ongoing effect of the difficult economic conditions experienced during the last year and the fact that people have continued to move to the surrounding areas of Tallinn.

The volumes sold to commercial customers inside the service area decreased by 0.4% compared to the same period in 2009. The majority of the reduction in commercial sales volumes in Tallinn is a result of one of the most sizeable clients within the industrial sector, Coca-Cola, reducing their production in Tallinn from the beginning of the year, with this contributing an 83.4% decrease from the same period in 2009 for the client. Coca-Cola ceased production in Tallinn completely from April 2010. This decrease in industrial sector is mostly offset by sales picking up in other commercial sectors, such as leisure and tourism.

Excluding Maardu volumes, then outside service area volumes were 60.3% higher than in the 2nd quarter of 2009. The main factor in this increase was higher storm water volumes in April and May following the commencement of the thaw and wet weather but additionally sewage volumes were also higher in the current year.

The sales from the operation and maintenance of the storm water and fire-hydrant system increased by 2.1% to 12.5 mln EEK in the 2nd quarter of 2010 compared to the same period in 2009. This is in accordance with the terms and conditions of the contract whereby the storm water and fire hydrant costs are invoiced based on actual costs and volumes treated.

Cost of Goods Sold and Gross Margin

The cost of goods sold for the main operating activity was 80.9 mln EEK in the 2nd quarter of 2010, an increase of 12.9 mln EEK or 19.0% from the equivalent period in 2009 of which Maardu added 4.2 mln EEK.

In the 2nd quarter of 2010 the Company did not achieve the beneficial 0.5 coefficient for pollution tax, and the amount of pollution tax payable was 11.0 mln EEK compared to 5.7 mln EEK in the 2nd quarter of 2009. In the 2nd quarter of 2009 we did not achieve the 0.5 coefficient also, so the higher pollution tax payable in 2010 is generated by the increase in tax rates year on year by 19% and by the increase in treatment volumes. In the 3rd quarter of 2009 an investment into an additional stage of waste water treatment was approved for which the procurement process was finalized in the 2nd quarter of 2010.

Chemical costs were 5.2 mln EEK, representing a 3.9% decrease compared to the corresponding period in 2009. Although higher volumes were treated and chemicals dosed the lower price of the chemicals led to the decrease in chemicals costs.

Electricity costs increased by 2.9 mln EEK or 36.2% in the 2nd quarter of 2010 compared to the 2nd quarter of 2009 due to higher electricity prices as a result of three sites buying electricity from the open market and also because of higher volumes treated and pumped.

Salary expenses increased in the 2nd quarter of 2010, year on year, by 0.05 mln EEK or 0.3%.

Depreciation charges decreased in the 2nd quarter of 2010 by 0.4 mln EEK or 1.8% year on year.

Transport costs increased by 0.2 mln EEK, or 5.7% year on year, due to the combination of the increase in fuel prices and increased usage of rented machines.

Other cost of goods sold in the main operating activity increased 4.6 mln EEK, or 72.6% year on year, mainly due to the costs of operating in Maardu as this was not operational in the 2nd quarter of 2009.

As a result of all of the above the Company's gross profit for the 2nd quarter of 2010 was 114.6 mln EEK, which is a decrease of 6.3 mln EEK, or 5.2%, compared to the gross profit of 121.0 mln EEK for the 2nd quarter of 2009.

Operating Costs and Operating Margin

Marketing expenses increased by 0.2 mln EEK to 2.8 mln EEK during the 2nd quarter of 2010 compared to the corresponding period in 2009. This is mainly the result of a slight increase in salary expenses compared to corresponding period in 2009.

In the 2nd quarter of 2010 the General administration expenses increased by 1.2 mln EEK year on year to 14.0 mln EEK.

Other net income/expenses

The majority of the income in Other net income/expenses relates to constructions and government grants. The driver for this income stream is the connections activity in Tallinn. Income and expenses from constructions and government grants totaled a net income of 16.5 mln EEK in the 2nd quarter of 2010 compared to a net income of 5.2 mln EEK in the 2nd quarter of 2009. This was primarily due to a revision on the accounting for the contract.

The rest of the other income/expenses totaled an expense of 2.0 mln EEK in the 2nd quarter of 2010 compared to an expense of 3.8 mln EEK in the 2nd quarter of 2009, mainly from lower provisioning of doubtful debt compared to 2009. In addition it should be noted that more than 99% of debt is collected in a timely manner.

As a result the Company's underlying operating profit from sales of water and wastewater for the 2nd quarter of 2010 totaled 95.9 mln EEK compared to 101.8 mln EEK in the corresponding quarter in 2009. In total then the Company's operating profit for main and other activities for the 2nd quarter of 2010 was 112.4 mln EEK, an increase of 5.3 mln EEK compared to an operating profit of 107.0 mln EEK achieved in the 2nd quarter of 2009. Year on year the operating profit for the 2nd quarter has increased 5.0%.

