Tallinna Vesi • Annual report 2010

02 General facts
04 Highlights of the year 2010
06 Key performance indicators
07 Management system
08 Delivery of company objectives in 2010
09 Company objectives in 2011
10 Chairmans statement
13 Drinking water
16 Wastewater treatment
18 Watercom & Business Development
20 Our customers
22 Our people
25 Our community
27 Our environment
28 Compliance

Mission

We create a better life with pure water!

General Facts

- AS Tallinna Vesi is the largest water utility company in Estonia, providing drinking water and wastewater disposal services to approximately 1/3 of Estonia's population.
- The Company provides water and wastewater disposal services to over 21,000 customers and 430,000 end consumers in Tallinn and its surrounding areas.
- The Company has the exclusive right to provide water and sewerage services in the Tallinn service area until the year 2020.
- A services agreement with 97 quality levels of service has been concluded between the city of Tallinn and the Company for providing the services.
- The Company has two main treatment plants: Ülemiste water treatment plant (WTP) and Paljassaare wastewater treatment plant (WWTP).
- Water has been treated at Ülemiste since 1927. A new water treatment plant was built in 1979.
- The water treatment plant produces an average of 60,000 m^3 of water per day.
- Almost 90% of drinking water is produced from surface water. Lake Ülemiste is the main source of drinking water for the residents of Tallinn and, therefore, the lake is not a public water body. 10% of the consumers use regional ground water.
- Average water consumption in 2010 was 95 litres per inhabitant (95 litres in 2009).
- Paljassaare WWTP started operating in 1980.
- The wastewater treatment plant treats on an average 120,000 m^3/day.
- The Company has an accredited water laboratory and an accredited wastewater labo-

Vision

We will be a role model for every service providing company and employer, exceeding the expectations of our customers, employees and owners. We will be the benchmark company for behaving in an environmentally conscious way to improve the quality of life.

Our values

COMMITMENT • We work with passion, doing the maximum to achieve the objectives.
CUSTOMER FOCUS • Our actions help our customers and colleagues to find solutions.
TEAMWORK • We all form one team who know that our success depends on the contribution of each individual.
CREATIVITY • We have the courage and the energy to seek new opportunities and achieve better results.

ratory, which together conducted over 127,000 analyses in 2010.

- The public water supply system comprises almost 940 km of water networks, 16 water pumping stations and 64 ground water borehole pumping stations with 93 boreholes.
- The public sewerage system comprises 907 km of wastewater networks, 408 km of storm water networks and over 144 sewerage pumping stations across the service area.
- During 2010 AS Tallinna Vesi founded its 100% owned subsidiary, Watercom, to diversify our product offering and pursue business development and growth.
- In 2010, the Company and its subsidiary employed a total of 319 employees. On an average the Company empoyed 305 people in 2010.
- The Company shares are listed on the main list of Tallinn Stock Exchange.

Operational sites

- Head office, customer service, support services and OÜ Watercom in Ädala 10, Tallinn.
- Ülemiste water treatment plant, water and microbiological laboratory in Järvevana road 3, Tallinn.
- Paljassaare wastewater treatment plant, composting fields and wastewater laboratory in Paljassaare põik 14, Tallinn.
- Sludge composting and experimental site in Liikva village, Harju county.
- The catchment area ca 1800 square kilometres in Harju and Järvamaa counties.

Highlights of the year 2010

- In 2010 the quality of drinking water offered to the customers was the highest ever – 99.59% of the samples taken at customer's tap were compliant with all drinking water quality requirements

- As of the end of 2010, ca 99.7 % of the Company's service area in Tallinn is covered with the public water supply and sewerage network. During the networks extension programme 6828 properties were provided with the opportunity of connection to the public water supply and sewerage network. During 9 years a total of 326 kilometres of new pipeline were constructed.

- Due to the reorganisations in the Company the number of occasions in case of which the customer was not previously notified about the interruption reduced from 735 to 355.

- The Company scored 73 points among its customers and 71 points among its end users on a scale of 100 in the final TRI*M index of the customer satisfaction survey carried out by an independent research company EMOR. The results of the study show that satisfaction is above 70 points in all segments.

- In 2010 the Company invested approximately 275 million kroons, of which more than 237 million kroons was invested into the construction and development of the networks. 26.4 million kroons was invested into developing Paljassaare Wastewater Treatment Plant, 4.8 million kroons into improving the quality of drinking water and 5.8 million kroons was directed to other investments.

- In order to increase the nitrogen removal in wastewater treatment process and to improve the quality of wastewater discharged to the Gulf of Finland, the Company commenced the construction of an additional treatment stage – biofilter – to Paljassaare Wastewater Treatment Plant in 2010.
- The Company established a subsidiary Watercom OÜ that focuses on expanding the public water supply and sewerage services not within the parent undertaking's regulated business into areas outside the main service area all over Estonia.

- At the NASDAQ OMX Baltic Stock Exchange the Company was recognised for the best Investor Relations in Estonia.

- Det Norske Veritas confirmed the compliance of the management system with ISO 9001, ISO 1400 and OHSAS 18001 standards and also with EMAS (Eco-Management Audit Scheme) requirements and the continued validity of the respective certificates was confirmed For the first time in years, 0 non-conformities were found during the audit.

- In 2010 the Company achieved 95 out of the 97 levels of service agreed upon with the Services Agreement. The increase in leakages to 21.39% was impacted by extreme weather conditions. At the same time major floodings during snow melting period were avoided through preventive activities.

- The Company prepared the risk assessment and plan for continuous operation of vital services and submitted it to the City of Tallinn.

- In March a cargo plane made an emergency landing on the ice of Lake Ülemiste. Despite local fuel pollution, with quick actions the Company managed to ensure the retention of the quality of drinking water. The Company acted operatively in emergency situation and in compliance with the crisis action plan.

- In order to turn attention to the maintenance of sewerage pipeline the Company organised an awareness campaign "Don't clog the bog!".

- In cooperation with the City of Tallinn the Company organised miniregatta on Vabaduse Square to celebrate that the construction of public sewerage system in Tallinn is soon to be completed and that 30 years have passed from Pirita Olympic Regatta.

- Open Door Days at Paljassaare Wastewater Treatment Plant in May attracted more than 300 visitors. Approximately 1500 people attended Ülemiste Water Treatment Plant in August within the Open Door Days and the Lake Run. Close to 300 people visited the plant.

- Company's activities were recognised at a competition organised by the Ministry of Environment of the Republic of Estonia, where the Company was awarded with a prize "Top Performer 2010 in Environment Area". In the category of environmental management the Company was positively highlighted for environmental education aimed towards Company's consumers.

Gerda Matvere
Analyst

Key performance indicators

Operation Performance

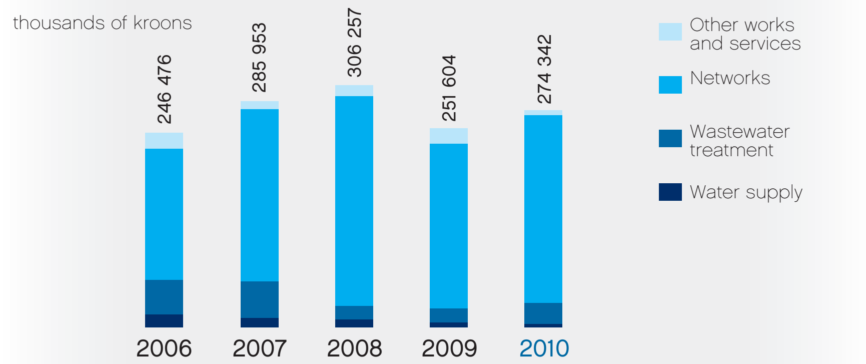
	2001	2008	2009	2010
Water				
Water compliance at customers premises %	63,3	98,02	99,31	99,59
Total number of customer interruptions (unplanned)	1733	761	732	355
Loss of water in distribution system %	32,4	17,25	17,51	21,39
Wastewater				
Number of sewer blockings	2080	1336	1089	1152
Number of sewer collapses	144	118	117	138
Wastewater treatment complience %	–	100	100	Compliance achieved regarding all parameters, except total nitrogen
Share of recycled sludge %	64	100	100	100
Network extension program				
Network Extension Program completion per annual plan %	–	100	130	109
Number of properties given access to public sewerage network	–	1236	1423	1173

Financial results

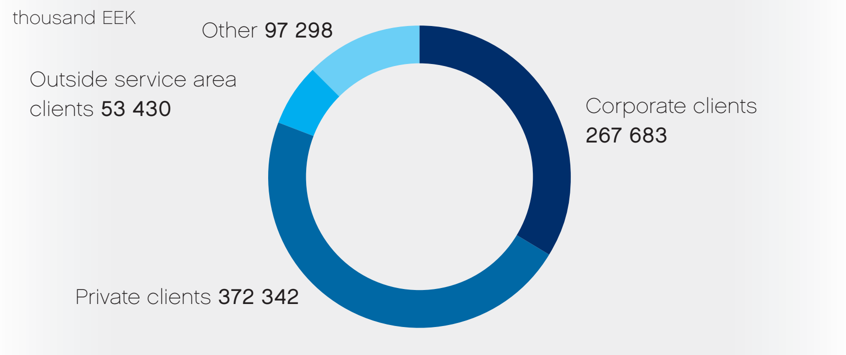
	2006		2007		2008		2009		2010	
million kroons/euros	kr	€	kr	€	kr	€	kr	€	kr	€
Sales	589,2	37,7	648,3	41,4	719,9	46,0	772,4	49,4	777,3	49,7
Gross profit	368,6	23,6	431,7	27,6	447,2	28,6	488,4	31,2	453,7	29,0
Operating profit	337,9	21,6	377,4	24,1	405,4	25,9	461,9	29,5	429,7	27,5
Operating profit - main business	331,0	21,2	363,1	23,2	377,4	24,1	420,6	26,9	377,9	24,2
Profit before taxes	294,9	18,9	333,1	21,3	362,2	23,1	401,1	25,6	389,6	24,9
Net profit	248,0	15,9	277,8	17,8	296,0	18,9	339,9	21,7	256,7	16,4
%										
ROA %	10,0		10,9		11,6		12,3		8,9	
ROE%	21,5		22,5		23,1		24,4		22,4	
Return on invested capital (real) %	6,3		6,6		6,4		6,6		5,5	

Management system

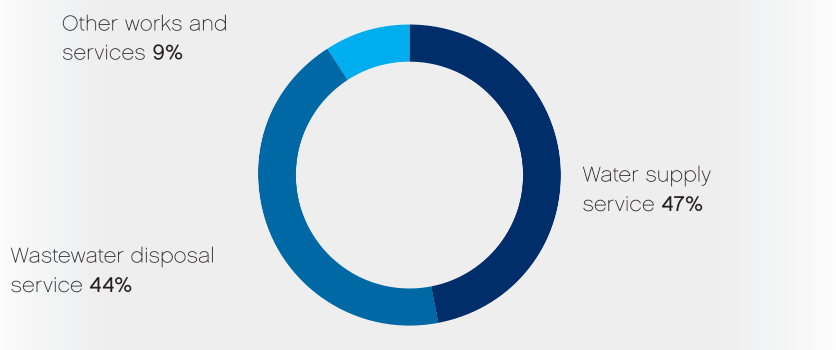
Investments in different fields



Sales revenue



Sales breakdown



• PLAN

- Identifying requirements of significant stakeholders
- Identifying significant risks
- Setting objectives and tasks

• Do

- Achieving the objectives
- Organising daily work
- Ensuring the compliance with regulatory and other requirements
- Employee development
- Ensuring communication
- Administration of documentation

• Check

- Monitoring and measuring of activities
- Carrying out internal audits

• Improve

- Improving plans and activities
- Preventing problems
- Solving problems

The requirements from various management system standards have been integrated into the management system of the Company, proceeding from principle of continuous improvement.

2001 - ISO 17025 LABORATORIES QUALITY MANAGEMENT SYSTEM*
2002 - ISO 9001 QUALITY MANAGEMENT SYSTEM*
2003 - ISO 14001 ENVIRONMENTAL MANAGEMENT SYSTEM*
2005 - EU EMAS ENVIRONMENTAL MANAGEMENT SYSTEM
2007 - OHSAS 18001 OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM

* required by the Services Agreement concluded between the City of Tallinn and the Company.

Delivery of company objectives in 2010

Objective •••••••••• Evaluation base

Customer service

- ✓ To reduce the number of written complaints •••••••••• Number of written complaints has reduced compared to Q4 2009
- ✓ To improve the speed of responding to customerst •••••••••• 80% of written complaints answered within 2 workdays
- ○ To improve the speed of responding to customers •••••••••• 20% of written complaints answered within 8 workdays
- ○ To increase customer satisfaction •••••••••• Customer satisfaction with the service has improved by 5% both as per the results of monthly internal surveys and external surveys compared to 2009

Operational performance

- ✓ To improve water quality •••••••••• Water quality is 99.31% compliant
- ✓ To reduce customer contacts regarding water quality •••••••••• Number of customer contacts regarding water quality has reduced 7% compared to 2009
- ✓ To reduce the number of unplanned interruptions •••••••••• Number of unplanned interruptions reduced at least by 5% compared to 2009
- ○ To reduce floodings/blockages caused by public sewerage network on customers' properties •••••••••• Number of floodings/blockages caused by public sewerage network on customers' properties has reduced compared to 2009
- ○ To improve wastewater treatment •••••••••• To achieve the compliance of effluent pollution parameters in at least 2 quarters

Financial performance

- ○ Additional revenues from non-core activities •••••••••• Revenues from other non-core activities has increased by 3 m'EEK
- ○ Saving on fixed costs •••••••••• Fixed costs reduced by at least 11 m,'EEK compared to the budget

People

- ✓ Committed, creative, customer-focussed teams •••••••••• ASTV TRIM index 10 points higher than Estonian average
- ✓ To improve inter-departmental cooperation •••••••••• In 2010 ESS the score for inter-departmental cooperation is better than in 2009
- ✓ To reduce the number of short-term sick leave days •••••••••• Number of short-term sick leave days is lower than in 2009
- ○ To improve employees' feedback regarding management •••••••••• In 2010 ESS the score for employees' feedback to the unit management is better than in 2009
- ○ To reduce the number of work accidents that the employer is liable for •••••••••• 0 work accidents that the employer is liable for

Company objectives in 2011

Customer service

- Potential commitment for non-compliance with our promises (GSS) 15 000 euros
- At least 90% of written contacts answered within 2 working days
- On at least 95% of occasions operations have notified customer service about unplanned interruptions in working day/hours and customers are informed at least 1 hr in advance
- On first phone call 90% of customers will know what will happen and by when and we'll keep our word

Operational performance

- Compliance of water quality at customer taps with the requirements at least 99.31% (excl. Maardu)
- Level of water loss in network less than 19.00% (incl Maardu
- Reduction in the maximum hours of interruptions to less than 60 000 hours
- 90% of blockages and flooding events responded to within 2 hours
- Compliance of pollution parameters in effluent at the WwTP in at least 3 quarters

Financial performance

- Revenue increase from non-regulated activities by 225 000 euros
- Fixed costs reduction by 450 000 euros compared to the budget*

People

- Employee commitment and satisfaction with the Company is significantly higher than Estonian average (TRIM index 10 points higher)
- Improvement of inter-departmental cooperation compared to 2010 (Internal Customer Satisfaction Survey)
- Employee feedback to management is better than in 2010
- 0 work accidents that the employer is liable for and less than 1200 short term sick leave day's

Ian Plenderleith
CEO, Chairman of the Management Board

Chairmans statement

2010 has been an extremely challenging year for AS Tallinna Vesi. Our company, our performance, our financial results and our business model have all been criticised by various politicians, political groups and state institutions. All of these criticisms have been made without any prior discussion with our company, or without making any attempt to understand our services agreement or our financial model. In addition we have been faced with some of the most extreme weather conditions, in both winter and summer, seen in Estonia in decades, which has contributed to the most difficult operating conditions we have faced.

Therefore it gives me great pleasure to say that our operating performance across most business areas has continued to improve. This improvement is a testimony to the attitude and commitment of our staff who have worked tirelessly to provide a better service for our clients in spite of the adverse weather conditions and the difficult political environment. For this, on behalf of the Board and owners of the company, I would like to say thank you.

It is also very pleasing to see that our efforts have been recognised externally. At the NASDAQ OMX Baltic Stock Exchange awards for 2010 we once again won the award for the company with the best Investor Relations in Estonia. In addition the Ministry of Environment presented the Company with the "Environmental Player of the Year Award" for our operational performance and our customer awareness campaigns during the year. These awards are clear demonstrations of the company's commitment to improving environmental awareness and of course transparent reporting and high quality corporate governance, both of which are pre-requisites for any responsible utility company.

Operations & Customer Service – best ever water quality at western European levels

We have continued to ensure we meet or exceed the services contract we have with the City of Tallinn. This services contract requires us to maintain a high standard of service to our customers across a range of over 90 levels of service, ensuring that we deliver a service to our customers that is second to none.

We invested almost 275 mln kroons in 2010, in our networks, treatment plants and catchment area to help deliver an improved service for the people of Tallinn. In 2010, the highlight of our operational performance was the quality of tap water with drinking water quality compliance at the customer's tap improving to almost 99.6%, which is well above the EU standard and close to the highest standards in Western Europe.

Network access for everyone

In November 2007 we agreed a partnership with the City of Tallinn to finance and deliver over 3,500 new sewerage connections by the end of 2010 and to finalise the construction program fully by end of 2012. We are pleased to report that all the connections promised by the end of 2010 were delivered and this important environmental programme was completed on time. As a result of the efforts of our teams and our contract partners we have constructed 170 km of water, wastewater and storm water networks and 3,779 connection points in the past three years. These constructions bring significant environmental benefits and cost savings to all the households that have been given the opportunity to connect. Furthermore, fulfilling this programme on time enables the City of Tallinn to fulfil its EU obligation regarding network accessibility. We are rightly proud of our contribution in this extremely important project.

Customers recognise our quality

I was delighted to see that our customer satisfaction rating improved in 2010. After a disappointing fall in 2009 our performance rating in 2010 for domestic customers increased to 78 points on the TRIM Index, an increase of 11% year on year and brings our customer satisfaction back to 2007 levels. It is extremely positive that, in spite of the negative media comment about the company our customers recognise the quality of our products and services. We fully understand the responsibility we have before our customers and are determined to provide an even better service.

Our People and teams

In 2010 the commitment of our workers was exemplary. The severest of winters and the dries of summers placed additional stresses on our teams and our resources. However it comes as no surprise for me to say that our people rose to these challenges and once again delivered an excellent service that is without comparison across the Baltic's. During the year we made some structural changes in our customer facing departments in order to make our working processes and internal communications even more customer focussed. We expect our customers to see the full benefits of these changes in 2011.

In AS Tallinna Vesi we strive to develop our talented members of staff. In 2010 we saw a number of our talented young people rise into management positions. This is something I very much welcome and hope that giving opportunities for personal and professional development will make the company an attractive employer for the brightest and the best.

Stable Revenues, returns in accordance with other privatised utilities

Our financial performance continues to be robust. Our turnover from our main business activity, sales of water and wastewater decreased by 0.1% to 706.7 mln kroons (45.2 mln Euros) and our operating profit from these activities increased by 10.1% to 377.9 mln kroons (24.2 mln Euros). The real return (net of inflation) on invested capital in our main business was 5.5% in 2010 and 6.3% over the five year period from 2006 to 2010, which is in accordance with the rates of return made by other privatised water utilities.

Uncertain growth potential

Our excellent operational performance leaves us well placed to expand our service offering across the Baltic's. We already provide a very high quality service and we should be able to utilize this operational strength to increase revenues from activities outside of the City of Tallinn whilst bringing a better quality service to other municipalities at a lower cost. In 2010 we created our subsidiary Watercom to offer our world class services across the country. Unfortunately the new regulatory regime implemented in late 2010 lacks clarity and may mean that our growth opportunities within Estonia are limited. We will however continue to work with the various ministries and regulatory authorities to demonstrate the benefits that outsourcing in the water sector can bring for both customers and the environment.

