

Tallinna Vesi



AS Tallinna Vesi
Results of operations – for the 4th quarter of 2010

Currency	Thousand kroons
Start of reporting period	1 January 2010
End of reporting period	31 December 2010
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Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

CONTENTS

	Page
MANAGEMENT REPORT	3
MANAGEMENT CONFIRMATION	10
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	11
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	12
CONSOLIDATED CASH FLOW STATEMENTS	13
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY	14
NOTES TO THE ACCOUNTS	
NOTE 1. ACCOUNTING PRINCIPLES	15
NOTE 2. CASH AND CASH EQUIVALENTS	15
NOTE 3. PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS	16
NOTE 4. REVENUE	17
NOTE 5. STAFF COSTS	17
NOTE 6. COST OF GOODS SOLD, MARKETING AND GENERAL ADMINISTRATIONS EXPENSES	18
NOTE 7. OTHER INCOME AND EXPENSES	18
NOTE 8. FINANCIAL INCOME AND EXPENSES	19
NOTE 9. DIVIDENDS	19
NOTE 10. EARNINGS PER SHARE	19
NOTE 11. RELATED PARTIES	20
NOTE 12. LIST OF SUPERVISORY BOARD MEMBERS	21
NOTE 13. RECLASSIFICATION	22

MANAGEMENT REPORT

RESULTS OF OPERATIONS - FOR THE 4th QUARTER 2010

Overview

During 2010 the Company's total sales increased, year on year, by 0.6% to 777.3 mln EEK. The Company's underlying operating profit from water and wastewater related activities decreased by 10.1% to 377.9 mln EEK in 2010 compared to 2009. Profits from other activities (mainly construction and developments) increased by 25.2% to 51.8 mln EEK compared to the 2009. The Company's profit before taxes was 389.6 mln EEK, which is a decrease of 2.9% or 11.5 mln EEK, compared to 2009.

<i>mln EEK</i>	4 Q 2010	4 Q 2009	Change	12 months 2010	12 months 2009	Change
Sales	195,0	201,8	-3,3%	777,3	772,4	0,6%
Gross profit	106,9	122,4	-12,6%	453,7	488,4	-7,1%
Gross profit margin %	54,8	60,7	-9,6%	58,4	63,2	-7,7%
Operating profit	111,0	134,2	-17,3%	429,7	461,9	-7,0%
Operating profit - main business	84,1	104,2	-19,4%	377,9	420,6	-10,1%
Operating profit margin %	56,9	66,5	-14,5%	55,3	59,8	-7,6%
Profit before taxes	124,1	125,5	-1,2%	389,6	401,1	-2,9%
Net profit	124,1	125,5	-1,2%	256,7	339,9	-24,5%
Net profit margin %	63,6	62,2	2,2%	33,0	44,0	-25,0%
ROA %	4,3	4,5	-5,0%	8,9	12,3	-27,4%
Debt to total capital employed	60,1	49,7	20,9%	60,1	49,7	20,9%

Gross profit margin – Gross profit / Net sales

Operating profit margin – Operating profit / Net sales

Net Profit margin – Net Profit / Net sales

ROA – Net profit / Total Assets

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

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

Profit and Loss Statement

4th quarter 2010

Sales

In the 4th quarter of 2010 the Company's total sales decreased, year on year, by 3.3% to 195.0 mln EEK. Sales in the main operating activity principally comprise of sales of water and treatment of wastewater to domestic and commercial customers within and outside of the service area, and fees received from the City of Tallinn for operating and maintaining the storm water system.

Sales of water and wastewater services were 177.8 mln EEK, a 2.5% decrease compared to the 4th quarter of 2009, resulting from the slight fall in sales volumes as described below in addition to 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 2.1% to 94.3 mln EEK. Sales to commercial customers decreased by 1.1% to 67.8 mln EEK. Sales to customers outside of the service area decreased by 10.9% to 12.9 mln EEK in the 4th quarter of 2010. Over pollution fees received were 2.8 mln EEK, a 6.5% decrease compared to the 4th quarter of 2009.

In the 4th quarter of 2010, the volumes sold to residential customers decreased by 1.2% year on year, which is still lower decrease than we faced in first two quarters of 2010 compared to 2009.