Financial expenses

Net Financial expenses were 21.3 mln EEK in the 2nd quarter of 2010, which is a decrease of 11.1 mln EEK or 34.3% compared to the 2nd quarter of 2009. Of this variance 15.6 mln EEK relates to a loss on the fair value of swap contracts in the 2nd quarter of 2010. However we experienced a 27.6 mln EEK loss in the 2nd quarter of 2009 in relation to loan transaction losses which increased the prior year financial expense. Taking into account these expenses the underlying business financial expenses increased by 0.8 mln EEK in total compared to 2009.

The Company's interest costs have decreased by 100.9% compared to the 2nd quarter of 2009 from 11.9 mln EEK to 5.7 mln EEK as a result of the reduction in Euribor rates and the replacement of our fixed interest rate loan (4.19% + risk margin), by loans with floating interest rates in 2009. The Company decided to mitigate the long term floating interest risk and in May 2009 concluded 3 interest swap agreements, each with a principal value of 15 mln EUR. All contracts have forward start dates, for a base amount of 30 mln EUR the forward start date began on 28 November 2009, and for a base amount of 15 mln EUR the forward start date began on 28 May 2010. At this point in time the estimated fair value of these swap contracts is negative, totaling 51.1 mln EEK, with a further devaluation in 2nd quarter 2010 in the amount of 15.6 mln EEK which more than offsets the interest costs savings and the financial income earned during the 2nd quarter of 2010 thus contributing to a net financial expense.

Profit Before Tax

The Company's profit before taxes for the 2nd quarter of 2010 was 91.0 mln EEK, which is 16.5 mln EEK higher than the profit before taxes of 74.5 mln EEK for the 2nd quarter of 2009.

Results for the six months of 2010

During the six months of 2010 the Company's total sales increased, year on year, by 1.4% to 387.0 mln EEK. Sales of water and wastewater treatment were 354.7 mln EEK, a 1.1% increase compared to the six months of 2009.

The underlying operating profit from the Company's main business activity, sales of water and wastewater, for the six months of 2010 decreased by 6.0% to 196.6 mln EEK compared to the six months of 2009.

The Company's profit before taxes for the six months of 2010 was 172.9 mln EEK, which is at the same level as the profit before taxes in the relevant period in 2009.

The Company's net profit for the six months of 2010 was 40.0 mln EEK, which is 71.8 mln EEK lower than the net profit of 111.8 mln EEK in the equivalent period in 2009.

Balance sheet

During the six months of 2010 the Company invested 42.9 mln EEK into fixed assets. Non-current assets were 2,186.6 mln EEK at 30 June 2010. Current assets increased by 19.1 mln EEK to 508.0

mln EEK in the six months of the year, with customer receivables decreasing by 12.3 mln EEK and cash at bank increasing by 31.2 mln EEK.

Current liabilities increased by 219.9 mln EEK to 334.9 mln EEK in the six months of the year. This was mainly due to a 160.8 mln EEK increase in Trade payables largely due to outstanding interest payable and outstanding income tax payable on dividends and also due to 56.5 mln EEK increase in Current portion of long-term borrowings.

The Company has a leverage level as expected of approximately 65% with the future target range within 60%. Long-term liabilities stood at 1,428.5 mln EEK at the end of June 2010, consisting almost entirely of the outstanding balance of three long-term bank loans. During 2nd quarter of 2010 we have drawn down an additional 20 mln EUR, and at the end of the 2nd quarter of 2010 the total loan balance is 95 mln EUR, which is the total available loan facility. The weighted average interest margin for the total available facility is 0.67%.

Cash flow

During the six months of 2010, the Company generated 226.1 mln EEK of cash flows from operating activities, an increase of 31.5 mln EEK compared to the corresponding period in 2009. The increase in operating cash flows is mainly due to the increased liability balance in the six months of 2010. Underlying operating profit still continues to be the main contributor to operating cash flows.

In the six months of 2010 net cash outflows from investing activities were 7.8 mln EEK, which is 21.0 mln EEK more than in 2009. This is mainly due to reduced inflow due to timing of compensations received for construction of pipelines. To date in 2010 the cash outflows in relation to fixed asset investments are 64.1 mln EEK.

The cash outflows from financing activities were 187.1 mln EEK during the six months of 2010 compared to a cash outflow of 230.3 mln EEK during the same six months of 2009, representing the payouts of the dividends and received loans following the loan drawdown.

As a result of all of the above factors, the total cash inflow in the six months of 2010 was 31.2 mln EEK compared to a cash outflow of 22.5 mln EEK in the six months of 2009. Cash and cash equivalents stood at 323.7 mln EEK as at 30 June 2010 which is 116.3 mln EEK higher than at the corresponding period of 2009.