Change of law and new regulator

It is impossible to review 2010 performance without commenting on the potential impact on the company of the changes in the way the water sector will be regulated from 2011 onwards.

In August 2010 the Act on Establishing Price Limits on Monopolies was passed by Parliament, which gave the power to set tariffs to the Estonian Competition Authority. On 10 November the Competition Authority also published their recommended methodology which they will use as the basis to regulate prices in the water industry.

This act and methodology fundamentally changed the contract that we have with the City of Tallinn. In previous years our tariffs were approved by the City of Tallinn in accordance with the tariff mechanism agreed on privatisation, and the 'K' factors agreed when the contract was amended in 2007. This was a simple and effective tariff mechanism that gave little room for dispute and, as 'K' factors were agreed until 2020, gave excellent transparency to all stakeholders.

From 1 November 2011 we have had to apply to the Competition Authority for our tariff increase due from 1 January 2011. In order to ensure our application was as professional as possible we worked with Oxera, the UK economic consulting group, to analyse our current contract and ensure that the returns made by the company were in accordance with those made by other privatised utilities. This analysis proved that this was correct and that our real rates of return were not excessive. Therefore, as per the terms and conditions of our contract, on 9 November 2010 we applied to the Competition Authority for a 3.5% tariff increase from 1 January 2011. To date however the Competition Authority has not processed our tariff application or taken the opportunity to engage in meaningful discussion on the merits of the application. Therefore, at present our tariffs remain frozen at 2010 levels.

Uncertain outlook and a request to respect the contract

The change in regulatory environment leaves the company in a very uncertain position. At present we have no clarity of revenues, do not know the policies and levels of risk we may have to take when purchasing supplies which are absolutely necessary but where the prices are extremely difficult to predict, such as energy and chemicals, and are unsure of the quality standards we must achieve on behalf of our customers, nor the investments we need to make to protect our services and the environment. In summary we are currently unable to fully manage our business and will be unable to do so until the authorities engage in meaningful discussion about our current contract. However I would like all our stakeholders to know that we are doing everything in our power to ensure this contract is fully respected as we believe it has brought and will continue to bring significant benefits to the citizens of Tallinn. In this uncertain interim period we are 100% committed to bringing the same high level of service to all our direct customers and service users.

Finally, I would like to thank my colleagues in Tallinna Vesi and Watercom, and all our suppliers and business partners for all their energy, commitment, and support in serving our customers in this challenging and uncertain year. It is because of all your efforts that we are once again able to report a level of operating and service performance that is second to none.

Drinking water

2010

- Water quality 99.31% compliant with the regulation
- Number of customer contacts related to water quality reduced from 429 in 2009 to 399
- Number of interruptions to water supply reduced from 732 to 699
- To improve the reliability and operation of the water network: leakages level below 18%

OBJECTIVES

2011

- Water quality at least 99.31% compliant with the regulation in all operating areas (except Maardu)
- Level of water losses below 19.00% in all operating areas (incl. Maardu)
- Maximum duration of interruptions to water supply less than 60,000 hours (total for all affected customers)

Quality of drinking water at the customer's tap

In 2010, the quality of drinking water supplied to our customers was better than ever before. 99.59% of water samples taken at the taps of the Company's customers complied with legal quality requirements set for drinking water. This is an outstanding achievement exceeding both the 2009 performance and the obligation of the Services Agreement signed with the City of Tallinn under which 95% of the drinking water samples are required to comply with the quality standards.

Compliance of drinking water quality with the requirements of the Regulation No. 82 issued by the Minister of Social Affairs, 2006-2010

%	2006	2007	2008	2009	2010
	96,67	97,53	98,02	99,31	**99,59**

The Company follows detailed regional drinking water sources and drinking water monitoring programmes approved by the Health Board. The programmes include quality control requirements set for surface water, water treatment plant, ground water system and water network in the city. These programmes also specify the sampling frequency and the parameters to be checked by the Company's laboratories.

The structure of the Company includes a laboratory unit, which has been accredited by the Estonian Accreditation Centre since 2001. The current scope of accreditation includes 49 methods of analysis with more than 80 parameters in total. Laboratory unit consists of a water laboratory and a microbiology laboratory in Ülemiste water treatment plant and a wastewater laboratory in Paljassaare wastewater treatment plant.

Monika Jürgenson
Laboratory Assistant
in Water Laboratory

In 2010, the laboratories received 37,500 samples and performed approximately 127,000 tests in total. Two thirds of them were dealing with drinking water and one third with wastewater.

Availability of up-to-date technologies and professional specialists enable the laboratories to offer a wide variety of services to external customers as well. The volume of services provided to external customers has increased each year. In 2010, the services provided to external customers formed 6% of all services provided by laboratories. Most of the customers are building companies, other water undertakings, food establishments and private consumers.

In 2010, the laboratories of the Company actively participated in comparative testing between laboratories. 111 of the total 280 test results were submitted within international schemes. Also, three Laboratory Specialists passed the Assessor Training Course organised by the Estonian Accreditation Centre (EAC) and are now able to participate in the EAC's team assessing other laboratories.

In 2010, the Company continued its investments in laboratory equipment and purchased the analyzer for total organic carbon and total nitrogen (TOC/TN) for the wastewater laboratory in Paljassaare wastewater treatment plant. This new and modern equipment enables to make much more accurate carbon analysis and to carry those out significantly faster, thus extending the volume of information indicating current treatment efficiency and making it available sooner. This contributes to the optimisation of the treatment process, which can also be managed in a more operative manner.

Surface water quality

The excellent water quality results have been achieved as a result of joint efforts and work of different teams. The Company takes great efforts to ensure the supply of high water quality to all consumers. Lake Ülemiste is the main source of drinking water for the residents of Tallinn and, therefore, the lake is not a public water body.

Despite unfavourable weather conditions such as high amounts of snow and low temperature, the Company managed to ensure an uninterrupted operation of surface water catchment and related facilities. A proactive approach taken by the Company prevented floodings during snow melting period. The Company managed to ensure a sufficient water stock for the entire period. Cooperation with local governments also played an important role, as considering the wishes and proposals of local governments, the Company managed to find the best possible solutions.

In March 2010, a Polish cargo plane made an emergency landing on the ice of Lake Ülemiste near the shore, ca 2 km from the Water Treatment Plant. During emergency landing, the fuel that partly spilled from the aircraft tanks into the lake and on the ice, polluted the falling track. In order to remove the fuel, the absorbent booms, mats and certain powder were immediately used. The area of the incident was surrounded by an underwater barrier that kept the pollution spreading under the ice. When ice melted, the barrier was pulled on shore together with the pollutants that were neutralised on site. These actions prevented the pollution to spread further in the lake. The Company took additional water samples in the Water Treatment Plant and monitored water quality around the incident site, additional oil blocks were also placed at the intake of the treatment plant. The Company was also prepared to use additional chemicals and activated carbon in order to neutralise potential pollution. The results of the analyses showed no signs of pollution in the water taken into the treatment plant and the event did not impact the quality of drinking water.

Ground water quality

Less than 11% of the population in Tallinn are supplied with drinking water extracted from Cambrian-Vendian and Ordovician-Cambrian aquifer. The areas supplied with ground water are Nõmme, Laagri, Pirita, Tiskre, Pillado, Harku small towns as well as the cities of Saue and Maardu. According to the drinking water source monitoring programme all ground water quality parameters are monitored and if necessary, ground water is treated. Pressure filters installed in the ground water pumping stations for removing excess iron and manganese have ensured the water supply to meet the quality standards. Water tests show that treatment significantly reduces turbidity, ammonium, iron and manganese content in water, also the colour and stability index of water improve and oxygen content increase.

Ground water in Cambrian-Vendian aquifer in Northern-Estonia contains natural radionuclides. In order to assess the impact of radioactivity on consumers' health, the Estonian Radiation Centre in cooperation with the Health Board carried out a health risk analysis in autumn 2010. Based on the results of the risk assessment, any health damage of accidental nature resulting from the content of radionuclides in the water of Cambian-Vendian boreholes is unlikely.

Improving the water treatment process

In 2010, several investments were made to refine and improve the water treatment process. Treatment of drinking water focused more than before on the ozonisation process. Ozone generators were cleaned and repaired, air preparation equipment was refurbished and the air preparation compressor was also replaced by a new and economical one. Those changes make the process of disinfecting raw water more reliable and contribute to the sustainability of the treatment plant. In order to reduce short-term interruptions in water supply and to increase the immunity of power supply to the pumps, the frequency converter in the II level pumping station was replaced by a more modern and reliable one.

In 2010, the Company carried out test studies in Ülemiste water treatment plant in order to update the treatment process in the future. It studied the possibilities to reduce organic substance in the treatment process. A process working on the principle of magnetic ion exchange, called the MIEX system, turned out to be suitable for processing raw water.

In 2010, significant investments were also made into bore well pumping stations. In order to improve water quality in ground water areas and to make pumping stations more reliable, the Company invested into water treatment equipment by installing pumps with higher capacity and new controllers. A remote monitoring and controlling system for pumping stations was commissioned to even out drinking water pressure in Nõmme area and it regulates the volume of water extracted from the pumping station and the flows to be pumped into the ground water tank.

Water networks maintenance and investments

Preventive works in the form of networks flushing and water supply network renovation are carried out to maintain and improve the quality of drinking water used in the homes of customers. Cleaning and washing the water network removes the sediments inside the pipes and creates the necessary conditions for preserving water quality in the network. In 2010, 165 km of water pipes were cleaned using pressure washing method. Extraordinarily cold winter and high amount of snow constituted the main reason for a reduction in the volume of network cleaning compared to the previous years. Temperature below -10°C and lot of snow make the works very difficult*.

Cleaned water network, 2006-2010

km	2006	2007	2008	2009	2010
	238	227	229	232	165*

Investments into replacing old water pipes and network extensions have facilitated improvement in water quality and more efficient usage of water resources. 16.7* kilometres of water pipes were reconstructed and 6.2 km of new pipes were constructed in 2010, creating the opportunity to connect to the public water supply network for 126 properties.

Water network reconstruction 2006-2010

km	2006	2007	2008	2009	2010
Reconstruction	6,4	6,9	16,7	23,8	16,7*

Network extensions and connection opportunities 2006-2010

	2006	2007	2008	2009	2010
Network (km)	0,8	2,6	2,9	5,5	6,2
Properties that received a connection opportunity	21	26	86	80	126

Leakages and water supply interruptions

In 2010, the increase in leakage level was affected by extreme weather conditions. Detection and fixing of leakages is difficult in winter when the ground is frozen. Cover of snow also complicates finding the leaks. The frequency of pipe bursts increased by 28% compared to 2009.

Leakage level and leakages on water network 2006-2010

	2006	2007	2008	2009	2010
Leakage level %	19,65	19,58	17,25	17,51	21,39
Leakages on water network	575	599	585	493	688

In 2011, the Company will continue work to reduce the level of leakages and to keep leakages at an economic level. The calculation of the economic leakage level for Tallinn indicates that an economically optimal level is 18 %. The Company has set the target to bring the level of leakages under 18% by the end of 2011.

It is important for customers to have a 24hour access to water with excellent quality indicators and right pressure. The likelihood of water interruptions cannot entirely be excluded. Nevertheless, it is possible to reduce the number and duration of interruptions and notify the customers in advance, however, in case of unplanned interruption it cannot always be done at the right time. The 2010 objective was to reduce the number of such cases, where the customers were not informed of unplanned interruptions beforehand, from 732 in 2009 to 699. In 2010, 355 interruptions occurred when the customers were not informed. This result is significantly well above the target. In order to improve the work organisation, thorough changes were made in the Company's structure. Amongst other things a Customer Operations Department, which is responsible for planning the works, was created. As a result of the improvement of work organisation, the advance notification of customers of planned activities on the network was also made more efficient.

Wastewater treatment

OBJECTIVES

2010

- The number of floods/blockages caused by the public sewerage network on the immovable properties of customers decreases in comparison to 2009 to less than 1089 occasions per year
- We ensure full annual compliance

2011

- 90% of blockages and flooding events responded to within 2 hours
- Compliance of pollution parameters in effluent ensured in at least 3 quarters

Maintenance of the sewerage network

Collection and discharge of wastewater is secured primarily by preventive flushing of sewerage pipes, as well as by reconstruction and extension of sewerage and storm water networks. Additionally the concentration level of wastewater is regularly monitored to prevent any failures in the treatment process. The number of blockages is the main indicator for the condition of the sewerage network and this number has mostly decreased over the years. The Company uses annual preventive pressure washing to prevent blockages and to increase the capacity of sewerage pipes.

Blockages are mainly caused by sediments settling in wastewater pipes, but also by decreased volumes and flow rates caused by lower water consumption. In addition, extension of the sewerage network should also be taken into account when assessing the total number of blockages. The number of blockages slightly increased in 2010 compared to 2009 due to extrardinarily cold and snowy winter.

Number of blockages 2006-2010

2006	2007	2008	2009	2010
1392	1435	1336	1089	1 152

Sewerage pipes cleaned 2006-2010

km	2006	2007	2008	2009	2010
	85	99	165	180	147

Reconstruction and extension of the sewerage network

As of the end of 2010, ca 99.7 % of the Company's service area in Tallinn is covered with the water supply network and ca 99.7 % with the public sewerage network. During the period from 2008 to 2010 the Company constructed more than 150 km of new pipes, providing more than 3,000 properties with the opportunity of connection to the public sewerage network. Investments in the extension of networks are essential to minimise the potential environmental risks associated with cesspits and to improve the living environment of the city residents.

In 2010, the Company carried out renovations on the existing sewerage network and built new sewerage and storm water systems. The majority of sewerage network extensions occurred in the districts of Nõmme and Pirita and a total of 41 km of new sewerage pipes were constructed, providing connection opportunities for 1,173 properties. In addition, 6.4 km of existing sewerage pipes were renovated.

Sewerage and stormwater network extensions 2006-2010

	2006	2007	2008	2009	2010
Construction of new sewerage pipes	6,4	13	34,1	42,8	41
Number of properties provided with connection opportunity	310	618	1204	1423	1173

Sewerage and storm water network reconstruction 2006-2010

km	2006	2007	2008	2009	2010
	5,6	5,2	5,9	5,5	5,7

Wastewater treatment

Each year Paljassaare Wastewater Treatment Plant removes more pollutants from wastewater in order to ensure compliance with environmental requirements and general cleanliness of the Baltic Sea and the Gulf of Tallinn.

Paljassaare Wastewater Treatment Plant uses environmentally-friendly and modern technologies to treat the wastewater collected from Tallinn and the surrounding areas. In 2010 the quality of treated effluent in Paljassaare Wastewater Treatment Plant complied with all the set parameters, except with regard to the content of outgoing nitrogen caused by the extraordinary weather conditions and increase in pollution load. In 2010 the content of nitrogen in effluent in Paljassaare Wastewater Treatment Plant exceeded the requirement of 10,0mg/l (T>+12°C) in three quarters out of four, resulting in an annual average nitrogen content of 11,8mg/l.

The Company continues to invest in the assets of the wastewater treatment plant to increase the efficiency of nitrogen removal and improve quality of the treated effluent discharged to the Gulf of Finland. Pursuant to the trend of increasing pollution load, in 2009 the Company initiated the procurement of preparing a project for the 3rd treatment stage and the technological process. Taking into account the Company's development strategy, the 12-year public water supply and sewerage development plan of the City of Tallinn and the decisions of HELCOM, in 2010 the Company commenced the construction works for biolfilter as the 3rd treatment stage. The realisation of the project, completion of the test period and commencement of the 3rd treatment stage are planned in the 3rd quarter of 2011.

Sludge is a by-product of wastewater treatment and the Company processes the sludge into soil conditioner that is used in landscaping and horticulture. All of the sludge is re-used.

More information about the Company's water and wastewater treatment is available in the 2010 electronic environmental report.

Watercom & Business Development

• Income from other ancillary services increases by 3 million EEK compared to 2009

2010 OBJECTICES 2011

• Turnover from non-regulated business other than Tallinn contract 450 000 EUR;
• Expansion of Watercom service area in Estonia by 5000 new human equivalents;
• Increased customer satisfaction with Watercom services

During 2010 AS Tallinna Vesi founded its 100% owned subsidiary, Watercom, to pursue business development and growth. The main focus of Watercom is to increase the long term profitability of AS Tallinna Vesi (group). Watercom will achieve this by expanding into new geographical areas and by identifying skills that it and AS Tallinna Vesi already have, and then utilising these skills in new markets.

In 2011 Watercom will be focusing on three key markets:

Water and Wastewater Services to Municipalities

• Across Estonia

The main focus areas for Watercom is to expand into other municipalities across Estonia using long term operations and maintenance contracts. During 2010 the possibilities in these business areas have been restricted due to the changes in law and regulatory methodologies. As a consequence of these changes, from 1 November 2010 all municipalities serving more than 2,000 human equivalents now have their tariffs approved by the Competition Authority (CA). To carry out this role the CA has created a new price methodology which to date is largely untried and untested. Consequently these changes have created uncertainty across the sector with many municipalities postponing or deferring decisions regarding outsourcing part or all of their operations until the application of the law and the price methodology becomes clear. This has restricted business development activity for Watercom in 2010. However we expect that the role of the CA within the water sector will become more transparent in the first half of 2011 and through Watercom we believe we are ideally placed to expand as and when opportunities arise.

Pavel Ivanov
Dispatcher

• Expanding the range of services we provide into the area surrounding Tallinn

There are approximately 70,000 people living in the municipalities that surround Tallinn. Over recent years, AS Tallinna Vesi has concluded a number of contracts with local municipalities for the provision of water supply and sewerage services in the areas surrounding Tallinn. Many of these contracts however are only for the bulk provision of water and wastewater services. This gives us a unique opportunity to further expand the range of services we offer into these municipalities, which will bring additional revenues for the company, whilst providing service improvements at lower cost for the municipalities.

Project Management and Supervision

Over the past years staff of Watercom and AS Tallinna Vesi have managed large individual projects and multiyear programmes of work. All this knowledge and skills have now been transferred into Watercom as we believe this is the best vehicle to use in order to offer these services into new markets and locations. In 2011 Watercom will be focussing primarily on the project management of large water related projects for water companies and municipalities, and road supervision contracts inside and outside of Tallinn. This will be achieved by taking actively part in tenders across Estonia.

Veemees

Veemees has been established and developed to provide a full range of water and wastewater services for private customers. This mainly involves the provision of maintenance, emergency and construction services for private houses, apartment owners and associations, real estate developers and building companies. From new connection to the property or a small extension to restructuring or a large scale development – Veemees can help to ensure that all water and wastewater changes are planned and constructed without problems.

Through Veemees we are extending the range of services we provide for all our customers through a single point of contact.

For more information about Watercom
and Veemees please click www.watercom.eu

Reigo Marosov
Sales Director in Watercom OÜ

Our customers

2010 OBJECTIVES

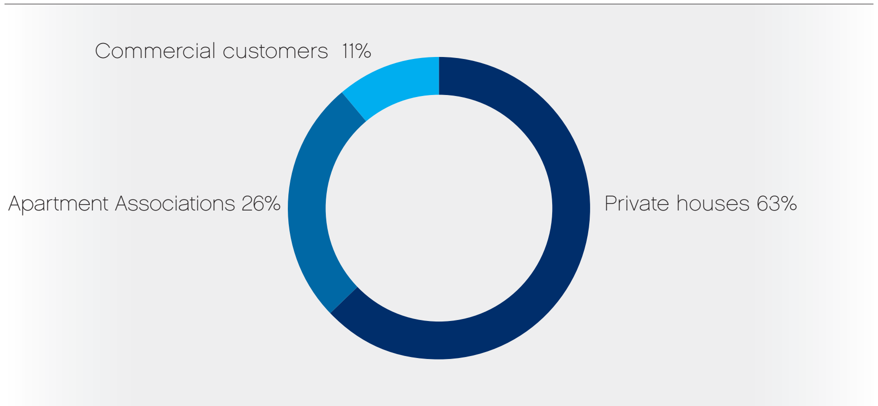
- Customer satisfaction with the service improves in the results of monthly polls and external surveys;
- The number of written customer complaints decreases from the level of Q4 2009;
- We respond to 80 % of written customer requests within two business days and to the remaining 20 % within eight business days.