The volumes sold to commercial customers inside the service area were broadly on the same level as in 2009 reflecting only a minor 0.3% decrease compared to the same period in 2009. Total selling volumes to the industrial sector are decreasing due to Coca-Cola's leave from our service area, eliminating the fall in its consumption some increase can be noticed from the industrial sector. Better economic conditions are contributing also to leisure sector volumes starting to pick up.

Outside service area sales volumes were 22.5% lower than in the 4th quarter of 2009. The main factor in this decrease was lower storm water volumes in the 4th quarter of 2010 compared to 2009.

The sales from the operation and maintenance of the storm water and fire-hydrant system decreased by 17.8% to 12.5 mln EEK in the 4th 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 88.1 mln EEK in the 4th quarter of 2010, an increase of 8.7 mln EEK or 11.0% from the equivalent period in 2009.

In the 4th quarter of 2010 the Company did not achieve the beneficial 0.5 coefficient for pollution tax due to the combination of the nitrogen concentration, low volumes and low temperature in the beginning of the quarter, and thereby the amount of pollution tax payable was 11.6 mln EEK compared to 3.2 mln EEK in the 4th quarter of 2009. In addition to the coefficient increase the higher pollution tax payable in 2010 is generated by the increase in tax rates year on year by 19%. To mitigate the nitrogen treatment and tax risk we have started with the investment into an additional stage of waste water treatment and according to the construction schedule the works should be completed in the beginning of the 3rd quarter of 2011.

Chemical costs were 5.9 mln EEK, representing a 12.1% increase compared to the corresponding period in 2009. Although lower volumes were treated the main contributor to higher chemical costs are dosed methanol and other chemicals quantities related to the need to treat the increased pollution concentration in incoming sewerage. Also the increase in prices added some unfavorable impact to the cost of chemicals.

Electricity costs increased by 2.2 mln EEK or 23.3% in the 4th quarter of 2010 compared to the 4th quarter of 2009 due to higher electricity prices as a result of three sites buying electricity from the open market.

Salary expenses within costs of goods sold decreased in the 4th quarter of 2010, year on year, by 4.1 mln EEK or 18.0% mainly due to the reduced operating headcount.

Transport costs decreased by 0.6 mln EEK, or 13.9% year on year, having adverse impact from the increase in fuel prices that was more than compensated by decrease in usage of rented machinery and staff cars.

Other cost of goods sold in the main operating activity increased 1.9 mln EEK, or 16.1% year on year, mainly due to the additional costs of repair services resulting from new city act related to the asphaltting costs.

As a result of all of the above the Company's gross profit for the 4th quarter of 2010 was 106.9 mln EEK, which is a decrease of 15.5 mln EEK, or 12.6%, compared to the gross profit of 122.4 mln EEK for the 4th quarter of 2009.

Operating Costs and Operating Margin

Marketing expenses increased by 0.6 mln EEK to 3.4 mln EEK during the 4th quarter of 2010 compared to the corresponding period in 2009. This is mainly the result of a slight increase in expenses due to OÜ Watercom start-up costs in the second half-year of 2010.

In the 4th quarter of 2010 the General administration expenses increased by 1.4 mln EEK year on year to 15.9 mln EEK mainly due to the need for the consultancies related to the implication of the Anti Monopoly Bill and attempts to improve the image of the company insisting on the quality aspects.

Other net income/expenses

The majority of the income in Other net income/expenses relates to constructions and government grants. The driver for this income stream is the connections activity in Tallinn. Income and expenses from constructions and government grants totaled a net income of 26.9 mln EEK in the 4th quarter of 2010 compared to a net income of 30.0 mln EEK in the 4th quarter of 2009, this line varies throughout the year depending on construction volumes and estimates to the profit margins on projects completed.

The rest of the other income/expenses totaled an expense of 3.6 mln EEK in the 4th quarter of 2010 compared to an expense of 0.9 mln EEK in the 4th quarter of 2009. This line was mainly impacted by the change in accounting principles as described in the financial accounts and notes to the accounts. 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 4th quarter of 2010 totaled 84.1 mln EEK compared to 104.2 mln EEK in the corresponding quarter in 2009. In total the Company's operating profit for all activities for the 4th quarter of 2010 was 111.0 mln EEK, a decrease of 23.2 mln EEK compared to an operating profit of 134.2 mln EEK achieved in the 4th quarter of 2009. Year on year the operating profit for the 4th quarter has decreased by 17.3%.