Employees

At the end of the 2nd quarter of 2010, the total number of employees was 319 compared to 332 at the end of the 2nd quarter of 2009. The full time equivalent (FTE) was respectively 303 in 2010 compared to the 316 in 2009. The decrease in FTE is primarily due to reorganization in various departments at the end of 2009.

Corporate structure

At the end of the quarter, 30 June 2010, the Group consisted of 2 companies. The subsidiary Watercom OÜ is wholly owned by ASTV.

Dividends and share performance

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

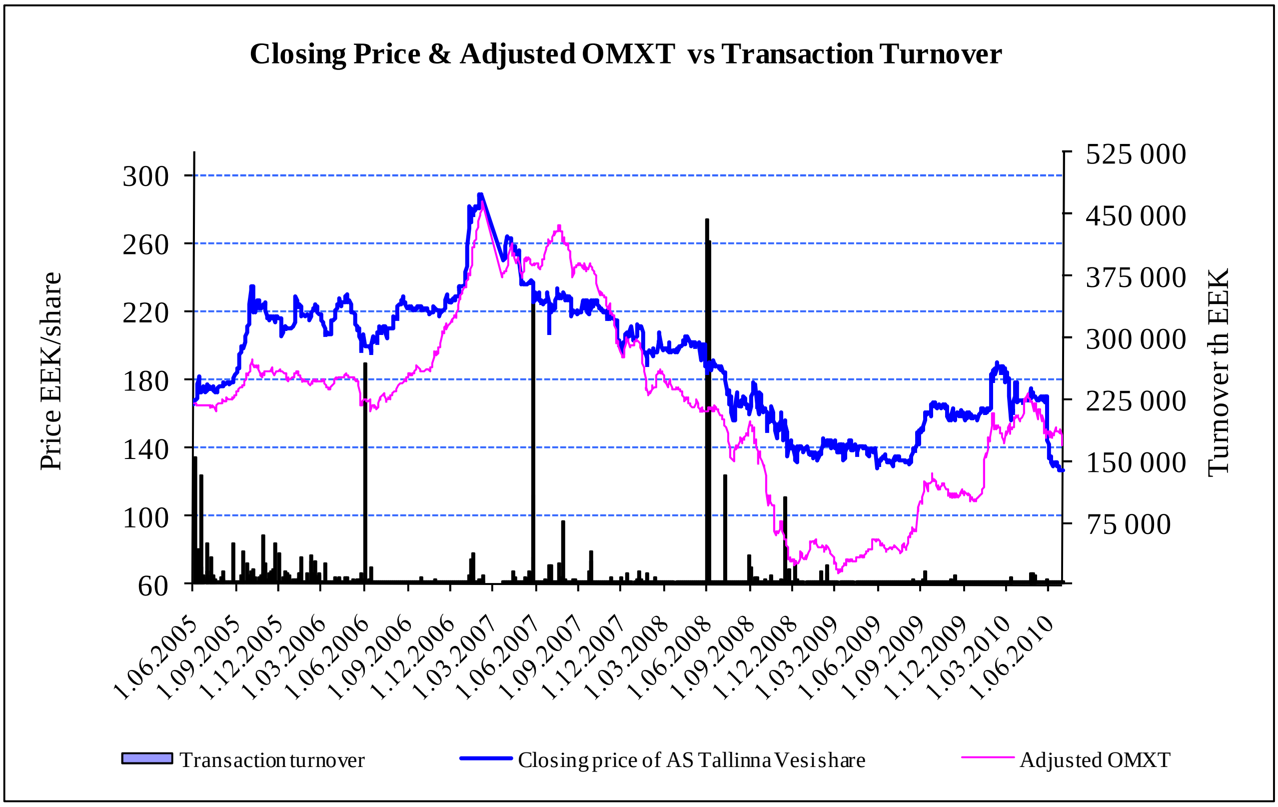
AS Tallinna Vesi is listed on OMX Main Baltic Market with trading code TVEAT and ISIN EE3100026436.

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

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

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

At the end of the quarter, 30 June 2010, the closing price of the AS Tallinna Vesi share was 126.27 EEK (8.07 EUR), which is a 24.65% decrease compared to the closing price of 167.58 EEK (10.80 EUR) at the beginning of the quarter. During the same period the OMX Tallinn index dropped by 9.07%.



Operational highlights in the first six months of 2010

AS Tallinna Vesi's overall operating performance in the first half of 2010 was good. The Company is pleased to report that the key indicator of water quality is at its highest ever level. Other indicators in the first half of 2010 were impacted by the extreme weather conditions, which greatly affected leakage levels and the number of service interruptions. The Company is however pleased to report that the action plans it put in place during April have delivered significant benefits and the performance in the 2nd quarter of 2010 showed a significant improvement from the 1st quarter. AS Tallinna Vesi is on target to achieve its required levels of service and quality standards agreed with the City of Tallinn in the Services Agreement by the end of 2010.