2011

- Potential sum to be paid to the customers for not keeping our promises is 15,000 EUR;
- We respond to 90 % of written customer requests within two business days;
- In 95% of the cases the operational units inform Customer Service of unplanned interruptions to water supply during business days/-hours and customers are informed of the interruption 1 hour in advance
- At least 90% of the customers know by the end of the first phone call with the Company what and when we will be doing and we keep our word

In 2010, the Company provided water supply and sewerage services to more than 22,000 customers and 430,000 end users in Tallinn and its surrounding areas. The strategic objective of the Company is to achieve customer service excellence and to provide the best customer service of any utility company in the Baltic States.

Our customers:



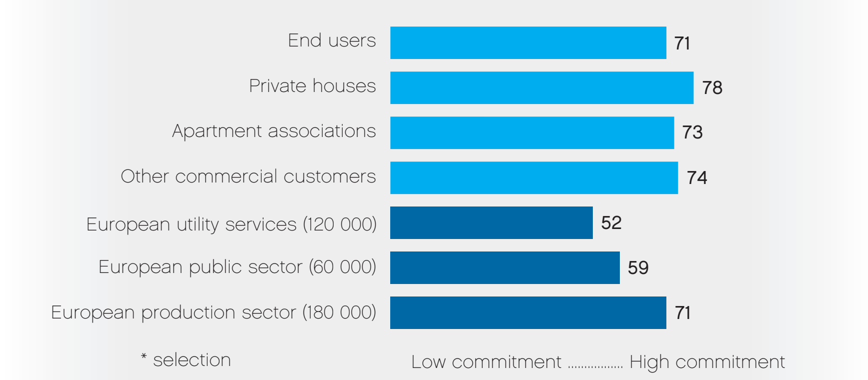
Annual customer satisfaction survey

The Company undertook significant efforts in 2010 to further improve the quality of its drinking water and service reliability. We also made efforts to enhance customer communication by making our activities more visible and open to our customers. Customer satisfaction survey results indicate that these improvements were recognized by the customers and were met with a positive reaction. Customer satisfaction has significantly increased compared to the previous years. Despite a high customer satisfaction, the Company continues to enhance its customer service strategy also in 2011.

An independent market research company TNS Emor carried out a customer satisfaction survey for the Company, conducting phone interviews with 901 customers and end users regarding their satisfaction with the customer service of the Company in 2010. Satisfaction was measured on the basis of the TRI*M method developed by the research company to characterise the strength of customer relationships and to allow comparison with other companies. This model focuses on three elements:

- TRI*M index, which measures the strength of customer relationships and comprises further four elements – general satisfaction, recommendation, repeated use and usefulness/necessity of services products;

• TRI*M typology of customer relationships, describing the satisfaction and loyalty of customers;
• TRI*M grid analysis to highlight the strengths and weaknesses of a company.
The Company scored 73 points among its customers and 71 points among its end users in the final TRI*M index of the customer satisfaction survey on a scale of 100. The results of the study show that satisfaction is above 70 points in all segments. Compared to the previous year, satisfaction has increased among both domestic and commercial customer segments. The satisfaction of end users has gone through a slight decrease and was 71 points after being stable at 74 points in the past three years.



Compared to other utility companies in the world, the Company's customer relationships can be considered to be good and the score of the Company in terms of satisfaction of customers and end users is within the upper third among similar companies.

The strength of customer relationships and customer satisfaction are first and foremost influenced by the quality of services, primarily the quality of drinking water, the condition of infrastructure, the price of the service, and reputation of the Company, as well as the handling of problems and customer communications. Compared to the earlier results regarding the handling of problems, improvements can be seen in the ratings from both private and commercial customers. However, the outcome cannot yet be considered as sufficient. Both private and commercial customers expect improvements in the area related to billings and water meters, also handling sewer blockages, interruptions to water supply and emergencies. Providing stable water supply and pleasant communication by e-mail are considered as the main strengths of the Company. According to both private and commercial customers, the price/quality relationship continues to require further attention. Also, in order to strengthen the customer relationship, the Company needs to make continuous contributions to the activities that help to preserve the environment and increase customer awareness. Positive image of the Company that is created by the information provided to the customers via open communication plays an important part as well.

Customer and end user satisfaction 2009-2010

On a scale of 5	Commercial customers		Private customers	
	2009	2010	2009	2010
Taste of water	3,7	3,8	3,9	3,9
Odour of water	3,9	3,9	4,1	4,0
Clarity of water	3,8	3,9	4,0	3,9
Stable water pressure	4,0	3,9	3,8	3,8
Low number of emergencies and interruptions	4,0	4,0	4,0	4,1
Price/quality relationship	2,9	2,7	3,0	2,8
Accuracy and clarity of invoices	4,2	4,2	4,2	4,2
Customer Information line	3,7	3,7	4,0	4,0
Communication by e-mail	4,0	4,1	3,9	4,0

Development of customer service

The Company considers it extremely important to solve the issues associated with the handling of problems. In particular, improvements are needed as regards to the speed of problem solving and finding the best possible solution. In 2010, the Company also continued improvement activities based on the feedback received from the customer satisfaction survey. The main activities to be pointed out are as follows:

- The Company renewed its promises to customers aimed at explaining our operational principles to customers. Upon us failing a standard, the customer receives a compensation of 19.17 EUR;
- In 2010, the Company also continued activities to ensure faster reaction to customer requests. On average, written requests were answered within 1,62 days, whereas the internal standard foresees the response to be given in 8 days;
- Based on the analysis conducted on monthly polls and complaints, the Company improved its work processes that resulted in our ability to react faster to customer enquiries. The main focus was on standardisation of inter-departmental cooperation regarding the feedback or responses provided to customer requests. Scheduling planned works and informing customers of our actions have also improved;
- The Company carried out a campaign "Don't clog the bog" in order to help the customers to prevent problems related to blockages;

The Company was consistent in notifying customers and end users of problematic subjects via different communication channels such as the back of the invoice and the Company's web page. Also, meetings with local population were organised in co-operation with the city district governments in order to resolve and prevent issues in the course of open communication.

Our people

OBJECTIVES

2010

- Commitment and satisfaction with the Company among the employees is significantly above the average level in Estonian businesses
- Inter-departmental cooperation is better than in 2009
- Employee feedback on management is better than in 2009
- There are no occupational accidents resulting from any factors that depend on the employer and the number of short-term sickness days is lower than in 2009

2011

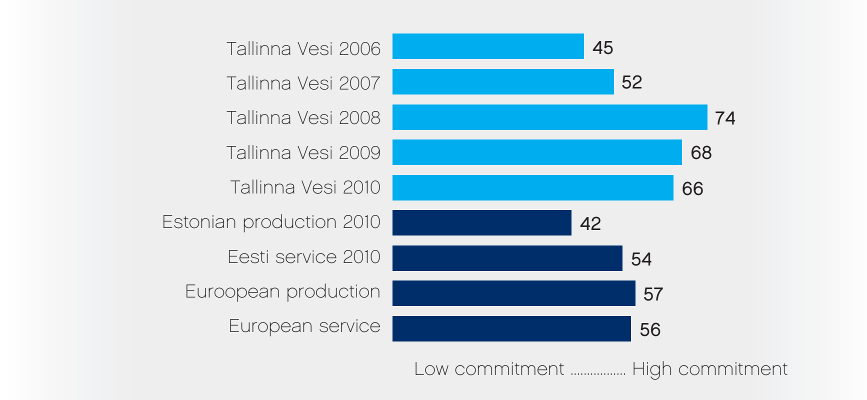
- Commitment and satisfaction with the Company among the employees is significantly above the average level in Estonian businesses
- Inter-departmental cooperation is better than in 2010
- Employee feedback on management is better than in 2009/2010
- There are no occupational accidents resulting from any factors that depend on the employer and the number of short-term sick ness days is below 1200

In 2010, the departments in operations division went through significant rearrangements both in terms of the responsibilities of managers and work allocation. A subsidiary called OÜ Watercom was created, the successful launching of which assumed changes to be made inside the Company and introduction of new competencies that would allow the subsidiary to manage providing services and products on a competitive market. Management Team of the Company deems the involvement of employees in the decision making process, regular informing and equal treatment of staff very important. For that purpose development seminars were organised at the time of creating a Subsidiary, the Management Board had meetings with the staff at least once a quarter and monthly newsletter was issued to provide an update on the delivery of objectives as well as financial and operational performance.

At the end of 2010, the Company and its Subsidiary employed a total of 319 employees under permanent employment contracts. This number has reduced by 5% compared to the same period previous year when 336 people were working for the Company. The average number of full time employees was 305 in 2010 and 322 in 2009. Reduction in staff resulted mainly from the reorganisation of the departments in the end of 2009.

Employee commitment and satisfaction was at a high level in comparison to both Estonian and European average in service and industry sector in 2010 (Figure 1).

AS Tallinna Vesi employee commitment remains at 2009 level



Development of employees

The sufficient number of committed employees with necessary qualification is one of the most important priorities for the Company. The average age of the staff in the Company and the Subsidiary is high (46,3 and 45,5 respectively) and in bigger operational units a considerable number of employees are over 50 years old. Thus a significant number of staff is going to be in a retirement age in the next few years. In order to ensure the delivery of the Company's business objectives, maintaining the know-how and developing a new generation of operational specialists is one of the key priorities for the Company.

The Company has launched several employee development programmes with the aim to provide all employees, who have such will and readiness, with an opportunity to develop themselves professionally. The management of the Company deems it the most important method for growing a new generation of specialists, supporting the organisation in adapting to changes and maintaining the high commitment of employees. Emphasis is also on expanding multi-functionality and flexibility of the workforce instead of specialising on a narrow area as this enables the employees to rotate smoothly onto new positions. Development of the staff forms one part of the remuneration and recognition system of the Company and is a key for planning a career in the Company.

There were 930 training days in total in 2010, which amounts to an average of three training days per employee. The number of in-house trainings, where knowledge was passed from one colleague to another, grew considerably. Almost 20% of the staff is participating in different long-term development programmes.

Occupational health and safety

Work environment related activities of the Company are in compliance with the requirements of legislation and the international occupational health and safety management system standard OHSAS 18001.

Work environment management system is based on an assessment of risks in the work environment area and execution of activities aimed at preventing or reducing these risks. Workplaces are under constant internal monitoring and internal and external audits of the management system are carried out.

In 2010, special focus was on the improvement in following work safety requirements at the excavation sites of both the Company and subcontractors as well as on internal and external occupational health and safety trainings. In order to improve the compliance with occupational safety requirements, the Company increased the number of occupational safety inspection visits at excavation sites. As a result of a more vigilant supervision, the proportion of sites that were given an unsatisfactory mark reduced both among the sites of the Company as well as of its subcontractors.

In 2010, 9 occupational accidents occurred, of which 5 could have been avoided by the Company taking necessary measures. The Company lost 159 work days due to occupational accidents. The causes of all occupational accidents were thoroughly analysed by the Work Environment Council. Action plans to prevent any further occupational accidents of a similar type were put together and the timely delivery of those action plans is constantly monitored. In order to determine the causes and prevention opportunities of occupational accidents, an internal training was organised for addressing the causes of occupational accidents that occurred in the last 10 years. The Company internally organized a promotional occupational safety campaign for better staff involvement and improving occupational safety awareness. The cash award was spent on improving the work environment in a method chosen by the winners.

Work environment training

The implementation and results of work environment related actions are largely dependent on the awareness of employees and, therefore, much attention is paid to work environment training, information resources and other actions to raise awareness on the issues of work environment. Training events held in 2010 included:

- regular training courses on lifting and pressure equipment;
- first aid training and in-service training;
- ergonomics and occupational hygiene training;
- training on temporary traffic reorganisation (marking road works) and briefing on the new Traffic Act;
- training courses on the choice, use and maintenance of personal protective equipment;
- fire, electrical, chemical and gas work safety trainings.

A thorough chlorine safety training was carried out in co-operation with the Northern-Estonian Rescue Board, Tallinn Emergency Medical Care Centre and the security company G4S in the water treatment plant. The training simulated the rescue activities in case of a chlorine accident. The Rescue Board also inspected the conditions of the emergency situation reporting system and sirens at the wastewater treatment plant.

In the area of occupational safety, introductions on ergonomics were conducted. The internal training course series "Change your mindset in safety issues", continued in 2010. The purpose of this training is to draw attention to the possibilities of implementing effective and positive changes in the safety behaviour of employees. In 2010, the training was intended for new managers and senior specialists.

Continuous improvement in the occupational safety area

Several actions for improving the work environment were carried out in 2010 at the treatment plants, water and sewerage networks, laboratories and offices. The more important works were:

- Updates and renewal of the Company's work environment risk analysis, amongst other things the risks of lifting weights by hands was assessed in all departments;
- Repair of work and rest areas;
- Reconstruction or reconditioning of ventilation systems;
- Improvement of the ergonomics of computer workstations;
- Noise and lighting measurements, which were used to improve the conditions at work places;
- Renovation of the heating system.

• Promoting occupational health

For the sixth year, the Company successfully participated in the "Health Promoting Work Places" project, aimed at developing a healthy work environment, primarily by changing mindsets and increasing the mutual involvement of both employers and employees.

The Company organises various sports activities for its employees to promote a healthy lifestyle. Employees of the Company have the opportunity to use two gyms, as well as squash and ball courts and also take part in the sporting events of the Company. The Company's Intranet, newsletters and posters were used to raise health awareness of employees by drawing their attention to different subjects such as work stress, dangerous preservatives in food, healthy nutrition habits. Employees were also called to participate in various sports activities. In co-operation with the Infection Centre a briefing on viral hepatitis was organised for the employees of the Company. The success of the Company in the field of health promotion has been noticed by other organisations and, as a result, the occupational health and safety specialists of the Company are held in high regard as speakers among the members of the network of health promoting working places.

Jelena Orehhova
Ground Water Specialist

Employees attend regular health checks, as foreseen by law, which provide the basis for adjustment of working conditions where needed. In addition to the procedures foreseen by legislation, the Company provides influenza vaccinations to all interested employees and prophylactic massage according to the prescription of the occupational health doctor. Also, the occupational health doctor can be consulted in the medical office of the Company.

Our community

- To increase our socially useful activities in the community and environment, through organizing environmental or community events and projects with the participation of the Company's employees

2010 OBJECTIVES 2011

- To support the activites of environmental, ecological and educational areas, to involve staff in organising communicty events and projects and carrying out environmental educational programmes directed to children and young people.
- To increase the end-users' awareness of our products and services.

The Company wants to be an actively participating member of the communities where it operates. The Company takes a serious approach to integrating the principles of corporate social responsibility into the Company's everyday activities. Through educating employees and customers the Company hopes to shape an environmentally conscious way of thinking in the community by supporting water-related initiatives, which promote environmental sustainability and healthy lifestyle. In 2010, the Company continued implementing its corporate social responsibility strategy to establish a clear objective of integrating existing community and environmental projects with day-to-day operations and plan further actions to make a wider sustainable impact in Estonia and globally in the future.

Cooperation and involvement

The Company has a very serious approach towards its relationship with the various stakeholders, therefore Company's employees have regularly participated in meetings with various customer groups, also in cooperation with City District Administrations. In addition to organising regular information exchange, the Company's representative presented tips on water efficiency at a conference held in Russian aimed towards apartment associations in November. Regular meetings have also been held with the Ministry of Social Affairs, Ministry of Environment and other government institutions who regulate the water industry. As a member of EVEL (Estonian Water Undertakings Association), the Company has organised several water and sewerage themed seminars and training programs for other EVEL members.

- In 2010 the Company continued the sponsorship agreement concluded in 2009 with an athlete of great promise, decathlete Mikk Pahapill. In June 2010 Mikk Pahapill came second at the Athletics Super League held in Estonia, which lifted him to the fourth position in the European ranking. During the year Mikk visited several motivational events and trainings aimed towards Company's employees. In addition, Mikk has acted as the Company's promotional face in various campaigns.
- In 2010 the Company continued cooperation also with Estonian Union of Sports for the Disabled. The Company wants to support the interest of the disabled in sports and their will to participate in community life. AS Tallinna Vesi is supporting the trainings of the swimming team and their preparation for 2011 European Championship and 2012 London Paralympic Games.
- In April 2010, the Company continued with the memorandum of understanding concluded with Tallinn Technical University to support their interdisciplinary doctoral programme with Company's expertise and through granting access to Company's resources. In addition to joint projects organised with Tallinn Technical University, the continuity of human resources is also ensured through cooperation with Tallinn Kopli Vocational School, which hopefully will provide future employees for the Company.
- In 2010 the Company supported several outdoor and sports events with providing pure drinking water. From May to August, the Company supplied free water from hydrants and water tankers to the Flower Festival in Tallinn's Old Town. From May to October water was provided to weekly running and walking events organised by Eesti Energia. The Company provided water also to the Nordic walking event organised by Estonian

Rheumatism Association, car-free day organised by the Ministry of Environment, Tallinn Marathon, Students' Days and Rat Race.
- In cooperation with the City District Administrations of Tallinn the Company established ice rinks and provided soil to the apartment associations for landscaping after the winter.
- Company's employees and their families participated in a Cleaning Up event on 1 May during which the beach of Pikakari at Paljassaare Peninsula was cleaned in cooperation with Coca-Cola HBC. In September close to 60 ampelopsis were planted to the wall surrounding the Pirita pumping station in cooperation with Pirita Local Association.

Activities aimed towards citizens

One of the Company's objectives is to improve the awareness of its customers regarding Company's products and services. Company's activities were recognised at a competition organised by the Ministry of Environment of the Republic of Estonia, where the Company was awarded with a prise "Top Performer 2010 in Environment Area". In the category of environmental management the Company was positively highlighted for environmental education aimed towards residents.
- Traditional Open Door Days at Paljassaare Wastewater Treatment Plant on 29 May 2010 brought 270 visitors to come to see the plant, including 40 children. The Company's mascot Tilgu and Pippi Longstocking were in charge of providing entertainment for the children. In addition to games, issues like water cycle, human impact on nature and other environmental issues were introduced to children.
- In June 2010 the Company launched a social campaign, the aim of which was to explain to the residents the necessity of and possibilities for preventing sewerage blockages. With a merry slogan "Don't clog the bog!" the Company drew attention to the sewerage pipes intended for discharging water, wastewater and toilet paper.
- Open Door Days at Ülemiste Water Treatment Plant took place on 28 August 2010. During the Open Door Days the Company's employees showed the visitors around the plants and explained how the treatment processes function. The Ülemiste Open Door Days coincided with the running competition around Lake Ülemiste and Lotte Children's Run, which attracted many old and young sportsmen. The run is popular among Tallinners, not least due to the fact that under usual circumstances the naturally picturesque territory surrounding the lake is closed to the public as a sanitary protection zone. In previous use years the visitors have primarily been schoolchildren and graduate students, this year there was also an interest in the water company from whole families. The feedback from the visitors showed that they learned a lot of new information about water treatment and water efficiency. The event was attended by approximately 1500 people, of which close to 300 also came to see the water treatment processes. The Company's children's tent where children of each age group could draw and play water-related games proved to be especially popular.
- Tallinn miniregatta took place on Vabaduse Square from 30 July to 8 August 2010, organised in cooperation of the Company and the City of Tallinn. The event was a part of a wider campaign, the aim of which was to inform Tallinners about the construction of public water supply and sewerage system in Tallinn to be completed by 2011, which provides each house in Tallinn with the possibility to connect with public water supply system.