Financial expenses

Net Financial revenues/expenses were 13.1 mln EEK in the 4th quarter of 2010, which is a variance of 21.8 mln EEK or 250.3% compared to the net expenses in the 4th quarter of 2009. The movement in net financial costs is mainly due to the increase in the fair value of swap agreements as result of increased interest rates and forecasts for the future.

The Company has mitigated partly the long term floating interest risk with 5 interest swap agreements, each with a principal value of 15 mln EUR. At this point in time the estimated fair value of these swap contracts is still negative, totaling 35.5 mln EEK, with a revaluation in the 4th quarter 2010 in the amount of 17.3 mln EEK which offsets the interest costs increase and the financial income decrease during the 4th quarter of 2010 thus contributing to a net financial income.

Profit Before Tax

The Company's profit before taxes for the 4th quarter of 2010 was 124.1 mln EEK, which is 1.4 mln EEK lower than the profit before taxes of 125.5 mln EEK for the 4th quarter of 2009.

Results for the twelve months of 2010

During the twelve months of 2010 the Company's total sales increased, year on year, by 0.6% to 777.3 mln EEK. Sales of water and wastewater treatment were 706.7 mln EEK, a 0.1% decrease compared to the twelve months of 2009.

The underlying operating profit from the Company's main business activity, sales of water and wastewater, for the twelve months of 2010 decreased by 10.1% to 377.9 mln EEK compared to the twelve months of 2009.

The Company's profit before taxes for the twelve months of 2010 was 389.6 mln EEK, which is a 2.9% decrease compared to the profit before taxes in the relevant period in 2009.

The Company's net profit for the twelve months of 2010 was 256.7 mln EEK, which is 83.2 mln EEK lower than the net profit of 339.9 mln EEK in the equivalent period in 2009.

Balance sheet

During the twelve months of 2010 the Company invested 274.3 mln EEK into fixed assets. Non-current assets were 2,349.4 mln EEK at 31 December 2010. Current assets increased by 38.6 mln EEK to 527.4 mln EEK in the twelve months of the year, with customer receivables increasing by 123.0 mln EEK and cash at bank decreasing by 85.4 mln EEK.

Current liabilities increased by 133.2 mln EEK to 248.2 mln EEK in the twelve months of the year. This was mainly due to a 16.8 mln EEK increase in Trade payables and also due to 117.1 mln EEK increase in Current portion of long-term borrowings.

The Company has a leverage level as expected of 60.1% with the future target range within 60%. Long-term liabilities stood at 1,480.6 mln EEK at the end of December 2010, consisting almost entirely of the outstanding balance of three long-term bank loans. During 2nd quarter of 2010 we

drew down an additional 20 mln EUR, and at the end of the 4th 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 twelve months of 2010, the Company generated 422.1 mln EEK of cash flows from operating activities, an increase of 5.2 mln EEK compared to the corresponding period in 2009. 2010 operating cash flows were above 2009 cash flows mainly due to the payment of unwinding costs in 2009. Underlying operating profit still continues to be the main contributor to operating cash flows.

In the twelve months of 2010 net cash outflows from investing activities were 187.5 mln EEK, which is 124.7 mln EEK more than in 2009. This is mainly due to reduced inflow due to timing of compensations received for construction of pipelines. At the end of 2010 the cash outflows in relation to fixed asset investments were 266.8 mln EEK.

The cash outflows from financing activities were 320.0 mln EEK during the twelve months of 2010 compared to a cash outflow of 291.5 mln EEK during the same twelve months of 2009, representing the payouts of the dividends and income tax on dividends and received loans following the loan drawdown.

As a result of all of the above factors, the total cash outflow in the twelve months of 2010 was 85.4 mln EEK compared to a cash inflow of 62.6 mln EEK in the twelve months of 2009. Cash and cash equivalents stood at 207.1 mln EEK as at 31 December 2010 which is 85.4 mln EEK lower than at the corresponding period of 2009.

Employees

At the end of the 4th quarter of 2010, the total number of employees was 319 compared to 336 at the end of the 4th quarter of 2009. The full time equivalent (FTE) was respectively 305 in 2010 compared to the 322 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, 31 December 2010, the Group consisted of 2 companies. The subsidiary Watercom OÜ is wholly owned by AS Tallinna Vesi and consolidated to the results of the Company.