Operation Performance	**6 months 2009**	**6 months 2010**
Water		
Water compliance at customer's premises %	99,72	99,86
Total number of customer interruptions (unplanned)	281	269
Average unplanned interruption time per property hrs	3.38	4.11
Number of customer contacts regarding water pressure	4	7
Loss of water in distribution system %	17.18	21,10
Wastewater		
Number of sewer blockings	571	725
Number of sewer collapses	57	55
Wastewater treatment compliance %	100	100
Sludge used in reclamation projects %	100	100
Network Extension Program		
Network Extension Program completion per annual plan %		
Number of properties given access to public sewerage network	76	29

Water

99.86% of water samples taken from the taps of the customers of AS Tallinna Vesi were compliant with the requirements in the first half of 2010, making this the best water quality result ever. This was achieved through the refurbishing of the company's ozone generators, which are among the largest in the world and have greatly improved the quality of drinking in water in Tallinn.

Water quality remains on a very similar level to last year and there have not been any signs of residue from the accident that occurred on March 18th.

Water quality in Lake Ülemiste is affected by rising water temperatures, but remains on a similar level as in last year. The Company monitors the situation in the lake closely in order to be able to take prompt actions to ensure the best water quality.

Network

The Company's objective has always been to repair the leakages as quickly as possible, but this year special attention was paid to notifying the customers of repair works prior to commencing, thus greatly reducing the number of unplanned interruptions to 269, despite the increased number of pipe bursts.

The level of leakages has increased in the water and wastewater network due to pipe bursts in the winter, but an action plan has been devised and implemented to reduce leakages even further. The quality regulation in Tallinn requires AS Tallinna Vesi to reduce water loss in the network to 26%, but despite the severe winter the Company's level of leakages in the first half of the year was 21.1%.

Wastewater Treatment Plant

Excessive snowmelt in the beginning of the 2nd quarter had minimal impact on the environment, as the wastewater treatment plant in Paljassaare treated more load than ever before. The quality of effluent after treatment in Paljassaare is of high standard and complies with stringent environmental requirements. However, due to risk of failing to meet the parameters for nitrogen removal in the future, the Company will be building an additional treatment stage at the wastewater treatment plant. The construction of the biofilter will commence in July this year and will be completed by July 2011.

Network Extension Program
The Company is committed to delivering the network extension program by the year 2011 as agreed with the City of Tallinn and as required by the European Union directive for wastewater collection. The start of the construction season was delayed by the winter lasting well into April, but nearly a half of the planned network for 2010 has been built already. AS Tallinna Vesi will be constructing 5.1 kilometres of water pipes, 39.4 kilometres of wastewater pipes and 12.5 kilometres of storm water pipes in 2010. This construction programme will give over 1,100 homes the opportunity to connect to the wastewater network.

Maardu
July 1st marked the anniversary of the beginning of cooperation between the City of Maardu and AS Tallinna Vesi, whereby AS Tallinna Vesi is now operating the assets of AS Maardu Vesi.

AS Maardu Vesi has now received the designs for connection pipes between Maardu and Tallinn for the delivery of quality surface water from Lake Ülemiste to Maardu and to remove Maardu's wastewater for treatment at the Paljassaare wastewater treatment plant. Designs have also been completed for giving more than 3,000 properties in Muuga access to the public water and wastewater system, for reconstructing sewerage pipes in Vana-Narva road area and for rebuilding the pipes network in Kallavere. The connection pipes between Maardu and Tallinn will be built by the second half of 2011 and the Muuga network will be completed by the end of 2012.

Customers and Community
The Company held its annual open door day at the Paljassaare wastewater treatment plant in May, attracting over 240 people and more than 30 children. The visitors were treated to a tour of the facilities.

The Company has sold over 10,000 tons of soil reconditioner, which is a by-product created in the wastewater treatment process and is used for reforestation and landscaping. The Company also distributed nearly 1,200 tons of soil reconditioner as part of a community project in the districts of Mustamäe and Northern Tallinn in cooperation with local municipalities to restore the regions' greenness after the winter.

A major contributing factor to sewer blockages is the low awareness of consumers about what is disposable in the sewerage system and what isn't. For this purpose the Company launched an awareness campaign in June, informing the public of the correct maintenance of the sewerage system.

AS Tallinna Vesi will be holding its annual open door days at the Ülemiste water treatment plant on August 28th, inviting everyone to see the process of water treatment and enjoy a fun family day that coincides with the running competition around Lake Ülemiste. Last year more than 700 people participated in the tours and over 2,000 runners took part in the race.