Children and education

The Company's objective is to be a responsible member of the community. For years the Company has supported children with special needs. For example, the Company's Christmas greeting cards have featured the drawings of children from the "Õunake" kindergarten for several years already, joint gingerbread baking events have become a tradition during Christmas. The Company has also continued the long-term cooperation with Ristiku primary school, supporting their summer camps financially. The Company's employees also gave lessons at the Ristiku school on environmental sustainability in 2010 as a part of the "Back to School" program.

Considering the volume of cooperation the Company already has with schools, kindergartens, and higher educational establishments, it was decided to consolidate ideas for an environmental educational programme for all educational levels from pre-school to university. The Company continued increasing children's environmental awareness also in 2010.

- Within the environmental education programme the Company prepared a Tilgu trick book "How to save water" in July. It is a puzzle book meant for children of 5-6 years, which helps to improve children's knowledge about water efficiency in a playful manner.
- In addition to the water-related PC-game "Traveller Drop" released in 2008, worksheets on the same topic were published in 2010. Worksheets are meant for children of various age groups both to kindergartens as well as to schools. Worksheets include 8 topics: water cycle on earth, Lake Ülemiste, water treatment plant, water pipeline, water at home, sewerage pipeline, wastewater treatment plant and sea.
- In 2010 the Company completed the tap water pilot project launched in 2009 in cooperation with Lilleküla Secondary School. During the project public water taps were established in the school building, which enable both children and adults to use tap water for drinking. Based on the survey carried out at school it turned out that 93% of the respondents gladly drink tap water and approximately 66% of the respondents consider tap water fountains at school to be very necessary.
- In addition to annually participating in Youth to School ("Noored kooli") programme, in 2010 the Company launched a kindergarten pilot project within Charity Day programme. Within the project several Company's employees carry out discussions on water in kindergartens. The target group of the project is children in the age of 4 to 7, who are told about water cycle, water efficiency and with whom interesting water-related games are played. During two months the Company visited 11 kindergartens within Harju County, thereby increasing environmental awareness for close to 330 children.
- In 2010 the Company participated in the project "Free exercise book" with the campaign "Don't Clog the Bog!". In cooperation with Road Administration, Rescue Board, Tax Board and Police Board a total of 10 000 exercise books with social message were compiled, which support the social topics included in the curricula of schools of general education. The objective of the project was to increase environmental awareness and efficient consumption in Estonian educational institutions.

Our environment

The quality and environment policies approved by the Company's Executive Team express the Company's principes about managing corporate responsibility and environmental activities.

The Company's activity has a significant impact on the surrounding natural environment. The objective of the Company is to cause as little environmental damage as possible from its day-to-day operations. The Company systematically monitors its impact on the environment, the quality of life of the population as well as its business activities by identifying and keeping in check existing and potential negative and positive consequences. Implementing the environmental management system also means the Company agrees activities for improved environmental performance as part of setting the Company's annual objectives and individual performance objectives of our unit managers and employees. Any performance improvements also have to follow established legal requirements and restrictions.

The Company has implemented a quality and management system to improve customer-satisfaction and the effectiveness of its environmental activities. The environmental management system is a part of the Company's management system aimed at minimizing or where possible, avoiding polluting the environment, through the integration of environmental management systems in the Company's daily operations.

The Company's environmental activities and the environmental management system are in accordance with international environmental management standard ISO 14001 and the requirements of the European Union's Eco Management and Audit System EMAS certificate.

The Company has identified the operational aspects that are most likely to cause significant changes to surrounding environment and has established necessary control mechanisms to avoid or mitigate any unfavorable environmental impact.

At the samet ime there are several positive aspects related to the Company's operations, which allow to improve the environment either directly or indirectly – one of the most important of these is raising consumer awareness about the environment and also promoting the optimal and efficient use of water as an important natural resource.

Additional information about the Company's environmental activities can be found in the electronic Environment Report attached to this annual yearbook and on the Company's website.

Meelis Enok
Controlroom Chief Specialist in Wastewater Treatment Plant

Our compliance

• To ensure the compliance with LoS A1, ISO 9001, ISO 14001, OHSAS 18001 and EMAS requirements

2010 OBJECTIVES 2011

• To ensure the compliance with regulatory requirements, EMAS Regulation, OHSAS 18001 standard and requirements of ISO 9001, ISO 14001 standards stipulated in LoS A1 of the Services Agreement

The Company is required to comply with the following standards and systems:

- 2001 - ISO 17025 Laboratories Quality Management System*
- 2002 - ISO 9001 Quality Management System*
- 2003 - ISO 14001 Environmental Management System*
- 2005 - EU EMAS Environmental Management System
- 2007 - OHSAS 18001 Occupational Health and Safety Management System
- EU, national as well as local self-governments' legislative acts – to ensure compliance with minimum environmental requirements
- Environmental permits issued to the Company
- Any prescriptions issued by authorities
- 97 contractual Levels of Service agreed with the City - to provide a better quality service than the minimum required by legal acts

* required by the Services Agreement concluded between the City of Tallinn and the Company.

The Company's and its management system's compliance with the environmental, work environment, occupational safety, quality and other legislative requirements is also monitored in the course of internal and external audits. In the course of internal audits carried out in 2010, the internal auditors presented a total of 40 non-conformities and 50 proposals, which form a good source for the managers to improve the management system's functionality and prepare for the external audits.

Det Norske Veritas confirmed the compliance of the management system with the ISO 9001, ISO 14001, EMAS and OHSAS 18001 standards and confirmed the validity of the respective certificates. During the 2010 external audit, Det Norske Veritas also confirmed the 2009 Environmental Report, which was subsequently certified by the EMAS authority, the Estonian Environmental Information Centre.

For the first time in years, 0 non-conformities were found during the audit. 4 observations were made, which were related to risk assessment scale, planning and development rules and minor mistakes stemming from structural changes. . 3 improvement opportunities were suggested – review the risk assessment system, conduct a chlorine hazard training together with The Rescue Board and use more specific wording regarding trainings agreed with employees during their individual performance assessments. The auditors also noted 1 significant achievement - meeting the requirements of compliance control - and 18 other positive observations were made.

The Company's laboratories have implemented the ISO 17 025 quality management system, which is accredited by the Estonian Accreditation Centre. The laboratories were audited separately in March 2010 and in the course of the audit no non-compliances were recorded.

The Company's activities related to work environment are in compliance with the requirements of the legislation as well as international occupational health and safety management system standard OHSAS 18001.

The Company also has to ensure that the actions of its suppliers would meet quality, environmental, work environment and occupational safety requirements. The Company has established quality, environmental, work environment and occupational safety criteria for the qualification of suppliers in its procurement procedures. A relevant confirmation from suppliers is insisted on already at the bid stage. All construction sites are monitored by the Company specialist as well as supervision specialists of the subsidiary, Watercom OÜ, to ensure occupational safety and environmental protection measures are followed. Compliance of suppliers is assessed after the completion of works and the contract and in 2010, the average assessment to environmental activities of the Company's suppliers was "good".

The Company is required to comply with EU, national as well as local self-governments' environmental legislative acts. On the EU level, this means compliance with the EU Council Water Framework Directive nr 2000/60/EC. On national level, the Company is required to comply with the Water Act, Public Water Supply and Sewerage Act, Waste Act, Chemicals Act, Ambient Air Protection Act and any regulations adopted on the basis thereof. On the local level, since the Company operates in Tallinn as well as its neighbouring municipalities, then the Company has to abide by various instructions and regulations for connections processes, usage and price of service enacted within various territories. Changes in applicable regulation are monitored and communicated monthly to relevant managers in charge of implementing the changes.

In 2010, the Company has actively participated in coordination rounds regarding those new legislative acts that affect the water industry and the environment via Estonian Water Companies Association (EVEL), the Estonian Quality Managers Association (EKJA) and the Estonian Chamber of Commerce and Industry (EKTK) by providing opinions on draft acts and made proposals for their amendments. Together with EVEL, the Company has participated in working groups that drafted the legal acts regaring the water industry and the environment and also published its opinions via the legislative web interface Osalusveeb. In 2010, in accordance with the requirements of the Emergency Services Act the Company compiled a continuous operation risk analysis of the critical emergency service and approved the continuous operation plan of the critical emergency service. In April 2010 the Company submitted to the City of Tallinn a potential solution to secure continuity of water supply to counter the eventuality of the Ülemiste Water Treatment Plant ceasing operations.

The Company is required to operate in accordance with the environmental permits issued to the Company.

The main authorising body licencing the Company is the Harju-Järva-Rapla region departmnent of the Environmental Board, which, as of 31.12.2010 has issued the following environmental permits to the Company:

- 5 special use of water permits;
- 2 waste permits;
- 2 ambient air pollution permits and 1 special permit for ambient air pollution.

More information about the environmental permits issued to the Company is available in the electronic environmental report.

In 2010 the Company operated according to all the requirements set in applicable environmental permits, except the quality of the purified waste water directed into the sea via the Tallinn deep sea outlet (for details, please see the environmental report). Issues related to environmental permits were resolved in cooperation with the Harju-Järva-Rapla region departmnent of the Environmental Board and the Company has no outstanding obligations before the state stemming from the issues described above.

In 2010, the Company's activities, incl. compliance with environmental requirements were reviewed by several authorities. In 2010, the Company received 5 prescriptions from the following authorities - the North Estonian Rescue Board, the Tallinn City Transport Department, the Labour Inspectorate, the North region bureau of the Environmental Inspection and the Financial Inspection. The Company fulfilled the conditions of all prescriptions on time within 2010 to the level satisfactory to the relevant authorities.

In 2010, the Company objective was to ensure the compliance with LoS A1, ISO 9001, ISO 14001, OHSAS 18001 and EMAS requirements. Since 2001, when the Company and the City of Tallinn signed a Services Agreement to provide public water and sewerage services, the Company has agreed to meet 97 Levels of Services. These levels of service determine the quality standards the Company must guarantee to its customers, including water quality, environmental requirements and service interruptions. This makes the Company the most regulated water company in Estonia.

In 2010 the Company achieved 95 out of 97 levels of service. The Company managed to exceed several agreed levels of service, i.e. perform better than the minimum required by law and also perform better than the contract. In 2010, the Company met the 2nd indicator required to comply with the agreed standard of nitrogen removal, removing 71.1% and, thus, achieving and exceeding the total annual nitrogen removal rate of above 70%. However, the Company was not able to meet the standard of total nitrogen in treated effluent of less than 10mg/l, achieving a concentration of 11.8 mg/l. The main causes of not achieving the standard are the increasing nitrogen load and the unusual weather conditions, which had a significant impact – in only 48% of all days of 2010 the water temperature was above 12°C, which is when the nitrogen removal process is able to work. The acceptable level of leakages, which is not regulated by law, has been contractually agreed as 26% and in 2010 the Company achieved the level of 21,39%. Although the Company reconstructed a total of 20,4 km of water and waste water pipes in 2010, instead of the contractually agreed 5 km annually, the increase in leakages compared to 2009 level can be attributed to the harsh winter and dry summer weather, which caused an increased volume of leaks and blockages. The second level not met was the one requiring that any and all service interruptions do not last longer than 12 hours. In 2010 the Company had 355 of unplanned interruptions to supply and in case of 1 incident the cause of the leak or interruption took longer than 12 hours to establish. The Company submits an annual thorough report on compliance with the previous year's Levels of Service to the City of Tallinn, as well as to the Supervisory Foundation for the Water Companies in Tallinn.

The Company wishes to be a reliable partner for its customers, investors, employees and the community by regularly publishing information on its activities, financial standing and results. Regular cooperation with the trade union and the work environment council helps the Company to better take into account the wishes of its employees.

Being a member of the Estonian Environmental Management Association (EKJA) helps the Company to promote cooperation with other environmentally aware businesses. For more details on the environmental activities of the Company, please see the 2010 electronic environmental report.

63,70%

Compliance of the quality of drinking water with requirements (compulsory 95%).

Annual accounts

Table of Contents

33 Results of operations - for the year 2010
39 Corporate governance and corporate governance recommendations report
44 Management confirmation
45 Consolidated statement of financial position
46 Consolidated statement of comprehensive income
47 Consolidated statement of cash flow
48 Consolidated statement of changes in equity
49 Notes to the consolidated financial statements
49 Note 1. General information
49 Note 2. Accounting policies
56 Note 3. Financial risk management
60 Note 4. Critical accounting estimates
60 Note 5. Change in regulation
61 Note 6. Cash and cash equivalents
61 Note 7. Trade receivables
61 Note 8. Accrued income and prepaid expenses
62 Note 9. Property, plant and equipment, and intangible assets
63 Note 10. Borrowings
63 Note 11. Trade and other payables
64 Note 12. Taxes payable
64 Note 13. Government grants
64 Note 14. Contingent liabilities
64 Note 15. Prepayments and deferred income
64 Note 16. Share capital
65 Note 17. Revenue
65 Note 18. Staff costs
66 Note 19. Cost of goods sold, marketing and general administration expenses
66 Note 20. Other income / expenses
66 Note 21. Finance income and expenses
66 Note 22. Dividends
66 Note 23. Earnings per share
67 Note 24. Notes to the cash flow statement
68 Note 25. Operating lease
68 Note 26. Related parties
68 Note 27. Subsidiaries and business combinations
69 Note 28. Events after the balance sheet date
69 Note 29. Supplementary disclosures on the parent company of the group
74 Confirmation of the management and supervisory boards
75 Independent auditors' report
76 Members of AS Tallinna Vesi Supervisory Council

Results of operations - for the year 2010

Main economic indicators

million kroons	2010	2009	2008	2007	2006
Sales	777,3	772,4	719,9	648,3	589,2
Gross profit	453,7	488,4	447,2	431,7	368,6
Gross profit margin %	58,4	63,2	62,1	66,6	62,6
Operating profit	429,7	461,9	405,4	377,4	337,9
Operating profit - main business	377,9	420,6	377,4	363,1	331,0
Operating profit margin %	55,3	59,8	56,3	58,2	48,7
Profit before taxes	389,6	401,1	362,2	333,1	294,9
Profit before taxes margin %	50,1	51,9	50,3	51,4	42,5
Net profit	256,7	339,9	296,0	277,8	248,0
Net profit margin %	33,0	44,0	41,1	42,9	42,1
ROA %	8,9	12,3	11,6	10,9	10,0
Debt to total capital employed	60,1	49,7	49,9	51,8	53,4
ROE%	22,4	24,4	23,1	22,5	21,5
Current ratio	2,1	4,2	1,8	1,9	2,2
Number of employees	319	336	327	312	318
Share capital	200	200	200	200	200

Gross profit margin – Gross profit / Net sales
Operating profit margin – Operating profit / Net sales
Profit before taxes margin – Profit before taxes / Net sales
Net profit margin – Net profit / Net sales
ROA – Net profit /Total assets
Debt to Total capital employed – Total liabilities / Total capital employed
ROE – Net profit / Shareholders' equity
Current ratio – Current assets / Current liabilities

Profit and Loss Statement

• Sales

n 2010 the Group's total sales increased, year on year, by 0.6% to 777.3 mln EEK. Included within this is a contribution of 24.7 mln EEK from Maardu, a contract which commenced only in the 3rd quarter of 2009. Sales in the main operating activity principally comprise of sales of water and treatment of wastewater to domestic and commercial customers within and outside of the service area, and fees received from the City of Tallinn for operating and maintaining the storm water system. There is no considerable seasonality in the Group's operation.

Sales of water and wastewater services were 706.7 mln EEK, a 0.1% decrease compared to 2009, resulting from the 0.9% decrease in tariffs from 1st January 2010 for the Group's residential and commercial customers combined with the factors described below.

Within the service area, sales to residential customers decreased by 1.8% to 372.3 mln EEK. Sales to commercial customers decreased by 2.1% to 267.7 mln EEK. Sales to customers outside of the service area increased by 33.6% to 53.4 mln EEK, which includes the Maardu operating contract that commenced from 1st July 2009. Over pollution fees received were 13.3 mln EEK, a 10.1% decrease compared to 2009.

In 2010, the volumes sold to residential customers dropped 0.9%, year on year. Still the decrease in volumes sold has lowered during the course of the year.

The volumes sold to commercial customers inside the service area decreased by 1.2% compared to the respective period in 2009. Total sales volumes to the industrial sector decreased due to leave of one key customer from the Group's service area. Despite the fall in respective consumption some increase can be noticed in the industrial sector as a whole. Better economic conditions are contributing also to leisure sector volumes starting to pick up.

Excluding Maardu volumes, then outside service area volumes were 9.8% higher than in 2009, compared to 21.5% increase with Maardu volumes. The main factor in this increase was higher storm water volumes during the first two quarters of 2010 compared to 2009.

Compared to last year, sales from operation and maintenance of storm water and fire-hydrants systems increased by 8.8% to 54.4 mln EEK in 2010. This increase is driven by 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 323.6 mln EEK in 2010, an increase of 39.6 mln EEK or 13.9% from the equivalent period in 2009, of which Maardu added 18.9 mln EEK compared to 10.9 mln EEK in 2009.

In 2010 the Group achieved the beneficial 0.5 coefficient for pollution tax only in 1st quarter whereby in 2009 the Group had received the beneficial 0.5 coefficient in quarters 1, 3 and 4. Due to the combination of high nitrogen concentration, low wastewater volumes and low temperature during the second half of 2010 the amount of pollution tax payable was 35.8 mln EEK compared to 16.9 mln EEK in 2009. In addition to the coefficient used compared to 2009, the higher pollution tax payable in 2010 is generated by the increase in tax rates year on year by 19%. The results of the nitrogen treatment are highly dependant on temperature, concentration and volume of incoming sewage. To mitigate the nitrogen treatment and tax risk the Group has started with the investments into an additional stage of wastewater treatment and according to the construction schedule the works should be completed in the beginning of the 3rd quarter of 2011.

Chemical costs were 22.4 mln EEK, representing an 11.7% increase compared to 2009. Although lower volumes were treated the main contributor to higher chemical costs was 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 8.9 mln EEK or 26.6% in 2010 compared to 2009 due to higher electricity prices as a result of three sites buying electricity from the open market having an extra 0.8 mln EEK adverse impact from the extra half-year implementation of the Maardu's contract.

Salary expenses within costs of goods sold decreased in 2010, year on year, by 7.2 mln EEK or 10.3% mainly due to the reduced operating headcount.

Transport costs increased by 1.5 mln EEK, or 8.5% year on year, having adverse impact from the increase in fuel prices and usage of rented machinery in the beginning of the year to deal with the consequences of the severe weather. The costs were balanced by decrease in usage of staff cars.

Other cost of goods sold in the main operating activity increased 14.6 mln EEK, or 43.7% year on year, mainly due to the additional costs of repair services resulting from new City's act related to asphalting costs and also due to the rental costs paid to Maardu Vesi.

The increase in uncontrollable costs is a real challenge for the management of the Group. The Group is continuously seeking for efficiencies to hit the inflatory increases of fixed costs. In 2010 the Group proved its success via reduction in payroll costs. In 2011 the Group is looking actively on further efficiencies to keep the cost increases under control.

As a result of all of the above the Group's gross profit for 2010 was 453.7 mln EEK, which is a decrease of 34.7 mln EEK, or 7.1%, compared to the gross profit of 488.4 mln EEK for 2009.

• Operating Costs and Operating Margin

Marketing expenses increased by 1.1 mln EEK to 12.3 mln EEK during 2010 compared to the 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 2010 the General administration expenses increased by 3.6 mln EEK to 57.1 mln EEK year on year, mainly due to the need for the consultancies related to the implication of the Law of Establishing Price Limits for Monopolies and attempts to improve the image of the Group insisting on the quality aspects.