Dividends and share performance

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

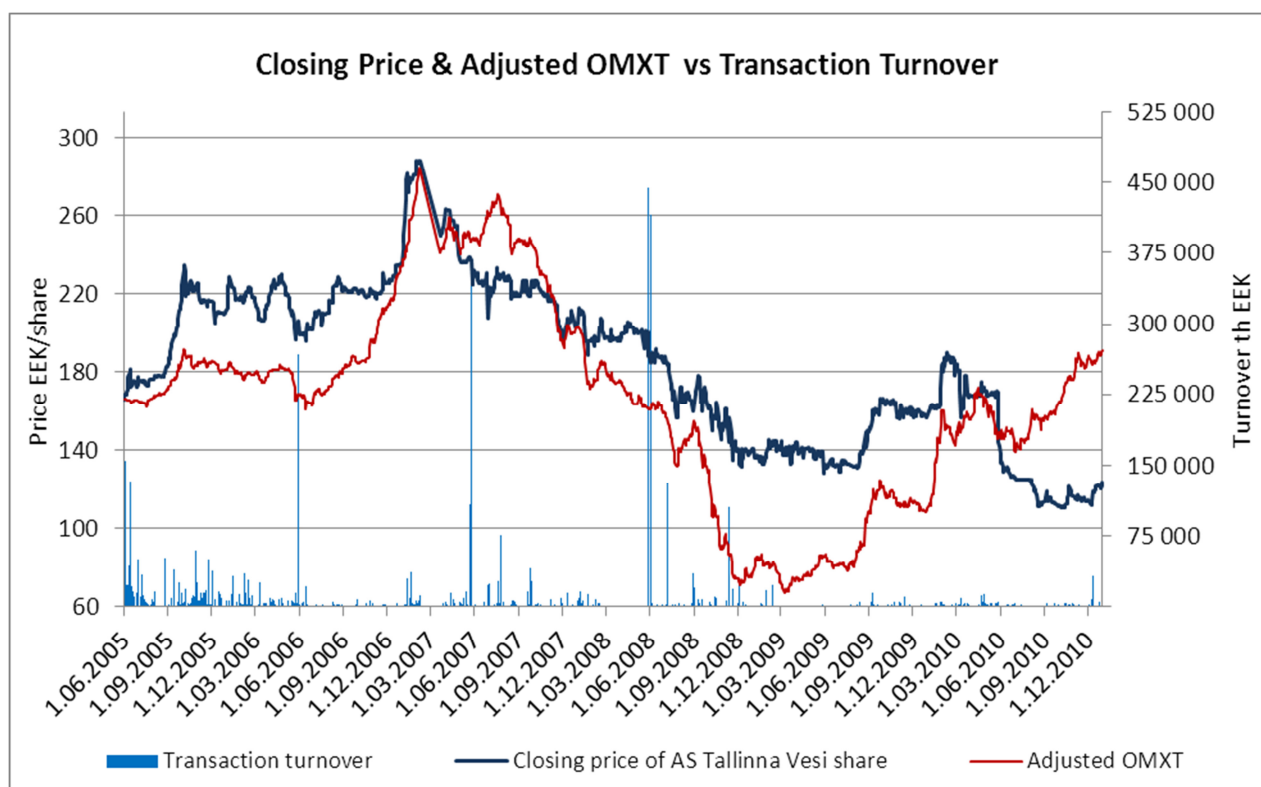
AS Tallinna Vesi is listed on OMX Main Baltic Market with trading code TVEAT and ISIN EE3100026436.

As of 31 December 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 second half-year of 2010. Parvus AM has declared that their shareholding in the clients' accounts fell below 10% of the share capital and AKO Capital has declared selling their entire holding in the Company.

At the end of the quarter, 31 December 2010, the closing price of the AS Tallinna Vesi share was 123.45 EEK (7.89 EUR), which is an 11.13% increase compared to the closing price of 111.09 EEK (7.10 EUR) at the beginning of the quarter. During the same period the OMX Tallinn index rose by 15.80%.



Operational highlights in 2010

- Company's overall operating performance is continuously good, most of the quality aspects exceeding the level of 2009 as described in TSE notice on 24 January 2011.
- Baltic Corporate Governance Institute awarded the Company as the best Corporate Governance in Estonia and OMX Nasdaq awarded the Company as the best Investor Relations in Tallinn Stock Exchange. Ministry of Environment awarded the Company with the title of "Environmental Player of the Year" in the environmental management category.
- In the 3rd quarter the Anti Monopoly Bill (AMB) was passed by the Parliament and approved by the President. The key impact for the Company will be related to the fact that from 1 November onwards the tariff approval process of the Company was transferred from

the City of Tallinn to the Competition Authority (CA). The main aim of the AMB is to control the profits of the water companies. The CA has issued their recommendations how to calculate the allowed return and revenues for the water companies. The Company finds it regrettable that the regulator-to-be has yet only considered the price sensitivity of the customers and ignored fully their expectations regarding the product and service quality.