Additional information:
Stephen Howard
Chief Financial Officer
+372 6262 262
stephen.howard@tvesi.ee

MANAGEMENT CONFIRMATION

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

The condensed financial statements for the period ended 30 June 2010 have been prepared following the accounting policies and the manner of presenting the information in line with the International Financial Reporting Standards as adopted by the EU. The condensed financial statements provide a true and fair view of the assets, liabilities, financial position and profit of the company. During the preparation of condensed financial statements, the Management has made no changes in critical estimates that would have cast a significant impact on the results.

The interim management report gives a true and fair view of the main events that occured during the 6 months of the financial year and of their effect to the condensed financial statements. It includes the description of the main risks and unclear aspects that can, based on the sensible judgement of the Management Board, have an impact on the company during the remaining 6 months of the financial year.

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

All material subsequent events that occurred by the interim accounts preparation date of 22 July 2010 have been assessed as part of this review.

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

I.J.A. Plenderleith

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

Stephen Benjamin Howard
Member of the Management Board
Chief Financial Officer

Robert Thomas Yuille
Member of the Management Board
Chief Operating Officer

Siiri Lahe
Member of the Management Board

22 July 2010

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(thousand EEK)

		as of 30 June		as of 31 December
ASSETS	**Note**	**2010**	**2009**	**2009**
CURRENT ASSETS				
Cash and equivalents	2	323 689	207 364	292 474
Customer receivables, accrued income and prepaid expenses		178 978	117 894	191 317
Inventories		4 096	3 111	3 819
Non-current assets held for sale		1 201	1 057	1 209
TOTAL CURRENT ASSETS		**507 964**	**329 426**	**488 819**
NON-CURRENT ASSETS				
Property, plant and equipment	3	2 151 031	2 130 584	2 152 952
Intangible assets	3	35 596	45 131	40 319
TOTAL NON-CURRENT ASSETS		**2 186 627**	**2 175 715**	**2 193 271**
TOTAL ASSETS		**2 694 591**	**2 505 141**	**2 682 090**
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current portion of long-term borrowings		60 403	3 937	1 936
Trade and other payables		258 648	127 627	97 866
Short-term provisions		2 668	3 693	3 570
Prepayments and deferred income		13 194	32 045	11 687
TOTAL CURRENT LIABILITIES		**334 913**	**167 302**	**115 059**
NON-CURRENT LIABILITIES				
Borrowings		1 426 703	1 174 055	1 174 034
Other payables		1 795	735	1 795
TOTAL NON-CURRENT LIABILITIES		**1 428 498**	**1 174 790**	**1 175 829**
TOTAL LIABILITIES		**1 763 411**	**1 342 092**	**1 290 888**
EQUITY				
Share capital		200 001	200 001	200 001
Share premium		387 000	387 000	387 000
Statutory legal reserve		20 000	20 000	20 000
Retained earnings		324 179	556 048	784 201
TOTAL EQUITY		**931 180**	**1 163 049**	**1 391 202**
TOTAL LIABILITIES AND EQUITY		**2 694 591**	**2 505 141**	**2 682 090**

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(thousand EEK)

		Quarter 2		6 months		for the year ended 31 December
	Note	**2010**	**2009**	**2010**	**2009**	**2009**
Revenue	4	195 562	188 959	387 006	381 717	772 446
Costs of goods sold	6	-80 931	-68 004	-153 351	-134 686	-284 064
GROSS PROFIT		**114 631**	**120 955**	**233 655**	**247 031**	**488 382**
Marketing expenses	6	-2 803	-2 597	-5 989	-6 010	-11 213
General administration expenses	6	-13 988	-12 758	-26 775	-26 898	-53 493
Other income/ expenses (-)	7	14 519	1 424	16 614	3 746	38 264
OPERATING PROFIT		**112 359**	**107 024**	**217 505**	**217 869**	**461 940**
Financial income	8	3 499	5 993	7 248	11 917	25 267
Financial expenses	8	-24 848	-38 491	-51 851	-56 863	-86 131
PROFIT BEFORE TAXES		**91 010**	**74 526**	**172 902**	**172 923**	**401 076**
Income tax on dividends	9	-132 914	-61 142	-132 914	-61 142	-61 142
NET PROFIT FOR THE PERIOD		**-41 904**	**13 384**	**39 988**	**111 781**	**339 934**
COMPREHENSIVE INCOME FOR THE PERIOD		**-41 904**	**13 384**	**39 988**	**111 781**	**339 934**
Attributable profit to:						
Equity holders of A-shares		0	13 374	39 978	111 771	339 924
B-share holder		0	10	10	10	10
Earnings per A share (in kroons)	10	0	0,67	2,00	5,59	17,00
Earnings per B share (in kroons)	10	0	10 000	10 000	10 000	10 000

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

CONSOLIDATED CASH FLOW STATEMENTS (thousand EEK)