• Other income/expenses

The majority of the net income in Other 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 51.8 mln EEK in 2010 compared to a net income of 41.4 mln EEK in 2009. This line's value varies throughout the year depending on construction volumes and estimates to the profit margins on projects completed.

The rest of the income/expenses totaled an expense of 6.3 mln EEK in 2010 compared to an expense of 3.1 mln EEK in 2009. This line was mainly impacted by the change in accounting principles as described in the financial accounts and Note 2 to the accounts. In addition it should be noted that collection rate from the main business is above 99%.

As a result the Group's underlying operating profit from sales of water and wastewater for 2010 totaled 377.9 mln EEK compared to 420.6 mln EEK in 2009. In total the Group's operating profit for all activities for 2010 was 429.7 mln EEK, a decrease of 32.2 mln EEK compared to an operating profit of 461.9 mln EEK achieved in 2009. Year on year the operating profit for 2010 has decreased by 7.0%.

Financial expenses

Net Financial expenses were 40.1 mln EEK in 2010, which is a decrease of 20.7 mln EEK or 34.1% compared to the net expenses in 2009. The higher level of net financial costs in 2009 was mainly related to unwinding costs of EBRD loan.
The Group has mitigated considerable part of the long term floating interest risk with 5 interest swap agreements, each with a principal value of 15 mln EUR. The fair value of swap agreements changed considerably throughout the year, firstly decreased by 35.0 mln EEK during the first 6 months, but then the fair values turned up again, having a 15.7 mln EEK positive impact in the second half-year of 2010. At this point in time the estimated fair value of these swap contracts is still negative, totaling 35.5 mln EEK.

Profit Before Tax

The Group's profit before taxes for 2010 was 389.6 mln EEK, which is 11.5 mln EEK lower than the profit before taxes of 401.1 mln EEK for 2009.

The Group's net profit for 2010 was 256.7 mln EEK, which is 83.3 mln EEK lower than the net profit of 339.9 mln EEK in the equivalent period in 2009 mainly due to the higher dividend payment and related income tax paid on dividends in 2010.

Balance sheet

During the twelve months of 2010 the Group invested 274.3 mln EEK into fixed assets. Non-current assets were 2,349.4 mln EEK at 31st 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 133.4 mln EEK to 248.5 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 117.4 mln EEK increase in Current portion of long-term borrowings.

The Group has a leverage level as expected of 60.1% with the future target range within 60%. Long-term liabilities stood at 1,480.4 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 the Group drew down an additional 20 mln EUR (312.9 mln EEK), and at the end of 2010 the total loan balance was 95 mln EUR (1 486.4 mln EEK), which is currently the total available loan facility. The weighted average interest margin for the total loan facility is 0.67%.

Cash Flow

During the twelve months of 2010, the Group generated 387.8 mln EEK of cash flows from operating activities, a decrease of 39.1 mln EEK compared to 2009. 2010 operating cash flows were below 2009 cash flows mainly due to the decrease in operating profits. 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 153.2 mln

EEK, which is 80.4 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. These sums represent 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 31st December 2010, which is 85.4 mln EEK lower than at the corresponding period of 2009.

Employees

At the end of 2010, the total number of employees was 319 compared to 336 at the end 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. The total salary cost was 90.5 mln EEK, including 3.7 mln EEK paid to the Management and Supervisory Council members. The off balance sheet potential salary liability would be up to 0.7 mln EEK if the Council would want to replace the Management Board member.

Corporate structure

At the end of the year, 31st December 2010, the Group consisted of 2 companies. The subsidiary OÜ Watercom is wholly owned by AS Tallinna Vesi and consolidated to the results of the Group.

Dividends and share performance

Based on the results of the 2009 financial year, the Group 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 11th June 2010, based on the list of shareholders, which was fixed on 1st June 2010.

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

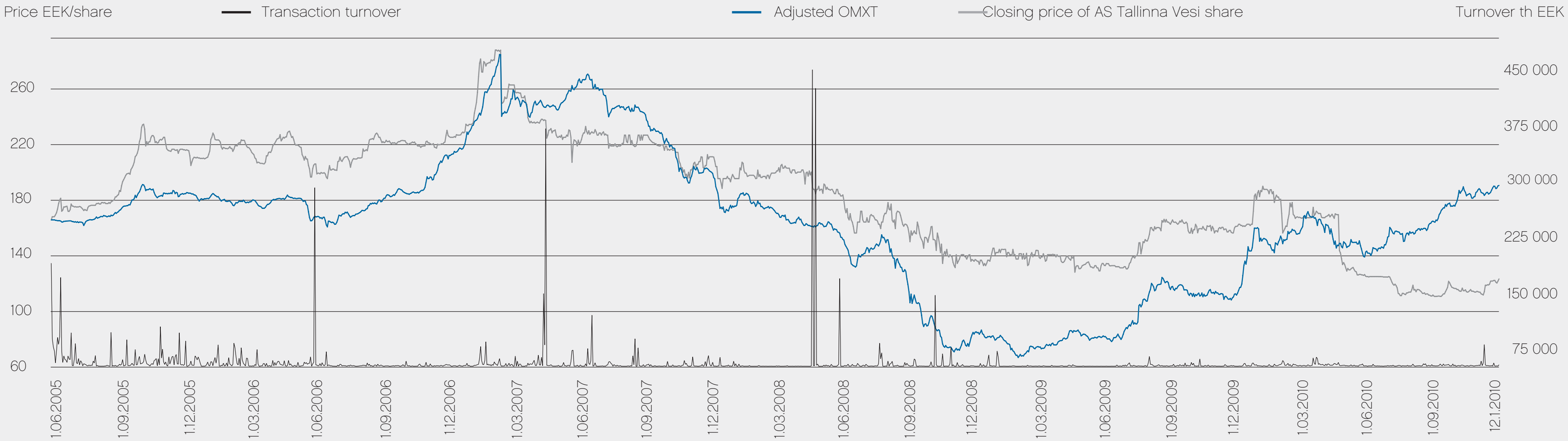
As of 31st December 2010 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

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

AS Tallinna Vesi has seen the next two biggest shareholders, Parvus AM and AKO Capital, reducing their holdings in the Group 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 AS Tallinna Vesi.

At the end of the year, 31st December 2010, the closing price of the share of AS Tallinna Vesi was 123.45 EEK (7.89 EUR), which is a 21.10% decrease compared to the closing price of 156.47 EEK (10.00 EUR) at the beginning of the year. During the same period the OMX Tallinn index increased by 72.62%.

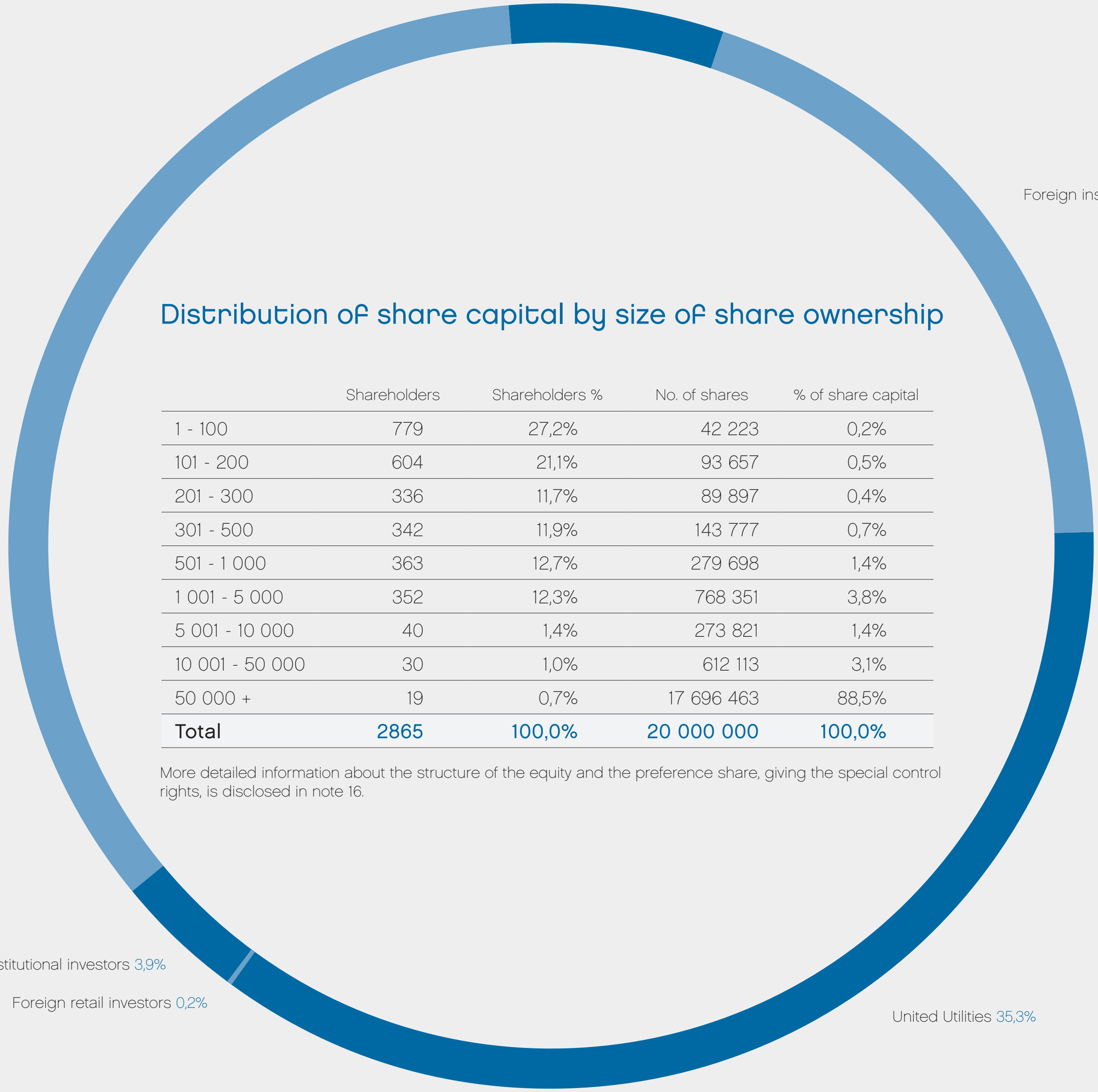
Closing Price & Adjusted OMXT vs Transaction Turnover



Share price statistics

EEK	2010	2009	2008	2007	2006
Share price, open	159,28	140,82	207,32	234,70	211,23
Share price, at the end of the year	123,45	156,47	140,66	202,78	234,86
Share price, low	109,53	128,30	131,59	195,58	195,11
Share price, high	191,67	167,26	212,79	290,87	234,86
Share price, average	140,00	145,19	178,09	232,20	217,49
Traded volume	2 879 132	1 547 108	7 958 820	5 462 916	4 274 094
Turnover, million	401,0	226,6	1 453,1	1 295,9	913,2
Capitalisation, million	2 469	3 129	2 813	4 056	4 697
Earnings per share	12,83	17,00	14,80	13,89	12,40
Dividend per share	n/a	25,00	11,50	12,45	9,80
Dividend / net profit	n/a	147%	78%	90%	79%
P/E	9,62	9,20	9,50	14,60	18,94
P/BV	2,2	2,2	2,2	3,3	4,1

P/E = share price at the end of the year / earnings per share
P/BV = share price at the end of the year / book value per share
In 2005 the listing price was 144.70 EEK, equal to 9.25 EUR



Distribution of share capital by size of share ownership

	Shareholders	Shareholders %	No. of shares	% of share capital
1 - 100	779	27,2%	42 223	0,2%
101 - 200	604	21,1%	93 657	0,5%
201 - 300	336	11,7%	89 897	0,4%
301 - 500	342	11,9%	143 777	0,7%
501 - 1 000	363	12,7%	279 698	1,4%
1 001 - 5 000	352	12,3%	768 351	3,8%
5 001 - 10 000	40	1,4%	273 821	1,4%
10 001 - 50 000	30	1,0%	612 113	3,1%
50 000 +	19	0,7%	17 696 463	88,5%
Total	2865	100,0%	20 000 000	100,0%

More detailed information about the structure of the equity and the preference share, giving the special control rights, is disclosed in note 16.

Shareholders by type as of 31.12.2010

Overview

Corporate governance constitutes a system of principles for the management of a company. Generally those principles are regulated by law, the Articles of Association and the internal rules of a company. Since 01.01.2006, the companies listed on the Tallinn Stock Exchange are recommended to follow the "Corporate Governance Recommendations" issued by the Financial Supervision Authority. Throughout 2010 the management of AS Tallinna Vesi has followed those regulations and principles.

AS Tallinna Vesi is committed to high standards of corporate governance for which the Management Board and Supervisory Board are accountable to the shareholders. The Group endeavours to be transparent in its ways of operating, corporate disclosures and relations with its shareholders. AS Tallinna Vesi has been recognized several times for this – in 2008 and 2009 the IR Magazine ranked AS Tallinna Vesi to be the best in investor relations in Estonia. In 2009, the NASDAQ OMX Baltic awarded AS Tallinna Vesi for the Best Annual Report in NASDAQ OMX Baltic and for the Best Investor Relations in NASDAQ OMX Tallinn. In 2010 the NASDAQ OMX Baltic awarded AS Tallinna Vesi for the Best Investor Relations in NASDAQ OMX Tallinn and the Baltic Corporate Governance Institute awarded AS Tallinna Vesi for the Best Corporate Governance in Estonia.

Investor Relations and Disclosure of Information

At the beginning of each calendar year, AS Tallinna Vesi discloses the financial calendar, including the disclosure dates of the quarterly and annual financial information and the date of the Annual General Meeting (AGM) of the Shareholders via the Tallinn Stock Exchange. All information disclosed via the Tallinn Stock Exchange is also subsequently disclosed on the AS Tallinna Vesi's website. In addition, AS Tallinna Vesi discloses the following information on its website: useful background information prior to the AGM, questions and answers regarding the topics discussed at the AGM, information about corporate governance and information about the Management and Supervisory Board members.

The Group (AS Tallinna Vesi and OÜ Watercom) has a regular dialogue with its major shareholders and potential investors - presentations are generally made bi-annually and upon request – the timetable of such meetings and the list of presentations are available on the AS Tallinna Vesi's website. To keep the Group's shareholders informed, General Meetings of Shareholders are held at least annually to provide the shareholders with the opportunity to ask questions from the Management Board and the Supervisory Board.

The General Meeting of Shareholders

AS Tallinna Vesi is a public limited company, the management bodies of which are the General Meeting of Shareholders, the Supervisory Board and the Management Board. The General Meeting of Shareholders is AS Tallinna Vesi's highest directing body.

On 18th May, 2010, AS Tallinna Vesi held an Annual General Meeting (AGM) of its Shareholders to approve the 2009 annual report, distribution of dividends, appointment of auditors and recalling as well as electing of Supervisory Board members. On 14th December, 2010 AS Tallinna Vesi held an Extraordinary General Meeting (EGM) to elect a Supervisory Board member after one member tendered in his resignation.

In accordance with the Commercial Code and the Corporate Governance Recommendations, AS Tallinna Vesi convenes its General Meetings, both AGMs and EGMs by notifying all of its shareholders via the Tallinn Stock Exchange system and by placing an advertisement in one newspaper with Estonian-wide circulation 3 weeks in advance. Changes in the Articles of Association and management of the Group companies (incl. the election and recalling of the members of the Management Board) are made according to Part VII of the Commercial Code.

The agendas of AGMs and EGMs of AS Tallinna Vesi are pre-approved by the Supervisory Board, who also puts forward proposals for the attention and voting at the General Meeting. The General Meeting agenda items, the Supervisory Board's proposals, with relevant commentaries about the agenda items, procedural instructions for participating at a General Meeting and how and when to propose additional items to the agenda are disclosed within the General Meeting notice. In addition, AS Tallinna Vesi discloses the following information on its website prior to General Meetings: background information about the agenda and any candidates standing for election, any new agenda items and draft resolutions proposed, and questions about existing agenda items. In 2010 the shareholders did not submit any questions in advance of the General Meetings. All respective documents are also available at the headquarters of the Group until the day before the date of the General Meeting. Resolutions of the General Meetings are published on the AS Tallinna Vesi's webpage within 7 (seven) days following the date of the General Meeting.

Specific rights for adding agenda items granted to shareholders whose shareholding represents at least 1/20 of the share capital are explained in the General Meeting notice as well as on AS Tallinna Vesi's website. Voting rights are explained to the shareholders on AS Tallinna Vesi's website as well as at the beginning of each General Meeting.
The chairman of any AGMs and EGMs is an independent person. In 2010, both the AGM and the EGM were chaired by Mr. Raino Paron, who introduced the procedure for con-

ducting the General Meeting, including the procedure for inquiring about the company's activities from the Management Board.

All members of the Management Board, the Chairman of the Supervisory Board and the auditor participated at the AGM in 2010. When Supervisory Board members stood for election, the candidates for these positions also participated at the respective AGM or EGM.

AS Tallinna Vesi did not enable the shareholders to participate at the AGM or the EGM via electronic communication tools in 2010, as it would be too complicated and expensive to establish reliable solutions to identify the shareholders most of whom are overseas' residents.

No shareholder has shares that grant them a right for specific control. AS Tallinna Vesi is not aware that any shareholders have concluded any voting agreements.

As per the Articles of Association of AS Tallinna Vesi, the company has issued one registered preferred share with the nominal value of 1,000 (one thousand) kroons (B-share). The B-share grants the holder the right to participate at General Meetings as well as in the distribution of profits and of the assets remaining upon dissolution of the company, also other rights provided by law and the Articles of Association of the company. The B-share grants the holder the preferential right to receive a dividend in an agreed sum of 10,000 (ten thousand) kroons. The B-share grants the shareholder 1 (one) vote at the General Meeting (restricted right to vote) when deciding on amending the Articles of Association of the company; increasing and reducing the share capital of the company; issuing convertible bonds; acquisition of treasury shares by the company; deciding on the merger, division, transformation and/or dissolution of the company and deciding on issues related to the activities of the company that have not been placed in the sole competence of the General Meeting by law.

The Supervisory Board, Audit and Board Committees

The Supervisory Board plans the activities of the Group, organises its management and supervises the activities of the Management Board. Pursuant to the Articles of Association of AS Tallinna Vesi, the Supervisory Board consists of nine members with the term of two years. In 2010, five regular and two extraordinary Supervisory Board meetings were held. The Supervisory Board pre-approved the 2010 annual report presented to the Annual General Meeting for approval, and the Group's 2011 budget.

At the time of compilation of this report, AS Tallinna Vesi's Supervisory Board consisted of the following members: Messrs Robert John Gallienne (Chairman of the Supervisory Board), Leslie Anthony Bell, Andrew James Prescott, Simon Gardiner, Mart Mägi, Valdur Laid, Ardo Ojasalu, Rein Ratas and Deniss Boroditš.

At each meeting, an internal audit report was presented to the Supervisory Board. The internal auditor of the Group reports directly to the Audit Committee, which consists of two members of the Supervisory Board. Mr. Mart Mägi is the Chairman of the Audit Committee and Mr. Robert John Gallienne is the second member of the Audit Committee. The Audit Committee follows the Authorised Public Accountants Act and the guidelines issued by the Financial Supervision Authority regarding the composition and working processes of an Audit Committee.

The main tasks of the Audit Committee are:
- to monitor and analyse financial information;
- to monitor and analyse the efficiency of risk management and internal controls;
- to monitor and analyse the processes regarding actual accounts and the consolidated audit report;
- to monitor and analyse independence of appointed external auditor and legality of his/her activity regarding ASTV;
- to evaluate the work of external auditors annually and report to the Supervisory Board about the results of such evaluation.