Another major issue arising from the proposed draft methodology for calculating water and wastewater tariffs concerns one of the primary objectives of any regulator - to guarantee an acceptable return on invested capital for investors. Within the current methodology it appears that the Competition Authority is excluding the privatisation value of the Company from the calculation of justified profitability, which since 2001 has been included in the calculation of justified profitability of the Company under current regulation within the Services Agreement signed with the City of Tallinn.

- On 9 November the Company submitted its tariff application in accordance with best practice regulation for privatized utilities, such as that favoured by Ofwat in the UK. In its tariff application the Company has requested that the Competition Authority should expand the definition of regulated asset base to include the privatisation value of the utility. This would ensure the privatisation contract was not unilaterally broken and would respect the investments made in good faith into Estonia by our investors on the basis of that contract. The Company has published its tariff application on its website and to the Tallinn Stock Exchange and will keep its investors informed of all future developments regarding the further key developments regarding the processing of the tariff application. Still, at this point in time the Company is unable to say what next year's tariffs will be as it is unclear at the moment how the CA intends to analyze and proceed with the tariff applications.

Additional information:

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AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement
for the 12 months period of financial year 2010 ended 31 December 2010

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 12 months period of financial year 2010 ended 31 December 2010. The interim accounts have not been reviewed by the auditors.

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

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

All material subsequent events that occurred by the interim accounts preparation date of 27 January 2011 have been assessed as part of this review.

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



Ian John Alexander Plenderleith

Chairman of the Management Board

Chief Executive Officer



Robert Thomas Yuille

Member of the Management Board

Chief Operating Officer



Siiri Lahe

Member of the Management Board

Chief Financial Officer

27 January 2011

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

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement
for the 12 months period of financial year 2010 ended 31 December 2010

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(thousand EEK)

		as of 31 December		
ASSETS	Note	2010	2009	2008
CURRENT ASSETS				
Cash and equivalents	2	207 082	292 474	229 860
Customer receivables, accrued income and prepaid expenses		314 315	191 317	112 638
Inventories		4 784	3 819	3 760
Non-current assets held for sale		1 193	1 209	1 140
TOTAL CURRENT ASSETS		527 374	488 819	347 398
NON-CURRENT ASSETS				
Property, plant and equipment	3, 13	2 318 494	2 236 900	2 218 687
Intangible assets	3	30 857	40 319	43 428
TOTAL NON-CURRENT ASSETS		2 349 351	2 277 219	2 262 115
TOTAL ASSETS		2 876 725	2 766 038	2 609 513
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current portion of long-term borrowings		119 008	1 936	82 843
Trade and other payables		114 708	97 867	87 270
Short-term provisions		1 829	3 570	2 486
Prepayments and deferred income		12 667	11 687	19 797
TOTAL CURRENT LIABILITIES		248 212	115 060	192 396
NON-CURRENT LIABILITIES				
Prepayment of single and developing areas	13	90 198	83 948	50 462
Borrowings		1 368 236	1 174 034	1 084 642
Other payables		22 204	1 795	735
TOTAL NON-CURRENT LIABILITIES		1 480 638	1 259 777	1 135 839
TOTAL LIABILITIES		1 728 850	1 374 837	1 328 235
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		540 874	784 200	674 277
TOTAL EQUITY		1 147 875	1 391 201	1 281 278
TOTAL LIABILITIES AND EQUITY		2 876 725	2 766 038	2 609 513

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

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement

for the 12 months period of financial year 2010 ended 31 December 2010

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(thousand EEK)