	Note	6 months 2010	6 months 2009	for the year ended 31 December 2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit		217 505	217 869	461 940
Adjustment for depreciation/amortisation	3	44 072	44 833	89 153
Adjustment for profit from government grants and connection fees		-20 883	-8 680	-47 512
Other finance expenses	8	-35 737	-33 616	-29 203
Profit from sale of property, plant and equipment, and intangible assets		-7	-132	-150
Expensed property, plant and equipment		79	0	0
Change in current assets involved in operating activities		-10 634	-5 984	-14 675
Change in liabilities involved in operating activities		48 721	6 999	6 160
Interest paid		-17 053	-26 698	-38 793
Total cash flow from operating activities		**226 063**	**194 591**	**426 920**
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of property, plant and equipment, and intangible assets		-64 148	-94 937	-243 906
Compensations received for construction of pipelines		52 050	98 426	155 772
Proceeds from sale of property, plant and equipment, and		18	121	238
Interest received		4 310	9 648	15 077
Total cash flow used in investing activities		**-7 770**	**13 258**	**-72 819**
CASH FLOWS FROM FINANCING ACTIVITIES				
Received loans		312 932	700 968	700 968
Repayment of loans		0	-701 303	-701 303
Dividends paid	9	-500 010	-230 010	-230 010
Income tax on dividends	9	0	0	-61 142
Total cash flow used in financing activities		**-187 078**	**-230 345**	**-291 487**
Change in cash and cash equivalents		**31 215**	**-22 496**	**62 614**
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**292 474**	**229 860**	**229 860**
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	2	**323 689**	**207 364**	**292 474**

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

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement
for the 1st half-year of financial year 2010 ended 30 June 2010

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (thousand EEK)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2008	**200 001**	**387 000**	**20 000**	**674 277**	**1 281 278**
Dividends	0	0	0	-230 010	-230 010
Net profit of the financial year	0	0	0	339 934	339 934
as of 31 December 2009	**200 001**	**387 000**	**20 000**	**784 201**	**1 391 202**
as of 31 December 2008	**200 001**	**387 000**	**20 000**	**674 277**	**1 281 278**
Dividends	0	0	0	-230 010	-230 010
Net profit of the financial period	0	0	0	111 781	111 781
as of 30 June 2009	200 001	387 000	20 000	556 048	1 163 049
as of 31 December 2009	**200 001**	**387 000**	**20 000**	**784 201**	**1 391 202**
Dividends	0	0	0	-500 010	-500 010
Net profit of the financial period	0	0	0	39 988	39 988
as of 30 June 2010	**200 001**	**387 000**	**20 000**	**324 179**	**931 180**

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

NOTES TO THE INTERIM FINANCIAL STATEMENT (thousand EEK)

NOTE 1. ACCOUNTING PRINCIPLES

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

NOTE 2. CASH AND CASH EQUIVALENTS

	as of 30 June		as of 31 December
	2010	**2009**	**2009**
Cash in hand and in bank	3 370	4 369	376
Short-term deposits	320 319	202 995	292 098
Total cash and cash equivalents	**323 689**	**207 364**	**292 474**

NOTES TO THE INTERIM FINANCIAL STATEMENT (thousand EEK)