The appointed external auditor and any member of the external audit team cannot provide any service outside the scope of annual audits without prior approval from the Audit Committee. In 2010, the external auditor did not provide any services to the Group outside the scope of the annual audit.

Pursuant to the Articles of Association of AS Tallinna Vesi, an external auditor shall be elected by the General Meeting of Shareholders for conducting the annual audit. The remuneration of the external auditor is regulated in the respective contract, signed between the external auditor and the Management Board. The Group chooses an external auditor by following internal procurement procedures (which includes approval by the Supervisory Board of AS Tallinna Vesi), ensuring the best match of service quality and the price offered for the services. Offers are taken only from internationally respected, high quality audit companies (the Big 4). AS Tallinna Vesi signs a 3-year audit contract with a clause that requires the re-appointment of the auditor each year and follows the requirement of the Authorised Public Accountants Act to rotate the auditor after 7 years. Based on the report of the Audit Committee, the Supervisory Board evaluates the quality of the work of the external auditor annually in the course of the approval of the Annual Accounts and discloses the summary of such evaluation in the AGM notice. The external auditor is present at the AGM and participates where necessary.

In addition, the Supervisory Board has formed a Remuneration Committee to advise the Supervisory Board on management remuneration issues. Mr. Valdur Laid is the Chairman of the Remuneration Committee and Mr. Robert John Gallienne is the second member of the Remuneration Committee.

The Management Board

The Management Board is a management body that represents and manages the day-to-day activities of a company in accordance with the law and the Articles of Association of the company. The Management Board is obliged to act in the most economically efficient manner. The Management Board is currently composed of three members, one of them seconded from United Utilities International Ltd, all of them appointed by the Supervisory Board of AS Tallinna Vesi. The Management Board always prepares management reports for Supervisory Board meetings and such reports are disseminated to the Supervisory Board members 1 (one) week in advance of the meeting, as required by the Commercial Code. The Management Board also reports ad hoc to the Supervisory Board ex-meetings, when it feels this is necessary as and when requested by the Chairman of the Supervisory Board.

Both, the Management Board and Supervisory Board members are deemed to be insiders, have signed respective insider agreements, are aware of AS Tallinna Vesi's insider rules and together with their related persons are listed in the Group's insider list.

The duties of the Chairman of the Management Board, Mr. Ian John Alexander Plenderleith were, amongst others, to fulfil the everyday obligations of the Chief Executive Officer (CEO) of AS Tallinna Vesi by leading and representing the company, organizing the activities of the Management Board, preparing the strategies and ensuring their implementation.

The duties of the member of the Management Board, Mr. Robert Thomas Yuille, were, amongst others, to fulfil the everyday obligations of the Chief Operating Officer (COO) of AS Tallinna Vesi by managing and being responsible for the operating activities of the company.

Until 22nd October 2010, the duties of the member of the Management Board, Mr. Stephen Benjamin Howard, were, amongst others, to fulfil the everyday obligations of the Chief Financial Officer (CFO) of AS Tallinna Vesi by managing and being responsible for the accounting and financial activities of the company. As of 22nd October 2010, Ms. Siiri Lahe took over the role of the CFO and Mr. Stephen Benjamin Howard was recalled from this position as well as from the position of the member of the Management Board. From 30th November 2009 until 22nd October 2010, Ms. Siiri Lahe was a member of the Management Board without being directly responsible for any operational areas during her maternity leave period.

AS Tallinna Vesi has signed Service contracts with all members of the Management Board. AS Tallinna Vesi has not made any transactions with the members of the Management Board nor their related parties.

According to the Articles of Association of AS Tallinna Vesi, the Chairman of the Management Board has the sole representation right of the company; other Management Board members can represent the company only jointly. In order to make daily decisions, the Management Board has validated a framework of principles, according to which certain management team members are authorized to conclude transactions in small amounts.

The Management Board of AS Tallinna Vesi also acts on behalf of AS Tallinna Vesi as the sole shareholder of OÜ Watercom.

Conformity to Tallinn Stock Exchange Corporate Governance Recommendations

Starting from 1st January 2006, the companies whose shares have been admitted for trading on the regulated market operating in Estonia shall describe, in accordance with the 'Comply or Explain' principle, their management practices in a Corporate Governance report and confirm their compliance or non-compliance with the Corporate Governance recommendations. If the issuer does not comply with the Corporate Governance Recommendations, it shall explain the reasons for its non-compliance in the report.

Declaration of Conformity by AS Tallinna Vesi

In 2010, AS Tallinna Vesi has complied with the vast majority of the Corporate Governance principles. However, AS Tallinna Vesi did not comply with certain principles, which are listed below together with the reasons for such non-compliance:

> '2.2.3. *The basis for Management Board remuneration shall be clear and transparent. The Supervisory Board shall discuss and review regularly the basis for Management Board remuneration. Upon determination of the Management Board remuneration, the Supervisory Board shall be guided by evaluation of the work of the Management Board members. Upon evaluation of the work the Management Board members, the Supervisory Board shall above all take into consideration the duties of each member of the Management Board, their activities, the activities of the entire Management Board, the economic condition of the Issuer, the actual state and future prediction and direction of the business in comparison with the same indicators of companies in the same economic sector.* '

The arrangements undertaken in connection with the privatisation of AS Tallinna Vesi in 2001 provided that, in return for certain fees, United Utilities International Ltd. would provide AS Tallinna Vesi with technical and asset management services and make its personnel available to the company in connection with its operation and management. The working hours, rates of compensation, and all other matters relating to the employment of the individuals directly employed by United Utilities International Ltd. are to be determined solely by United Utilities International Ltd., the Supervisory Board does not review the principles of remuneration of these Management Board members.agement Board members remuneration.

> "**2.2.7.** *Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure.*

AS Tallinna Vesi does disclose the overall Management Board remuneration in the report, appendix 26, but considers that individual remuneration is sensitive and private information and the disclosure thereof would bring no benefit to the shareholders.

> '**3.2.2.** *At least half of the members of the Supervisory Board of the Issuer shall be independent. If the Supervisory Board has an odd number of members, then there may be one independent member less than the number of dependent members.'*

Pursuant to the Articles of Association of AS Tallinna Vesi, the Supervisory Board consists of nine members. Under the Shareholders` Agreement, United Utilities (Tallinn) B.V. (hereinafter UUTBV) and the City of Tallinn have agreed that the division of seats in the Supervisory Board shall be such that UUTBV shall have four seats, the City of Tallinn shall have three seats and two seats shall be reserved for independent members to be elected to the Supervisory Board as permitted by the Tallinn Stock Exchange on listing in June 2005.

Information Disclosure

> '**2.2.2.** *The member of the Management Board shall not be at the same time a member of more than two management boards of an Issuer and shall not be the Chairman of the Supervisory Board of another Issuer. A member of the Management Board can be the Chairman of the Supervisory Board in company belonging to same group as the Issuer.'*

The Management Board Members of AS Tallinna Vesi are not in the Management Boards and Supervisory Boards of other Issuers.

> **2.3.2.** *The Supervisory Board shall approve the transactions which are significant to the Issuer and concluded between the Issuer and a member of its Management Board or another person connected/close to them and shall determine the terms of such transactions.*

The Supervisory Board approves the remuneration principles of the Management Board. In 2010, there were no other transactions between the Group and any member of the Management Board.

> **3.2.5.** *The amount of remuneration of a member of the Supervisory Board shall be published in the Corporate Governance Recommendations Report, indicating separately basic and additional payment (incl. compensation for termination of contract and other payable benefits).*

According to the decision of the General Meeting the remuneration of Supervisory Board members is set at 100,000 kroons per year per person. The fee is paid to six members out of nine. The fee is subject to deduction and payment of applicable taxes and is payable monthly. The Supervisory Board members were not paid any additional benefits in 2010.

> **3.2.6.** *If a member of the Supervisory Board has attended less than half of the meeting of the Supervisory Board, this shall be indicated separately in the Corporate Governance Recommendations Report.*

In 2010, seven Supervisory Board meetings were held (28th January 2010, 25th March 2010, 21st April 2010, 22nd July 2010, 1st September 2010, 21st October 2010 and 1st November 2010).

The Chairman of the Supervisory Board (Mr. Robert John Gallienne) and most of the members of the Supervisory Board (Messrs Matti Hyyrynen, Leslie Anthony Bell, Mart Mägi, Andrew James Prescott, Rein Ratas, Deniss Boroditš and Valdur Laid) have attended more than 50% of the meetings during the time they were in office. Mr. Matti Hyyrynen resigned from the Supervisory Board on 01.11.2010.

As the members of the Supervisory Board have changed during the year, the following Supervisory Board members have attended less than half of the meetings held during the year.

- Mr. Elmar Sepp attended two Supervisory Board meetings, until being recalled from the Supervisory Board on 01.05.2010. He attended on 25.03.2010 and 21.04.2010, respectively.
- Mr. Ardo Ojasalu attended two Supervisory Board meetings since his nomination on 01.05.2010. He attended on 01.09.2010 and 21.10.2010, respectively.
- Mr. Simon Gardiner did not attend any of the Supervisory Board meetings as no Supervisory Board meetings were held after his election on 14.12.2010.

> **3.3.2.** *IA Supervisory Board member candidate shall inform other members of the*

Supervisory Board about the existence of conflict of interests before their election and immediately upon arising of it later. Members of the Supervisory Board shall promptly inform the Chairman of the Supervisory Board and Management Board regarding any business offer related to the business activity of the Issuer made to him, a person close to him or a person connected with him.

All Supervisory Board members are aware of this requirement and at minimum once per annum AS Tallinna Vesi requires all Supervisory Board members to update the record of their business interests. No business transactions took place between the Group and either any Supervisory Board member or any persons or companies related to them in 2010.

The previous sections, Chairman's statement, Results of operations – for the year 2010, Corporate Governance and Corporate Governance Recommendations Report from the Management Report are an integral part of the annual report of AS Tallinna Vesi for the financial year ended 31 December 2010. The Management Report gives a true and fair view of the trends and results of operations, main risks and doubts of the Group.

Ian John Alexander Plenderleith
Chairman of the Management Board

Robert Thomas Yuille
Member of the Management Board

Siiri Lahe
Member of the Management Board

Management confirmation

The Management Board hereby declares its responsibility for the preparation of the financial statements of AS Tallinna Vesi (Parent Company) and its subsidiary (Group) for the financial year ended 31 December 2010 on pages 20 to 58.

The financial statements have been prepared according to International Financial Reporting Standards as adopted by the EU, and give a true and fair view of the financial position, results of operations and cash flows of the Group.

The preparation of the financial statements according to International Financial Reporting Standards involves estimates made by the Management Board of the Group's assets and liabilities as of 31 December 2010, and of income and expenses during the financial year. These estimates are based on current information about the Group and consider all plans and risks as of 31 December 2010. The actual results of these business transactions recorded may differ from such estimates.

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the financial statements on 25 February 2011 have been considered in preparing the financial statements.

The Management Board considers AS Tallinna Vesi and its subsidiary to be a going concern entity.

Ian John Alexander Plenderleith
Chairman of the Management Board

Robert Thomas Yuille
Member of the Management Board

Siiri Lahe
Member of the Management Board

Consolidated statement of financial position

as of 31 December, thousand EEK	Note	2010	2009	2008
Assets			adjusted	adjusted
Current assets				
Cash and cash equivalents	6	207 082	292 474	229 860
Trade receivables, accrued income and prepaid expenses	7, 8	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	9, 2	2 318 494	2 236 900	2 218 687
Intangible assets	9	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	10	119 286	1 936	82 843
Derivatives	11, 12	99 646	81 751	87 271
Trade and other payables	11	15 062	16 116	0
Short-term provisions		1 829	3 570	2 486
Prepayments	15	12 667	11 687	19 797
Total current liabilities		248 490	115 060	192 397
Non-current liabilities				
Deferred income from connection fees	2, 15	90 198	83 948	50 462
Borrowings	10	1 367 958	1 174 034	1 084 642
Derivatives	11	20 408	0	0
Other payables	11	1 796	1 795	735
Total non-current liabilities		1 480 360	1 259 777	1 135 839
Total liabilities		1 728 850	1 374 837	1 328 236
Equity				
Share capital	16	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	674 276
Total equity		1 147 875	1 391 201	1 281 277
Total liabilities and equity		2 876 725	2 766 038	2 609 513

Notes to the financial statements on pages 25 to 52 form an integral part of the financial statements.

Consolidated statement of comprehensive income

for the year ennded 31 December, thousand EEK	Note	2010	2009
Revenue	17	777 326	772 446
Costs of goods sold	19	-323 631	-284 064
Gross profit		453 695	488 3821
Marketing expenses	19	-12 315	-11 213
General administration expenses	19	-57 119	-53 493
Other income/ expenses (-)	20	45 464	38 264
Operating profit		429 725	461 940
Financial income	21	16 569	25 267
Financial expenses	21	-56 696	-86 131
Profit before taxes		389 598	401 076
Income tax on dividends	22	-132 914	-61 142
Net profit		256 684	339 934
Total comprehensive income		256 684	339 934
Attributable to:			
Equity holders of A-shares		256 674	339 924
B-share holder		10	10
Earnings per A share (in kroons)	23	12,83	17,00
Earnings per B share (in kroons)	23	10 000	10 000

Notes to the financial statements on pages 24 to 58 form an integral part of the financial statements.

Consolidated statement of cash flow

for the year ennded 31 December, thousand EEK	Note	2010	2009
Cash flows from operating activities			
Operating profit		429 725	461 940
Adjustment for depreciation/amortisation	9, 19	87 927	89 153
Adjustment for profit from government grants and connection fees	20, 24A	-51 826	-47 512
Other finance expenses	21	-218	-29 203
Profit from sale of property, plant and equipment, and intangible assets		-41	-150
Write down of property, plant and equipment		1 097	0
Change in current assets involved in operating activities	24B	-139 182	-14 675
Change in liabilities involved in operating activities	24B	98 532	6160
Interest paid		-38 232	-38 793
Total cash flow from operating activities		387 782	426 920
Cash flows from investing activities			
Acquisition of property, plant and equipment, and intangible assets	24C	-266 845	-243 906
Compensations received for construction of pipelines	24A	96 057	155 772
Proceeds from sale of property, plant and equipment, and intangible assets		251	238
Interest received		17 355	15 077
Total cash flow used in investing activities		-153 182	-72 819
Cash flows from financing activities			
Received loans	10	312 932	700 968
Repayment of loans	10	0	-701 303
Dividends paid	22	-500 010	-230 010
Income tax on dividends	22	-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	6	207 082	292 474

Notes to the financial statements on pages 24 to 58 form an integral part of the financial statements.

Consolidated statement of changes in equity

thousand EEK	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
31 December 2008	200 001	387 000	20 000	674 276	1 281 277
Dividends (Note 22)	0	0	0	-230 010	-230 010
Net profit of the financial year (Note 23)	0	0	0	339 934	339 934
31 December 2009	200 001	387 000	20 000	784 200	1 391 201
Dividends (Note 22)	0	0	0	-500 010	-500 010
Net profit of the financial year (Note 23)	0	0	0	256 684	256 684
31 December 2010	**200 001**	**387 000**	**20 000**	**540 874**	**1 147 875**

Information about share capital is disclosed in note 16. Notes to the financial statements on pages 24 to 58 form an integral part of the financial statements.

Note 1. General information

AS Tallinna Vesi is the largest water utility in Estonia providing drinking water and wastewater disposal services to over 400 000 people in Tallinn and in several neighbouring municipalities of Tallinn. AS Tallinna Vesi has the exclusive right to provide water and sewerage services in Tallinn's main service area until the year 2020.

Shareholders of AS Tallinna Vesi having a significant influence are, United Utilities Tallinn B.V. with 35.3% and the City of Tallinn with 34.7%, the balance of 30% of shares is free floating on the Tallinn Stock Exchange, in which AS Tallinna Vesi listed on 1 June 2005.

Company's Contacts:

Commercial register number	10257326
VAT identification number	EE100060979
Address	Ädala 10, 10614 Tallinn
Telephone	62 62 200
Fax	62 62 300
E-mail	tvesi@tvesi.ee

Note 2. Accounting polices

The significant accounting policies applied when preparing the financial statements (hereinafter referred to as 'financial statements') of the Group have been set out below. The accounts have been prepared on the basis of the principle of sustainability and comparability; the nature of changes in methodology and their impact have been described in respective notes. In case the presentation of the entries of the accounts or the method of classification has been amended, then the comparable figures of the previous period have also been adjusted. Accounting policies have been applied consistently for all the periods presented in the accounts.

The financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter IFRS) as adopted by the European Union (EU).

The financial statements have been prepared under the historical cost convention, as modified by the accounting policy for derivatives, measured at fair value through profit and loss, as disclosed in the accounting policies below.

Operating segments are reported in a manner consistent with the internal reporting provided to the Management Board, being the chief operating decision-maker. The Management Board, who is responsible for allocating resources and assessing performance of the operating segments, reports to the Supervisory Board which has been identified as the steering committee that makes strategic decisions. The Management Board has determined that the activities of the Group form a single operating segment.

The Management Board of AS Tallinna Vesi authorised these consolidated financial statements for issue at 25 February 2011. Pursuant to the Commercial Code of the Republic of Estonia, the financial statements are subject to approval by the Supervisory Board of AS Tallinna Vesi and the General Meeting of Shareholders. Shareholders have the right not to approve the annual report prepared and approved by the Management Board, and request preparation of a new annual report.

The preparation of the accounts in compliance with IFRS requires the use of certain critical accounting estimates. Also the Management Board must make decisions in the process of implementing the accounting principles of the Group. The Group provides estimates and makes assumptions regarding the future. Accounting estimates do not often match with the subsequent actual events. Estimates and decisions are constantly reviewed and based on previous experiences and other factors, including expectations regarding future events that are considered justified while taking into consideration the known circumstances.

Adoption of New or Revised Standards and Interpretations

Certain new or revised standards and interpretations became effective for the Group from 1 January 2010

IFRIC 18, Transfers of Assets from Customers - The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers.

The Group has changed its accounting policy for recognizing revenues and related property, plant and equipment, arising from connection fees received from the customers in relation to single connections and development area connections. In case an ongoing service is identified as part of the agreement, the revenue from the connection fees is recognized over the term of the agreement with the customer, or if the agreement does not specify a period, the revenue is recognized over a period of no longer than the useful life of the related asset used to provide the ongoing service. The respective revenue is presented within "other income/expenses", as "income from connection fees". The Group also recognizes the item of property, plant and equipment at its cost if the constructed item meets the definition of an asset.

The change in the accounting policy was applied to transfers of assets received on or after 1.1.2008, as the Group had information needed to apply the interpretation about past transfers until that date.

The change in the accounting policy did not have a material effect on the comprehensive income of 2009 and retained earnings as of 1.1.2009 and 31.12.2009. The comparative information was amended as follows:

	31.12.2009		
Consolidated statement of financial position	Balance in 2009 financial statements	Impact of change in accounting policy	Adjusted Balance
Property, plant and equipment	2 152 952	83 948	2 236 900
Deferred income from connection fees	0	83 948	83 948

	31.12.2008		1.01.2009
Consolidated statement of financial position	Balance in 2009 financial statements	Impact of change in accounting policy	Adjusted Balance
Property, plant and equipment	2 168 225	50 462	2 218 687
Deferred income from connection fees	0	50 462	50 462

Certain new or revised standards and interpretations became effective for the Group from 1 January 2010, but are not relevant to the Group:”

IFRIC 12, Service Concession Arrangements as adopted by the EU is effective for annual periods beginning on or after 30 March 2009.

IFRIC 15, Agreements for the Construction of Real Estate effective for annual periods beginning on or after 1 January 2009; IFRIC 15 as adopted by the EU is effective for annual periods beginning after 31 December 2009.