		Quarter 4		for the year ended 31 December	
	Note	2010	2009	2010	2009
Revenue	4	195 036	201 769	777 326	772 446
Costs of goods sold	6	-88 107	-79 367	-323 631	-284 064
GROSS PROFIT		106 929	122 402	453 695	488 382
Marketing expenses	6	-3 356	-2 783	-12 315	-11 213
General administration expenses	6	-15 911	-14 520	-57 119	-53 493
Other income/ expenses (-)	7	23 319	29 146	45 464	38 264
OPERATING PROFIT		110 981	134 245	429 725	461 940
Financial income	8	6 050	9 079	16 569	25 267
Net financial expenses	8	7 040	-17 788	-56 696	-86 131
PROFIT BEFORE TAXES		124 071	125 536	389 598	401 076
Income tax on dividends	9	0	0	-132 914	-61 142
NET PROFIT FOR THE PERIOD		124 071	125 536	256 684	339 934
COMPREHENSIVE INCOME FOR THE PERIOD		124 071	125 536	256 684	339 934
Attributable profit to:					
Equity holders of A-shares		124 061	125 526	256 674	339 924
B-share holder		10	10	10	10
Earnings per A share (in kroons)	10	6,20	6,28	12,83	17,00
Earnings per B share (in kroons)	10	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 condensed financial statements.

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement
for the 12 months period of financial year 2010 ended 31 December 2010

CONSOLIDATED CASH FLOW STATEMENTS

(thousand EEK)

		for the year ended 31 December	
	Note	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		429 725	461 940
Adjustment for depreciation/amortisation	3	87 927	89 153
Adjustment for profit from government grants and connection fees		-51 826	-47 512
Other finance expenses	8	-218	-29 203
Profit from sale of property, plant and equipment, and intangible assets		-41	-150
Expensed property, plant and equipment		1 097	0
Change in current assets involved in operating activities		-150 640	-24 722
Change in liabilities involved in operating activities		144 316	6 160
Interest paid		-38 232	-38 793
Total cash flow from operating activities		422 108	416 873
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment, and intangible assets		-266 845	-243 906
Compensations received for construction of pipelines		61 731	155 772
Proceeds from sale of property, plant and equipment, and intangible		251	238
Interest received		17 355	25 124
Total cash flow used in investing activities		-187 508	-62 772
CASH FLOWS FROM FINANCING ACTIVITIES			
Received loans		312 932	700 968
Repayment of loans		0	-701 303
Dividends paid	9	-500 010	-230 010
Income tax on dividends	9	-132 914	-61 142
Total cash flow used in financing activities		-319 992	-291 487
Change in cash and cash equivalents		-85 392	62 614
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD		292 474	229 860
CASH AND EQUIVALENTS AT THE END OF THE PERIOD		207 082	292 474

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

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement
for the 12 months period of financial year 2010 ended 31 December 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	674 276	1 281 277
Dividends	0	0	0	-230 010	-230 010
Net profit of the financial year	0	0	0	339 934	339 934
as of 31 December 2009	200 001	387 000	20 000	784 200	1 391 201
Dividends	0	0	0	-500 010	-500 010
Net profit of the financial period	0	0	0	256 684	256 684
as of 31 December 2010	200 001	387 000	20 000	540 874	1 147 875

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

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement
for the 12 months period of financial year 2010 ended 31 December 2010

NOTES TO THE CONSOLIDATED UNAUDITED 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.

In order to ensure compliance with the IFRIC 18 enforced in 2010, the recording of revenues and costs for single connections and development area connections in the report has been changed. In line with the instructions set out in the IFRIC 18, Property, plant and equipment are accounted for under costs and long-term liabilities under revenues. Property, plant and equipment and liabilities are amortised and depreciation is recorded in the Income Statement during the useful life of pipeline, which is 75 years. The Company is applying the interpretation of IFRIC 18 retroactively since 01.01.2008 (see the Note 13: Reclassification).

NOTE 2. CASH AND CASH EQUIVALENTS

	as of 31 December	
	2010	2009
Cash in hand and in bank	10 180	376
Short-term deposits	196 902	292 098
Total cash and cash equivalents	207 082	292 474

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement
for the 12 months period of financial year 2010 ended 31 December 2010

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT

(thousand EEK)