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

	Property, plant and equipment				Assets in progress				Intangible assets		
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Construction in progress - unfinished pipelines	Prepayment for fixed assets	Unfinished intangible assets	Development costs	Acquired licenses and other intangible assets	Total property, plant and equipment and intangible assets
as of 31 December 2008											
Acquisition cost	368 045	2 234 538	585 674	18 373	22 082	91 974	1 853	2 726	17 742	62 372	3 405 379
Accumulated depreciation	-67 263	-710 568	-364 236	-12 247	0	0	0	0	-14 774	-24 638	-1 193 726
Book value	**300 782**	**1 523 970**	**221 438**	**6 126**	**22 082**	**91 974**	**1 853**	**2 726**	**2 968**	**37 734**	**2 211 653**
Transactions in the period 01.01.2009 - 31.12.2009											
Acquisition in book value	0	0	0	0	99 293	144 141	0	7 698	0	0	251 132
Write off and sale of property, plant and equipment, and intangible assets in book value	-2	0	-44	-54	0	0	0	0	0	0	-100
Compensated by government grants	0	0	0	0	0	-178 646	0	0	0	0	-178 646
Reclassification	6 123	43 729	26 302	2 063	-78 323	-1 103	-406	-8 938	4 740	4 198	-1 615
Depreciation	-4 196	-38 733	-34 188	-1 229	0	0	0	0	-2 200	-8 607	-89 153
Total transactions in the period 01.01.2009 - 31.12.2009	**1 925**	**4 996**	**-7 930**	**780**	**20 970**	**-35 608**	**-406**	**-1 240**	**2 540**	**-4 409**	**-18 382**
as of 31 December 2009											
Acquisition cost	374 151	2 275 666	603 762	18 441	43 052	56 366	1 447	1 486	15 083	73 172	3 462 626
Accumulated depreciation	-71 444	-746 700	-390 254	-11 535	0	0	0	0	-9 575	-39 847	-1 269 355
Book value	**302 707**	**1 528 966**	**213 508**	**6 906**	**43 052**	**56 366**	**1 447**	**1 486**	**5 508**	**33 325**	**2 193 271**
Transactions in the period 01.01.2010 - 30.06.2010											
Acquisition in book value	0	0	0	0	27 798	14 594	0	448	0	0	42 840
Write off and sale of property, plant and equipment, and intangible assets in book value	0	0	-10	0	0	0	0	0	0	0	-10
Compensated by government grants	0	0	0	0	0	-5 315	0	0	0	0	-5 315
Reclassification	1 227	23 150	6 863	227	-31 470	0	-84	-65	65	0	-87
Depreciation	-2 124	-19 686	-16 445	-646	0	0	0	0	-753	-4 418	-44 072
Total transactions in the period 01.01.2010 - 30.06.2010	**-897**	**3 464**	**-9 592**	**-419**	**-3 672**	**9 279**	**-84**	**383**	**-688**	**-4 418**	**-6 644**
as of 30 June 2010											
Acquisition cost	375 379	2 298 733	608 133	18 599	39 380	65 645	1 363	1 869	15 148	73 171	3 497 420
Accumulated depreciation	-73 569	-766 303	-404 217	-12 112	0	0	0	0	-10 328	-44 264	-1 310 793
Book value	**301 810**	**1 532 430**	**203 916**	**6 487**	**39 380**	**65 645**	**1 363**	**1 869**	**4 820**	**28 907**	**2 186 627**

Property, plant and equipment and intangible assets are written off if the conditions of the asset do not enable further usage for production purposes.
As of 31 December 2009 and 30 June 2010 the net balance sheet value of finance leases was respectively 5 203 thousand kroons and 4 614 thousand kroons.

NOTES TO THE INTERIM FINANCIAL STATEMENT (thousand EEK)

NOTE 4. REVENUE

	Quarter 2		6 months		for the year ended 31 December
	2010	**2009**	**2010**	**2009**	**2009**
Revenues from main operating activities					
Total water supply and waste water disposal service, incl:	178 633	174 020	354 733	351 025	707 408
Private clients, incl:	92 637	94 755	186 722	191 592	379 322
Water supply service	51 524	52 845	103 844	106 788	211 379
Waste water disposal service	41 113	41 910	82 878	84 804	167 943
Corporate clients, incl:	67 945	68 924	133 022	138 937	273 338
Water supply service	37 490	38 900	73 272	77 706	152 092
Waste water disposal service	30 455	30 024	59 750	61 231	121 246
Outside service area clients, incl:	14 281	6 571	27 822	12 902	40 003
Water supply service	3 318	668	6 619	1 282	7 841
Waste water disposal service	10 963	5 903	21 203	11 620	32 162
Overpollution fee	3 770	3 770	7 167	7 594	14 745
Stormwater treatment and disposal service	11 718	10 539	23 436	22 079	46 957
Fire hydrants service	748	672	1 496	1 344	3 083
Other works and services	4 463	3 728	7 341	7 269	14 998
Total revenue	**195 562**	**188 959**	**387 006**	**381 717**	**772 446**

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

NOTE 5. STAFF COSTS

	Quarter 2		6 months		for the year ended 31 December
	2010	**2009**	**2010**	**2009**	**2009**
Salaries and wages	-16 471	-15 763	-32 929	-34 020	-71 400
Social security and unemployment insurance taxation	-5 486	-5 250	-10 968	-11 331	-23 777
Staff costs total	**-21 957**	**-21 013**	**-43 897**	**-45 351**	**-95 177**
Number of employees at the end of reporting period			**319**	**332**	**336**

NOTES TO THE INTERIM FINANCIAL STATEMENT (thousand EEK)