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009 effective for annual periods ending on or after 30 June 2009; amendments to IFRIC 9 and IAS 39 as adopted by the EU are effective for annual periods beginning after 31 December 2009.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation effective for annual periods beginning on or after 1 October 2008; IFRIC 16 as adopted by the EU is effective for annual periods beginning after 30 June 2009.

IFRIC 17, Distributions of Non-Cash Assets to Owners effective for annual periods beginning on or after 1 July 2009; IFRIC 17 as adopted by the EU is effective for annual periods beginning after 31 October 2009.

IAS 27, Consolidated and Separate Financial Statements, revised in January 2008 effective for annual periods beginning on or after 1 July 2009.
IFRS 3, Business Combinations, revised in January 2008 effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

Amendment to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1) effective for annual periods beginning on or after 1 July 2009.

Eligible Hedged Items—Amendment to IAS 39 is effective with retrospective application for annual periods beginning on or after 1 July 2009.

IFRS 1, First-time Adoption of International Financial Reporting Standards, revised in December 2008 effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; restructured IFRS 1 as adopted by the EU is effective for annual periods beginning after 31 December 2009, early adoption permitted.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2 effective for annual periods beginning on or after 1 January 2010.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1 is effective for annual periods beginning on or after 1 January 2010.

Improvements to International Financial Reporting Standards, issued in April 2009 amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010.

New or Revised Standards and Interpretations Not Yet Adopted by the Group

Certain new or revised standards and interpretations have been published that are mandatory for the Group’s accounting periods beginning on or after 1 January 2011 or later periods and which the Group has not early adopted

IFRS 9, Financial Instruments Part 1: Classification and Measurement, issued in November 2009 effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU.

IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

New or revised standards and interpretations that are not yet effective and not early adopted by the Group, and not expected to have a significant effect on the Group's financial statements.

Amendment to IAS 24, Related Party Disclosures, issued in November 2009 effective for annual periods beginning on or after 1 January 2011.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments effective for annual periods beginning on or after 1 July 2010.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 effective for annual periods beginning on or after 1 January 2011.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 effective for annual periods beginning on or after 1 July 2010.

Improvements to International Financial Reporting Standards, issued in May 2010 effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011; the improvements have not yet been adopted by the EU.

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU.

Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12 effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU.

Severe hyperinflation and removal of fixed dates for first-time adopters – Amendment to IFRS 1 effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU.

Classification of Rights Issues - Amendment to IAS 32, issued in October 2009 - effective for annual periods beginning on or after 1 February 2010.

• Principles of consolidation, accounting for business combinations and subsidiaries

A subsidiary is an entity in which the Group, directly or indirectly, has interest of more than one half of the voting rights or otherwise has power to govern the operating and financial policies so as to obtain economic benefits. All subsidiaries have been consolidated in the Group's financial statements. An associate is an entity, in which the Group owns between 20% and 50% of shares with voting rights and over which the Group has significant influence. As at the balance sheet date, the Group had no associates.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

In the consolidated financial statements, the financial statements of the subsidiaries under the control of the Parent company (except for the subsidiaries acquired for resale) are combined on a line-by-line basis. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Group and all of its subsidiaries use uniform accounting policies consistent with the Group's policies. Where necessary, the accounting policies of the subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Investments into subsidiaries are reported at cost (less any impairment losses) in the separate primary financial statements of the Parent company.

• Functional currency

The functional currency of the Group is Estonian kroon. Estonian kroon is pegged to the Euro at the fixed exchange rate of 15.6466 kroons per 1 Euro.

• Presentation currency

For the convenience of the users, these financial statements have been presented in Estonian kroons, rounded to the nearest thousand, unless stated otherwise.

• Foreign currency transactions

Foreign currency transactions are translated into Estonian kroons using the official exchange rates of the Bank of Estonia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been converted into Estonian kroons based on foreign currency exchange rates valid at the balance sheet date. Gains and losses from exchange rate changes are aggregated and shown in the income statement as "other income (-expense)" on net basis.

• Current and non-current distinction of assets and liabilities

Assets and liabilities are classified in the balance sheet as current or non-current. Assets expected to be disposed of in the next financial year or during the normal operating cycle of the Group are considered as current. Liabilities whose due date is in the next 12 months or that is expected to be settled in the next financial year or during the normal operating cycle of the Group are considered as current. All other assets and liabilities are classified as non-current.

• Cash and cash equivalents

Cash and cash equivalents in the balance sheet and the cash flow statement comprise of cash on hand, cash in bank accounts and short-term, risk free, highly liquid bank deposits with original maturities of three months or less.

Cash flows from operating activities are reported using the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows. Cash flows from investing and financing activities are reported using the direct method.

• Financial assets

Financial assets are cash, trade receivables, accrued income, other current and long-term receivables including the derivatives with positive value.

Financial assets are recorded in balance sheet at value date (i.e. are recognised when the Group becomes the owner of the financial assets and are derecognised when the Group has transferred substantially all risk and rewards incidental to ownership).

According to the purpose of acquisition and management intentions the financial assets are divided into the following groups:

- Financial assets at fair value through profit or loss
- Receivables and loans
- Investments held-to-maturity
- Financial assets available-for-sale

As of 31 December 2010 and 2009 the Group did not have any investments held-to-maturity and financial assets available-for-sale.

Financial assets held for trading are classified as financial assets at fair value through profit or loss (asset is acquired for the purpose of selling in the near term). Financial assets at fair value through profit or loss are initially recorded at fair value, transaction costs are recorded in the income statement. Financial assets of this category are subsequently carried at fair value and gains/losses from changes in fair value are recorded in income statement of the period. The quoted market price on balance date is their basis for establishing the fair value of financial assets at fair value through profit or loss.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance sheet date.

Derivatives comprise interest rate swaps used by the Group to manage the Group's interest rate profile. Derivatives are classified as a current asset or liability if expected to be settled within 12 months; otherwise, they are classified as non-current.

Loans and receivables are initially recognised at a fair value together with the transaction costs. Loans and receivables are subsequently carried at amortised cost, using effective interest rate method (less any impairment allowances).

• Receivables

Trade receivables comprise of short term receivables generated in the ordinary course of business. Trade receivables are recorded using the amortised cost method.

Allowance for receivables is recorded if there is objective evidence that the Group is not able to collect all amounts due according to the original terms of the agreement. Impairment of individually material receivables is evaluated separately for each customer, considering the present value estimated future cash flows. For receivables which are not individually significant and for which there is no direct information that their value has been decreased, the allowance is evaluated collectively using previous years experience on impairment of receivables. The amount of the allowance for doubtful receivables is the difference between their carrying amount and present value of future cash flows, using effective interest rate method. The carrying amount of receivables is reduced by the impairment loss and impairment loss is recorded in the income statement on the row „Other income/ expenses". Subsequent recoveries of doubtful receivables are recorded as a decrease of impairment loss.

• Inventories

Inventories are initially recorded at cost including purchase costs, non-refundable taxes and transportation and other costs directly connected with the acquisition, less allowances and discounts.

The weighted-average cost method has been used to expense inventories. Inventories are carried in the balance sheet at the lower of the cost and net realizable value. Net realizable value is the net selling price less estimated costs necessary to make the sale.

• Non-current assets held for sale

Non-current assets held for sale are the property, plant and equipment items that are most probably sold within next 12 months and for which the management has begun sales activity and the assets are offered for sale for a reasonable price compared to their fair value.

Non-current assets held for sale are classified in the balance sheet as current assets and depreciation ended at the moment of reclassification. Non-current assets held for sale are carried in the balance sheet at the lower of at book value and fair value less costs to sell.

• Property, plant and equipment, and intangible assets

Property, plant and equipment are tangible assets used in operating activities of the Group with an expected useful life of over one year. Property, plant and equipment are carried in the balance sheet at historical cost less accumulated depreciation and any impairment losses.

Intangible assets are recognised in the balance sheet only if the following conditions are met:

- the asset is controlled by the Group;
- it is probable that the future economic benefits that are attributable to the asset will flow to the Group;
- the cost of the asset can be measured reliably.

Development Costs

Development costs are costs that are incurred for at the application of research findings for developing, forming or testing new specific products, services, processes or systems. Development costs are capitalized in case there are technical and financial possibilities and positive intention for the implementation of the project, the Group is able to use or sell the assets and the amount of the development costs and the economic benefit emerging from intangible assets in the future can be measured reliably.

Software

Acquired computer software that is not an integral part of the related hardware is recognised as an intangible asset. Development costs of computer software are recognised as intangible assets if these are directly related to the development of such software objects that are identifiable, controllable by the Group and that are expected to generate economic benefits beyond one year. Capitalizable development costs of computer software include staff costs and other expenses directly related to the development. Costs related to the day-to-day maintenance of computer software are recognised as expenses in the income statement. Costs of computer software shall be depreciated over the estimated useful lifetime, the duration of which is up to 5 years.

Other intangible assets

Expenses for acquiring patents, trademarks, licences and certificates are capitalized if it is possible to estimate the future economic benefits attributable to these assets. Other intangible assets are amortised on a straight line basis over the estimated useful lifetime, the duration of which does not exceed 10 years.

The cost of purchased property, plant and equipment and intangible assets comprises the purchase price, transportation costs, installation, and other direct expenses (incl. internal labour costs) related to the acquisition or implementation. Labour costs are capitalised with employee's hourly index applied to working hours which are needed for taking the asset to the location and condition necessary for it to be capable of operating in the manner intended by the management. Hourly rate is calculated individually for each employee and includes other direct expenses connected with the employee in addition to salary expense.

If an item of property, plant and equipment consists of components with different useful lives, these components are depreciated as separate items.

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2010, the Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

Subsequent expenditures are added to the carrying amount of the item of property, plant and equipment or are recognised as a separate asset only when it is probable that future economic benefits related to the assets will flow to the Group and the cost of the asset can be measured reliably. A replaced component or proportion of the replaced item of property, plant and equipment is derecognised. Costs related to ongoing maintenance and repairs are charged to the income statement.

Land is not depreciated. Depreciation of other property, plant and equipment is calculated on a straight-line basis on cost over the estimated useful life of the asset.

- buildings 1,25-2,0 % per annum;
- facilities 1,0-8,33 % per annum;
- machinery and equipment 3,33-50 % per annum;
- instruments and other equipment etc. 10-20 % per annum;
- development costs 20 % per annum;
- licenses and other intangible assets 10-33 % per annum.

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

The expected useful lives of items of property, plant and equipment are reviewed during the annual stocktaking, in recognising subsequent expenditures and in case of significant changes in development plans. When the estimated useful life of an asset differs significantly from the previous estimate it is treated as a change in the accounting estimate and the remaining useful life of the asset is changed as a result of which the depreciation charge of the following periods also changes. Assets are written down to their recoverable amount when the recoverable amount is less than the carrying amount. To determine profits and losses from the sale of property, plant and equipment the book value of the sold assets is subtracted from the proceeds. The respective profits and losses are reported in the income statement items "Other income / expenses".

• Impairment of assets

Assets that are subject to depreciation/amortisation and property, plant and equipment with unlimited useful lives (land) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable value of intangible assets in progress is tested annually, by comparing their recoverable amount with the carrying amount.

Assets are written down to their recoverable amount in case the latter is lower than the carrying amount. The recoverable amount of the assets is the higher of the:

- fair value less costs to sell and
- value in use.

In case it is not possible to determine the fair value of assets less costs to sell, the asset's value in use is considered to be its recoverable value. The value in use is calculated as the present value of the estimated future cash flows generated by the assets.

The impairment of assets may be assessed either for an individual asset or a group of assets (cash-generating unit). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment loss is immediately recognised in the income statement. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

If based on the results of the assessment it appears that the recoverable amount of an asset or a group of assets (cash-generating unit) has increased, the earlier impairment is reversed up to the amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. The reversal of impairment loss is recorded in the income statement of the period as a decrease in impairment loss.

• Financial liabilities

Financial liabilities include trade payables, accrued expenses, loans payable and other short term and long term financial liabilities. Financial liabilities are initially recognised at fair value net of transaction cost. Subsequently financial liabilities are carried using the amortised cost method.

Amortised cost of short term financial liabilities is usually equal to their nominal value, thus they are carried on balance sheet at the amount payable. For calculating the amortised cost of long-term financial liabilities these are initially recognized at fair value of amount received (less transaction costs), interest expenses calculated from the liability using effective interest rate method subsequently.

Liabilities are classified as current liabilities, unless the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the balance sheet date.

• Corporate income tax

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise.

Income tax on dividends in Estonia

According to the Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to tax, as tax is charged only on dividend distributions. Pursuant to the Income Tax Act, resident legal entities are liable to income tax on all dividends paid and other profit distributions irrespective of the recipient. The rate is 21/79 on the amount of the dividends payable (2009: 21/79).

The contingent tax liability that would occur if all distributable retained earnings were paid out as dividends is not recognized in the balance sheet. The income tax due on dividend distribution is recorded as a liability and as a tax expense in the income statement during the same period as the dividend is declared regardless of the actual payment date or the period for which dividends are declared. Income tax liability is due on the 10th date of the month following the dividend payment.

• Employee benefits

Employee short-term benefits

Employee short-term benefits include wages and salaries as well as social security taxes, benefits related to the temporary halting of the employment contract (holiday pay or other similar pay) when it is assumed that the temporary halting of the employment contract will occur during 12 months after the end of the period in which the employee worked, and other benefits payable within 12 months after the end of the period during which the employee worked.

Termination benefits

Termination benefits are benefits which are payable after the Group decides to terminate the employment relationship with the employee before the normal retirement date or when the employee decides to leave voluntarily or when the employee and employer have an agreement, in exchange for the benefits outlined. The Group recognises termination benefits as liabilities and expenses only when the Group is obliged to offer termination benefits in order to encourage voluntary leaving.

• Provisions and contingent liabilities

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

The amount of servitudes likely payable that henceforth must be paid to the owners of private land resulting from the restrictions related to land use in case the Group's pipes are located on their land, are recorded as provisions. On the balance sheet the liability is classified as short-term, because it can be realized to full extent within 12 months from the balance date.

Provisions have been recognised based on of the best estimates of the Group's Management Board and the actual costs of these transactions can differ from the provided estimates.

Commitments and other possible and existing liabilities, the realization of which is unlikely or the amount of accompanying costs cannot be assessed with sufficient reliability but which can become liabilities on certain terms in the future, are disclosed as contingent liabilities in the notes to the financial statements.

• Share capital

Shares are recorded within the equity capital. Pursuant to the Group's Articles of Association, the Group has two classes of shares: the A-Shares, with a nominal value of 10 kroons each and a single preference share B-Share, with a nominal value of 1 000 kroons.

• Statutory reserve capital

Pursuant to the requirements of the Commercial Code the statutory reserve capital is set up comprising of the allocations from net profits. The annual allocation must be at least 5% of the net profit of the accounting year until the reserve capital is equal to 10% of paid-up share capital. As the Group's reserve capital has reached the required level, the reserve capital is no longer increased from net profit.

At the decision of the General Meeting of the Shareholders the reserve capital can be used for the covering of loss in case it is not possible to cover it from the Group's available shareholders' equity, also for increasing the Group's share capital. The reserve capital cannot be distributed to the shareholders.

• Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series payments the right to use an asset for an agreed period of time. Leases which transfer all significant risks and rewards incidental to ownership to the lessee are classified as finance leases. Other leases are classified as operating leases.

The Group as the lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of minimum lease payments. Each lease payment is apportioned between the finance charge and the reduction of the outstanding liability. Finance charges are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The finance lease liability is reduced by principal payments. The finance charge is recognised as an interest expense in the income statement. The finance lease liability is recognised either within short or long-term borrowing in the balance sheet.

Payments made under operating leases are charged to the income statement over the lease term on a linear basis.

• Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate. Government grants received for expenses incurred in previous periods or which do not include additional conditions for future compliance are recognised as income in the period when government grant was received. Government grants are not recognised as income before there exists sufficient confidence that Group complies with the conditions relating to government grants and the grants will be received.

Government grants received as compensations for the construction of water, sewerage and stormwater pipelines shall be deducted from the book value of the pipeline constructed and any amounts exceeding the construction cost of pipeline shall be recognized as income upon completion of construction works within "Other income/expenses" as profit from government grants.

• Revenue

Revenue is recognised at the fair value of consideration received or receivable, net of VAT and sales discounts. Revenue comprises sales of services.

Sales of water, wastewater, storm water and fire hydrants services and other sales income is recorded in the period when the service has been provided, the amount of the revenue and cost incurred for the transaction can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the entity.

Revenues received from the sale of assets shall be recognised when all the significant risks and rewards related to the ownership of assets have been transferred to the purchaser, it is probable that economic benefits associated with the transaction will flow to the entity and the cost related to the transaction can be reliably determined.

Connection fees received from customers are recognized as income during the period of the duration useful life of related assets. Such income is recorded as "other income/expenses".

Interest income is recognised in case the receipt of income is likely and the amount of income can be determined reliably. Interest income is recognised using the effective interest rate, except when the receipt of interests is uncertain. In this case interest income is recognised on cash basis.

• Earnings per share

Earnings per share are calculated by dividing the net profit of the accounting year with the weighted average number of issued shares of the period. When calculating diluted earnings per share, the earnings and the average number of shares are adjusted with potential shares that have a diluting effect on the earnings per share.

Note 3. Financial risk management

In its everyday business activities the Group has to take into account different financial risks: market risk (including currency risk, price risk and cash flow and fair value interest rate risk), credit risk, liquidity risk and equity risk. Because of the Group's position on the market and characteristics of its business activities none of before mentioned risks has significant impact to the Group.

Financial assets

as of 31 December, thousand EEK	2010	2009
Receivables (incl cash and cash equivalents)	519 038	480 928
Total	519 038	480 928

Financial liabilities

as of 31 December, thousand EEK	2010	2009
Financial liabilities at amortised cost	1 588 687	1 259 516
Financial liabilities at fair value through profit and loss	35 470	16 115
Total	1 624 157	1 275 631

The risk management of the Group is based on the requirements established by the Tallinn Stock Exchange, the Financial Supervision Authority and other regulatory bodies, generally accepted accounting standards and good practice, and the internal regulations and policies of the Group and its subsidiaries. According to the Group's risk administration procedures the financial risk management is carried out by the financial department.

• Market risk

Currency risk

Currency risk is the potential loss due to unfavourable movements in currency exchange rates against Estonian kroon. Amounts that have been received, paid or denominated in euros are considered currency risk free because euro's exchange rate to Estonian kroon is fixed.

The Group's currency risk is mainly related to international purchases and amounts owed in foreign currencies (excluding euro). Most of the Group's purchases are made in kroons and euros. The proportion of purchases in other currencies in 2010 was less than 0.5% (2009: less than 0.1%). Because of the small proportion of transactions in other currencies the Group has not taken any special activities to reduce this risk.
On 31 December 2010 the Group's bank accounts balances (including deposits) totalled 207 082 thousand kroons (2009: 292 474 thousand kroons) from which less than 1 thousand kroons (2009: 1 thousand kroons) were in other currencies than Estonian kroons or euros. There were no other significant exposures to foreign currencies arising from other financial assets or financial liabilities.

Due to the above the Group considers its currency risk level to be low and conversion from Estonian kroon to euro will impact it only positively.

Price risk

The Group has no price risk regarding financial instruments because it has no investments into equity instruments.

Price risk related to the tariffs of the main services of AS Tallinna Vesi is covered in greater detail in Note 5.

Cash flow and fair value interest rate risk

Fair value interest rate risk is the risk that the fair value of financial instruments will fluctuate in the future due to changes in market interest rates. Cash flows interest rate risk is the risk that financial expenses or financial liabilities with floating interest rate will increase when interest rates on the market increase.

In essence the Group's operating incomes and expenses are independent from interest rate changes on the market. Interest risk related to financial income arises only from depositing finances to overnight or fixed term deposits and is considered, due to requirements to counterparties, to be low.