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

	Property, plant and equipment				Assets in progress		Intangible assets		Total property, plant and equipment and intangible assets
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress - unfinished pipelines	Prepayment for fixed assets	Unfinished intangible assets	Development costs	
as of 31 December 2008									
Acquisition cost	368 045	2 285 000	585 674	18 373	22 082	91 974	1 853	2 726	62 372
Accumulated depreciation	-67 263	-710 568	-364 236	-12 247	0	0	0	0	-24 638
Book value	300 782	1 574 432	221 438	6 126	22 082	91 974	1 853	2 726	37 734
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
Write off and sale of property, plant and equipment, and intangible assets in book value	-2	0	-44	-54	0	0	0	0	0
Compensated by government grants	0	0	0	0	0	-178 646	0	0	0
Reclassification	6 123	77 215	26 302	2 063	-78 323	-1 103	-406	-8 938	4 198
Depreciation	-4 196	-38 733	-34 188	-1 229	0	0	0	-2 200	-8 607
Total transactions in the period 01.01.2009 - 31.12.2009	1 925	38 482	-7 930	780	20 970	-35 608	-406	-1 240	2 540
as of 31 December 2009									
Acquisition cost	374 151	2 359 614	603 762	18 441	43 052	56 366	1 447	1 484	13 907
Accumulated depreciation	-71 444	-746 700	-390 254	-11 535	0	0	0	0	-9 575
Book value	302 707	1 612 914	213 508	6 906	43 052	56 366	1 447	1 484	4 332
Transactions in the period 01.01.2010 - 31.12.2010									
Acquisition in book value	0	0	0	0	155 942	117 434	0	965	0
Write off and sale of property, plant and equipment, and intangible assets in book value	0	0	-69	-142	0	0	0	0	0
Compensated by government grants	0	0	0	0	0	-111 957	0	0	0
Reclassification	2 418	77 109	29 300	838	-110 166	-40	-387	-580	66
Depreciation	-4 249	-40 565	-32 562	-1 310	0	0	0	-2 809	-7 604
Total transactions in the period 01.01.2010 - 31.12.2010	-1 831	36 544	-3 331	-614	45 776	5 437	-387	385	-2 743
as of 31 December 2010									
Acquisition cost	376 570	2 436 597	621 767	18 101	88 556	61 803	1 060	1 869	11 171
Accumulated depreciation	-75 694	-787 139	-411 318	-11 809	0	0	0	0	-9 582
Book value	300 876	1 649 458	210 449	6 292	88 556	61 803	1 060	1 869	1 589

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 2010 the net balance sheet value of finance leases was respectively 5 203 thousand kroons and 4 025 thousand kroons.

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement
for the 12 months period of financial year 2010 ended 31 December 2010

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT (thousand EEK)**NOTE 4. REVENUE**

	Quarter 4		for the year ended 31 December	
	2010	2009	2010	2009
Revenues from main operating activities				
Total water supply and waste water disposal service, incl:	177 798	182 305	706 716	707 408
<u>Private clients, incl:</u>	<u>94 286</u>	<u>96 286</u>	<u>372 342</u>	<u>379 322</u>
Water supply service	52 439	53 583	207 033	211 379
Waste water disposal service	41 847	42 703	165 309	167 943
<u>Corporate clients, incl:</u>	<u>67 807</u>	<u>68 535</u>	<u>267 683</u>	<u>273 338</u>
Water supply service	37 161	37 504	147 717	152 092
Waste water disposal service	30 646	31 031	119 966	121 246
<u>Outside service area clients, incl:</u>	<u>12 923</u>	<u>14 510</u>	<u>53 430</u>	<u>40 003</u>
Water supply service	3 255	3 233	13 138	7 841
Waste water disposal service	9 668	11 277	40 292	32 162
<u>Overpollution fee</u>	<u>2 782</u>	<u>2 974</u>	<u>13 261</u>	<u>14 745</u>
Stormwater treatment and disposal service	11 765	14 188	51 412	46 957
Fire hydrants service	773	1 068	3 016	3 083
Other works and services	4 700	4 208	16 182	14 998
Total revenue	195 036	201 769	777 326	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 4		for the year ended 31 December	
	2010	2009	2010	2009
Salaries and wages	-20 623	-22 465	-67 903	-71 400
Social security and unemployment insurance taxation	-6 868	-7 481	-22 617	-23 777
Staff costs total	-27 491	-29 946	-90 520	-95 177
Number of employees at the end of reporting period			319	336

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement

for the 12 months period of financial year 2010 ended 31 December 2010

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT (thousand EEK)**NOTE 6. COST OF GOODS SOLD, MARKETING AND GENERAL ADMINISTRATIONS EXPENSES**