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

	Quarter 2		6 months		for the year ended 31 December
	2010	**2009**	**2010**	**2009**	**2009**
Cost of goods sold					
Tax on special use of water	-3 333	-2 800	-6 774	-5 565	-11 479
Chemicals	-5 192	-5 401	-10 327	-9 111	-20 082
Electricity	-10 770	-7 909	-19 880	-16 063	-33 422
Pollution tax	-10 964	-5 734	-14 661	-9 037	-16 918
Staff costs	-15 412	-15 367	-31 048	-32 537	-70 273
Development	0	0	0	-23	-29
Depreciation and amortization	-20 000	-20 367	-39 980	-40 875	-81 006
Transport	-4 326	-4 092	-8 952	-8 410	-17 427
Other costs of goods sold	-10 934	-6 334	-21 729	-13 065	-33 428
Total cost of goods sold	**-80 931**	**-68 004**	**-153 351**	**-134 686**	**-284 064**
Marketing expenses					
Staff costs	-1 071	-979	-2 354	-2 488	-4 516
Depreciation and amortization	-1 308	-1 302	-2 616	-2 603	-5 207
Other marketing expenses	-424	-316	-1 019	-919	-1 490
Total cost of marketing expenses	**-2 803**	**-2 597**	**-5 989**	**-6 010**	**-11 213**
General administration expenses					
Staff costs	-5 474	-4 667	-10 495	-10 326	-20 388
Depreciation and amortization	-750	-694	-1 476	-1 355	-2 940
Other general administration expenses	-7 764	-7 397	-14 804	-15 217	-30 165
Total cost of general administration expenses	**-13 988**	**-12 758**	**-26 775**	**-26 898**	**-53 493**

NOTE 7. OTHER INCOME / EXPENSES

	Quarter 2		6 months		for the year ended 31
	2010	**2009**	**2010**	**2009**	**2009**
Profit from connection fees	559	368	1 310	1 942	6 139
Profit from government grant	15 923	4 850	19 572	6 738	41 373
Other income / expenses (-)	-1 963	-3 794	-4 268	-4 934	-9 248
Total other income / expenses	**14 519**	**1 424**	**16 614**	**3 746**	**38 264**

NOTES TO THE INTERIM FINANCIAL STATEMENT (thousand EEK)

NOTE 8. FINANCIAL INCOME AND EXPENSES

	Quarter 2		6 months		for the year ended 31 December
	2010	**2009**	**2010**	**2009**	**2009**
Interest income	3 499	5 993	7 240	11 917	25 267
Interest expense	-9 012	-10 590	-16 106	-23 247	-35 241
Other financial expenses	-15 836	-27 901	-35 737	-33 616	-50 890
Total financial income / expenses	**-21 349**	**-32 498**	**-44 603**	**-44 946**	**-60 864**

NOTE 9. DIVIDENDS

	Quarter 2		6 months		for the year ended 31 December
	2010	**2009**	**2010**	**2009**	**2009**
Dividends declared during the period	500 010	230 010	500 010	230 010	230 010
Dividends paid during the period	500 010	230 010	500 010	230 010	230 010
Income tax on dividends paid	-132 914	-61 142	-132 914	-61 142	-61 142
Income tax accounted for	**-132 914**	**-61 142**	**-132 914**	**-61 142**	**-61 142**
Paid-up dividends per shares:					
Dividends per A-share (in kroons)	25,00	11,50	25,00	11,50	11,50
Dividends per B-share (in kroons)	10 000	10 000	10 000	10 000	10 000

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

NOTE 10. EARNINGS PER SHARE

	Quarter 2		6 months		for the year ended 31 December
	2010	**2009**	**2010**	**2009**	**2009**
Net profit minus B-share preference rights (in kroons)	0	13 374	39 978	111 771	339 924
Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces)	20 000 000	20 000 000	20 000 000	20 000 000	20 000 000
Earnings per A share (in kroons)	0	0,67	2,00	5,59	17,00
Earnings per B share (in kroons)	0	10 000	10 000	10 000	10 000

Diluted earnings per share for the periods ended 30 June 2010 and 2009 and 31 December 2009 do not vary significantly from the earnings per share figures stated above.

NOTES TO THE INTERIM FINANCIAL STATEMENT (thousand EEK)

NOTE 11. RELATED PARTIES

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

Shareholders having the significant influence

Balances recorded in working capital on the balance sheet of the Company	as of 30 June 2010	as of 30 June 2009	as of 31 December 2009
Accounts receivable	45 436	25 003	2 160
Accrued income	44 346	0	93 200
Prepayments and deferred income	0	6 491	0
Accounts payable - short-term trade and other payables	6 631	5 974	3 836

	Quarter 2		6 months		for the year ended 31 December
	2010	2009	2010	2009	2009
Transactions with the related parties					
Sales services	12 316	11 211	24 631	23 422	49 740
Compensations received from the local governments for constructing new pipelines	15 931	40 761	24 489	79 890	186 533
Purchase of administrative and consulting services	4 407	3 969	8 995	9 143	19 357
Financial income	1 793	0	3 435	0	10 047
Management Board fees excluding social tax	596	645	1 186	1 290	2 558
Supervisory Board fees excluding social tax	150	150	300	300	600

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

The market prices were implemented in transactions with related parties.

Company shares belonging to the Management Board and Supervisory Board members
As at report generation date Siiri Lahe owned 700 AS Tallinna Vesi shares.

NOTE 12. LIST OF SUPERVISORY COUNCIL MEMBERS

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

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