	Quarter 4		for the year ended 31 December	
	2010	2009	2010	2009
Cost of goods sold				
Tax on special use of water	-3 260	-3 012	-13 254	-11 479
Chemicals	-5 853	-5 222	-22 425	-20 082
Electricity	-11 402	-9 247	-42 316	-33 422
Pollution tax	-11 601	-3 161	-35 831	-16 918
Staff costs	-18 498	-22 553	-63 051	-70 273
Development	-126	-3	-126	-29
Depreciation and amortization	-19 867	-19 915	-79 677	-81 006
Transport	-3 945	-4 582	-18 915	-17 427
Other costs of goods sold	-13 555	-11 672	-48 036	-33 428
Total cost of goods sold	-88 107	-79 367	-323 631	-284 064
Marketing expenses				
Staff costs	-1 502	-1 205	-5 009	-4 516
Depreciation and amortization	-1 297	-1 302	-5 221	-5 207
Other marketing expenses	-557	-276	-2 085	-1 490
Total cost of marketing expenses	-3 356	-2 783	-12 315	-11 213
General administration expenses				
Staff costs	-7 491	-6 188	-22 460	-20 388
Depreciation and amortization	-815	-728	-3 029	-2 940
Other general administration expenses	-7 605	-7 604	-31 630	-30 165
Total cost of general administration expenses	-15 911	-14 520	-57 119	-53 493

NOTE 7. OTHER INCOME / EXPENSES

	Quarter 4		for the year ended 31 December	
	2010	2009	2010	2009
Profit from government grant	26 922	30 011	51 783	41 373
Other income / expenses (-)	-3 603	-865	-6 319	-3 109
Total other income / expenses	23 319	29 146	45 464	38 264

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement
for the 12 months period of financial year 2010 ended 31 December 2010

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT (thousand EEK)**NOTE 8. FINANCIAL INCOME AND EXPENSES**

	Quarter 4		for the year ended 31 December	
	2010	2009	2010	2009
Interest income	6 050	9 079	16 569	25 266
Interest expense, incl swap interests	-10 477	-6 517	-37 124	-36 413
Swap fair value	17 318	-11 116	-19 354	-16 116
Other financial expenses	199	-155	-218	-33 601
Total financial income / expenses	13 090	-8 709	-40 127	-60 864

NOTE 9. DIVIDENDS

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

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

NOTE 10. EARNINGS PER SHARE

	Quarter 4		for the year ended 31 December	
	2010	2009	2010	2009
Net profit minus B-share preference rights (in kroons)	124 061	125 526	256 674	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
Earnings per A share (in kroons)	6,20	6,28	12,83	17,00
Earnings per B share (in kroons)	10 000	10 000	10 000	10 000

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

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement

for the 12 months period of financial year 2010 ended 31 December 2010

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT (thousand EEK)**NOTE 11. RELATED PARTIES**

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

Shareholders having the significant influence**as of 31 December****Balances recorded in working capital on the balance sheet of the Company**

	2010	2009
Accounts receivable	112 568	2 160
Accrued income	113 529	93 200
Accounts payable - short-term trade and other payables	3 127	3 836

	Quarter 4		for the year ended 31 December	
	2010	2009	2010	2009
Transactions with the related parties				
Sales services	12 387	15 106	53 828	49 740
Compensations receivable from the local governments for constructing new pipelines	110 665	87 783	162 568	186 533
Purchase of administrative and consulting services	3 607	5 179	16 149	19 357
Financial income	5 398	6 008	11 460	10 047
Management Board fees excluding social tax	1 186	623	3 112	2 558
Supervisory Board fees excluding social tax	150	150	600	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.

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement
for the 12 months period of financial year 2010 ended 31 December 2010

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT

NOTE 12. LIST OF SUPERVISORY COUNCIL MEMBERS

Robert John Gallienne	Chairman of the Supervisory Council
Leslie Anthony Bell	Member of the Supervisory Council
Simon Gardiner	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

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement
for the 12 months period of financial year 2010 ended 31 December 2010

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT (thousand EEK)**NOTE 13. RECLASSIFICATION****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	2009		2009
	Opening balance	Reclassification	Revised balance
Property, plant and equipment	2 152 952	83 948	2 236 900
Prepayment of single and developing areas	0	83 948	83 948
	2008		2008
	Opening balance	Reclassification	Revised balance
Property, plant and equipment	2 168 225	50 462	2 218 687
Prepayment of single and developing areas	0	50 462	50 462