The Group's interest rate risk related to financial expenses is related to long term borrowings of which all as of 31 December 2010 had floating interest rates (2009: also all).
To mitigate the interest risk of cash flows and to fix its interest payments future cash flows the Group has concluded five interest rate SWAP contracts. The interest rate SWAP contracts expose the Group to fair value interest rate risk and are accounted at fair value.

SWAP contracts

as of 31 December	2010	2009
Contracts start date	2009.11 - 2011.05	2009.11 - 2010.05
Contracts maturity date	2013.11 - 2015.11	2015.05
Contracts notional amount	1 173 495	704 097
Contracts fair value as	-35 470	-16 116

Group's average interest rate for loans in 2010 was 1.58% (2009: 3.01%). More detailed information about the Group's loans can be seen in Note 10.

If the interest rates of the Group's loans with floating interest rates had been 50 basis points higher or smaller and all other variables were held constant, then the Group's profit before tax for the year ended 31 December 2010 would have decreased or increased by 6 990 thousand kroons (2009: 4 788 thousand kroons).

If the interest rates of the Company's loans with floating interest rates had been 50 basis points higher or smaller and all other variables were held constant, then the Company's profit before tax for the year ended 31 December 2009 would have decreased or increased by 4 788 thousand kroons (2008: 3 002 thousand kroons).

• Credit risk

Credit risk expresses potential loss that can arise if counterparty fails to fulfil its contractual obligations. Cash in bank accounts and deposits, financial assets at fair value through profit and loss, trade and other receivables are exposed to credit risk.
According to the Group's risk management polices the Group's short term available resources can be deposited only in accounts and fixed term deposits opened in credit institutions. For depositing counterparties with at least an A rating are used. As of 31.12.2010 100% of Group's cash and deposits were deposited with counterparty with higher rating than A3 by Moody's (2009: 100% higher than A3).

The Group has procedures for co-operation with customers, to ensure that selling of products and services is always in compliance with the Group's internal principles. To reduce the credit risk related to accounts receivable the customer's payment discipline is consistently observed. In case of overdue debts the Group's Credit group sends invoice remainders, makes contact by phone or uses a variety of other measures to collect the overdue debt. Depending on the negotiations with the customer it is possible to agree exceptional payment terms and plans to help customers pay their invoices. The policies regarding the commencement of court proceedings to recover overdue debt have also been defined.

At the end of December 2010 only receivables from Tallinna Kommunaalamet exceeded 5% of total receivables constituting 57.1% of the total receivables (2009: 2.3%).

Trade receivables, as of 31.12.2010

thousand EEK			Overdue		
	Balance	Not due	up to 3 months	4-6 months	7-12 months
Commercial entities, incl	147 914	63 354	52 827	10 628	21 105
partially impaired	301	0	9	54	238
Private persons, incl	50 372	48 981	1 139	168	84
partially impaired	4 018	0	1 398	1 558	1 062
Total	198 286	112 335	53 966	10 796	21 189
Proportion	100%	56,7%	27,2%	5,4%	10,7%

Trade receivables, as of 31.12.2009

thousand EEK			Overdue		
	Balance	Not due	up to 3 months	4-6 months	7-12 months
Commercial entities, incl	42 200	35 330	35 330	1 614	1 195
partially impaired	7 435	1 921	1 921	1 614	1 195
Private persons, incl	52 133	50 318	50 318	60	501
partially impaired	1 264	375	375	60	501
Total	94 333	85 648	85 648	1 674	1 696
Proportion	100%	90,8%	90,8%	1,8%	1,8%

Financial liabilities in terms of payment (undiscounted amounts):

As of 31.12.2010	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Non-interest bearing	113 174	471	3 001	22 069	134	138 849
Floating interest rate instruments	459	1 056	140 286	1 212 852	227 325	1 581 978
Total	113 633	1 527	143 287	1 234 921	227 459	1 720 827
Proportion	6,6%	0,1%	8,3%	71,8%	13,2%	100,0%

As of 31.12.2009	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Non-interest bearing	94 833	1 080	3 889	3 597	134	103 533
Floating interest rate instruments	0	0	16 641	831 714	411 537	1 259 892
Total	94 833	1 080	20 530	835 311	411 671	1 363 425
Proportion	7,0%	0,1%	1,5%	61,3%	30,2%	100,0%

• Liquidity risk

Liquidity risk is the risk that the Group is unable to fulfil its financial obligations due to insufficient cash funds or inflows. This risk realizes when the Group doesn't have enough funds to serve its loans, to fulfil its working capital needs, to invest and/or to make declared dividend payments.

In liquidity risk management the Group has taken a prudent view, maintaining sufficient cash balance and short term deposits to be able to fulfil its financial liabilities at every moment of time. Continuous cash flow forecasting and control are essential tools in the day-to-day liquidity risk management of the Group.

• Equity risk management

The Group ensures the management of the Group's capital structure in accordance with the Business Plan approved by the Supervisory Council. The long-term borrowing contracts limit the Parent Group's equity ratio to a minimum of 35% of the total assets.

Equity ratio

as of 31 December, thousand EEK	2010	2009
Equity	1 147 875	1 391 202
Total assets	2 876 725	2 682 090
Equity ratio	39,9%	51,9%

• Fair value

Fair values of cash and cash equivalents, accounts receivable, short-term borrowings and accounts payable do not vary significantly from their carrying amount because their realization will take place within 12 months from the date the balance sheet was composed.
At the end of 2010 all Group's long-term borrowings had floating interest rates and because Group's long-term borrowings risk margins were smaller than risk margin currently applicable to Group the fair value of its long-term borrowings on 31.12.2010 was 44 693 thousand kroons smaller than their carrying amount (2009: 121 106 thousand kroons smaller).
Smaller interest risk margins compared to market situation means that if the Group would like to refinance its long-term borrowings on existing market conditions it would bring to it higher total loans costs compared to the existing agreements.

Note 4. Critical accounting estimates

Management has made an assessment the key assumptions concerning the future and other key sources of uncertainty at the balance sheet date that may have risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year. The most important areas of estimates contained in the financial statements are the following:

- Management has estimated the useful lifetime of property, plant and equipment and intangible assets. The results of the estimates are disclosed in the note 2 in section 'Property, plant and equipment, and intangible assets' and the information about the carrying amounts is disclosed in note 9.

  As of 31 December 2010 Group owns property, plant and equipment, and intangible assets with a book value of 2.3 bn kroons (31.12.2009: 2.2 bn kroons) and annual depreciation was 89 mln kroons in 2010 (2009: 89 mln kroons). If the depreciation/amortization rates decreased / increased by 5 %, the depreciation/amortization expense would increase / decrease respectively by 4.5 mln kroons (2009: 4.5 mln kroons).
- The Group has assumed an obligation to construct water and wastewater and storm water pipelines with an estimated construction cost of up to 648 mln kroons (2009: 679 mln kroons) in 2008-2012. The construction of pipelines is compensated by local governments with the grants receivable in 2008-2014. Compensations received from local governments are recognised as government grants - compensations received or receivable are deducted from the book value of the constructed pipeline. Any amount exceeding the construction cost of the pipeline is recognized as income upon the completion of construction works. The part of the compensation that is received after the completion of the construction works is recognized in the balance sheet as a receivable from local government at its present value. Recognition of the above compensations is dependent on several uncertain circumstances and the estimates of the Management Board, in particular those regarding the total cost of the project and the fair value of the compensations receivable. As construction works continue until 2012 and the exact extent thereof can change, there is no certainty regarding the total cost of the construction of the pipelines and the profitability of the project. In recording income from government grants (Note 20) in these financial statements the best knowledge and estimates of the Management Board of the profit rates of the project have served as the basis for calculation. If the actual construction costs increased compared to these estimates by 5%, the profit of 2010 would decreased by 4 653 thousand kroons (2009: 7 447 thousand kroons).

  As compensation for pipelines will be received until June of 2014 and the exact extent of compensation depends on water consumption, the fair value of compensation receivable is also based on estimates. In the estimates compensation is receivable for 2008-2014 and has been discounted using a rate of 9.4% (2009: 9.4%). If the discount rate would be decreased/increased by 0.5%, the profit of the accounting period would increase/decrease up to 1 000 thousand kroons (2009: up to 500 thousand kroons).
- Accounts receivable - for the evaluation of doubtful debts the individual debts are grouped by age and, based on past experience, the following percentages are applied in the doubtful debt calculation:

61 to 90 days over due date	10%;
91 to 180 days over due date	30%;
181 to 360 days over due date	70%;
over 360 days over due date	100%.

Impairment of individually material receivables can differ from the rates above.

Note 5. Change in regulation

In the 3rd quarter of 2010, the Law of Establishing Price Limits for Monopolies 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 AS Tallinna Vesi was transferred from the City of Tallinn to the Competition Authority (CA). The main aim of the Law of Establishing Price Limits for Monopolies is to control the profits of the water companies. The CA has issued their recommendations for calculating 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 failing to take into account any aspects of any of the contracts signed between the Company, UUTBV and the City of Tallinn on privatisation. One of these contracts, the Services Agreement contains the tariff mechanism which has been used to regulate tariffs and profitability since 2001. The values within the tariff mechanism were bid and won under a market led procurement process designed to deliver the lowest possible tariffs needed to meet the much higher quality standards and deliver an acceptable rate of return on the capital invested by the winning bidder.

On 9 November, AS Tallinna Vesi submitted its tariff application in accordance with the terms and conditions of the Services Agreement. Furthermore, in order to give greater confidence in the tariff application the Company had its application independently verified based upon a best practice regulatory methodology 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 ensure it applies internationally acceptable principles of economic regulation and takes into account all aspects of the privatisation agreement when assessing the application. This would ensure that 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 the privatisation contracts.

AS Tallinna Vesi has published its tariff application on its website and on 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. However, 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 application.

Note 6. 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

Note 7. Trade receivables

as of 31 December	2010	2009
Accounts receivable	216 308	107 819
Allowance for doubtful receivables	-18 022	-13 486
Total trade receivables	198 286	94 333

Impairment loss of receivables:

for the year ended 31 December	2010	2009
Write off of uncollectible receivables	-189	-53
Receipt of receivables previously written off as uncollectible	0	186
Change in allowance for doubtful receivables	-4 536	-10 009

Note 8. Accrued income and prepaid expenses

as of 31 December	2010	2009
Accrued interest	142	908
Other accrued income	113 529	93 213
Prepaid expenses	2 358	2 863
Total accrued income and prepaid expenses	116 029	96 983

The Group's current assets (Notes 7, 8) in the amount of 320 292 thousand kroons (2009: 196 345 thousand kroons) have been pledged as a security to the bank loans (Note 10).

Note 9. 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	Construction in progress - unfinished pipelines	Prepayment for fixed assets	Unfinished intangible assets	Development costs	Acquired licenses and other intangible assets	
As of 31 December 2008 adjusted											
Acquisition cost	368 045	2 285 000	585 674	18 373	22 082	91 974	1 853	2 726	17 742	62 372	3 455 841
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	1 574 432	221 438	6 126	22 082	91 974	1 853	2 726	2 968	37 734	2 262 115
Transactions in the period 01.01.2009 - 31.12.2009											
Acquisition in book value (Note 24C)	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 (Note 13)	0	0	0	0	0	-145 160	0	0	0	0	-145 160
Reclassification	6 123	77 215	26 302	2 063	-78 323	-34 589	-406	-8 938	4 740	4 198	-1 615
Depreciation (Note 19)	-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	38 482	-7 930	780	20 970	-35 608	-406	-1 240	2 540	-4 409	15 104
As of 31 December 2009 adjusted											
Acquisition cost	374 151	2 359 614	603 762	18 441	43 052	56 366	1 484	1 486	13 907	74 349	3 546 573
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	1 612 914	213 508	6 906	43 052	56 366	1 484	1 486	4 332	34 503	2 277 219
Transactions in the period 01.01.2010 - 31.12.2010											
Acquisition in book value (Note 24C)	0	0	0	0	155 942	117 434	0	965	0	0	274 341
Write off and sale of property, plant and equipment, and intangible assets in book value	-2	0	-69	-142	0	0	0	0	0	0	-211
Compensated by government grants (Note 24A)	0	0	0	0	0	-110 785	0	0	0	0	-110 785
Reclassification	2 418	77 109	29 572	838	-110 438	-1 212	-387	-580	66	500	-2 114
Depreciation (Note 19)	-4 249	-40 565	-32 562	-1 310	0	0	0	0	-2 809	-7 604	-89 099
Total transactions in the period 01.01.2010 - 31.12.2010	-1 831	36 544	-3 059	-614	45 504	5 437	-387	385	-2 743	-7 104	72 132
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	70 693	3 688 187
Accumulated depreciation	-75 694	-787 139	-411 318	-11 809	0	0	0	0	-9 582	-43 294	-1 338 836
Book value	300 876	1 649 458	210 449	6 292	88 556	61 803	1 060	1 869	1 589	27 399	2 349 351

Property, plant and equipment and intangible assets are written off if the condition of the asset do not enable further usage for production purposes.
As of 31 December 2010 and 2009 the net balance sheet value of finance leases related assets was respectively 4 025 thousand kroons and 5 203 thousand kroons.
The Group's non-current assets in the amount of 551 482 thousand kroons (2009: 459 534 thousand kroons) have been pledged as a security (Note 10).
A mortgage in the amount of 519 795 thousand kroons (2009: 544 713 thousand kroons) serves as a security to the bank loans for the Group's non-current assets (land and buildings)(Note 10).

Note 10. Borrowings

as of 31 December	2010	2009
Current borrowings		
Current portion of long-term bank loans	117 072	0
Current portion of long-term finance lease liabilities	1 936	1 936
Total current borrowings	119 008	1 936
Non-current borrowings		
Long-term bank loans	1 368 236	1 172 098
Long-term finance lease liabilities	0	1 936
Total non-current borrowings	1 368 236	1 174 034

Currency EUR (euro)	Balance	Effective interest rate
Bank loans at 31 December 2010		
Borrowings at floating interest rate	1 485 308	1,03% - 2,20%
Bank loans at 31 December 2009		
Borrowings at floating interest rate	1 172 098	2,01% - 2,71%

Collateral at book value as of 31 December		2010	2009
Collateral of loans and pledged assets			
Type of collateral	Specification and location of collateral		
Commercial pledge	Movables of the Group (Notes 7, 8, 9)	871 774	655 879
Mortgage	Real estates located at Paljassaare põik 14 and Järvevana tee 3, Tallinn, Estonia (Note 9)	519 795	544 713

Note 11. Trade and other payables

Liabilities

as of 31 December 2010	Balance amount	Short-term portion	Long-term portion	Maturity date
Trade payables - operating expenditures	17 531	17 531	0	
Trade payables - capital expenditures	35 611	35 611	0	
Payables to related parties (Note 26)	3 127	3 127	0	
Payables to employees*	12 098	10 437	1 661	02.2012
Interest payable	2 462	2 462	0	
Derivatives	35 470	15 062	20 408	11.2013-11-2015
Other accrued expenses	2550	2550	0	
Long-term guarantee deposit**	135	0	135	04.2102
Taxes payable (Note 12)	27 928	27 928	0	
Total trade and other payables	136 912	114 708	22 204	
as of 31 December 2009				
Trade payables - operating expenditures	16 614	16 614	0	
Trade payables - capital expenditures	28 738	28 738	0	
Payables to related parties (Note 26)	3 836	3 836	0	
Payables to employees*	11 422	9 761	1 661	02.2012
Interest payable	2 664	2 664	0	
Derivatives	16 116	16 116	0	
Other accrued expenses	1 390	1 390	0	
Long-term guarantee deposit**	134	0	134	04.2102
Taxes payable (Note12)	18 748	18 748	0	
Total trade and other payables	99 662	97 867	1 795	

* Long-term payable includes the performance related pay that will realise in 2012 in case of the successful delivery of the project.
** Long-term deposit is presented at cost.

Note 12. Taxes payable

as of 31 December	2010	2009	Tax rates
Income tax	1 956	2 072	21% (2009: 21%)
VAT	6 385	5 505	20 % (01.01.2009 - 30.06.2009 18 %, since 01.07.2009 20%)
Tax on special use of water	3 260	3 012	0,44 - 1,056 kr/m^3 (2009: 0,4 - 0,96 kr/m^3)
Pollution taxes	11 707	3 186	6 6 479 - 215 280 kr/t (2009: 5 891 - 187 200 kr/t)
Social security tax	3 593	4 194	33%
Other	1 027	779	0,3 -21%
Total (Note 11)	27 928	18 748	

Note 13. Government grants

• Government grants for assets

Government grants receivable as compensations for constructing pipelines taken into use in the financial year amounted to 162 568 thousand kroons (2009: 186 533 thousand kroons) (Note 24A). Property, plant and equipment have been reduced by the amount receivable as government grants of 110 785 thousand kroons (2009: 145 160 thousand kroons). See also note 9 and 20.

Note 14. Contingent liabilities

Tax authority is entitled to check the Group's tax accounting within 6 years after the term for the submission of tax declaration and when mistakes are detected to impose an additional amount of tax, interests and fines. According to the Group's Management Board there are no circumstances as a result of which tax authority could impose a significant additional amount of tax to the Group.

The Group's distributable retained earnings as at 31 December 2010 amounted to 540 874 thousand kroons (2009: 784 200 thousand kroons). Consequently, the maximum possible tax liability which would become payable if retained earnings were fully distributed is 143 777 thousand kroons (2009: 208 458 thousand kroons).

Note 15. Prepayments and deferred income

as of 31 December	2010	2009
Prepayments for water and sewerage services	818	976
Prepayments for pipelines (Note 24A and 24B)	11 849	10 711
Total prepayments	12 667	11 687
Deferred income from connection fees	90 198	83 948

Note 16. Share capital

At 31 December 2010 and 2009 the nominal value of the share capital was 200 001 000 (two hundred million one thousand) kroons, composed of 20 000 000 shares with nominal value of 10 kroons per share (A-share) and one preferred share with a nominal value of 1 000 kroons (B-share).

One B-share has been issued giving the right of veto to the shareholder when voting on the following issues: change in the Articles of Association, increase and decrease of share capital, issuance of replacement bonds, termination of the Group's activities, merging, sharing and rearrangements, acquisition of own shares and, on demand of the management or supervisory board, deciding other issues related to the activities of the Group that have not been placed in the sole competence of the General Meeting by law. The B-share grants the holder the preferential right to receive a dividend in an agreed sum of 10 thousand kroons. General Meeting of Shareholders has the authority to decide the emission and buyback of the shares, following the principles established in the Articles of Association. Management board does not have any respective authorities.

Restrictions on the transfer of shares are disclosed in chapter 'Description of capital stock and corporate governance' of the IPO offering circular of AS Tallinna Vesi shares. The circular is available on the website (www.tallinnavesi.ee).

As of 31 December 2010 and 2009 United Utilities (Tallinn) B.V. owned 7 060 870 (35.3%) A- shares, the City of Tallinn owned 6 939 130 (34.7%) A- shares and one B-share, with 6 000 000 shares in free float. Other direct shareholders owned less than 5% of the shares as of 31 December 2010.

As of 31 December 2009 Credit Suisse Securities (Europe) Ltd Prime Brokerage A/C customers
1 134 948 (5.67%) and HSBC Bank PLC RE Parvus European Absolute Opportunities Master Fond customers owned 869 568 (4.35%) shares. Other direct shareholders owned less than 5% of the shares as of 31 December 2009.

As of 31 December 2010 and 2009 from Supervisory and Management Board members only Siiri Lahe owned 700 shares.
Dividends declared and paid are disclosed in note 22.
Contingent income tax on the dividend payments from retained earnings is described in note 14.

Note 17. Revenue

for the year ended 31 December

Revenues from main operating activities	2010	2009
Total water supply and waste water disposal service, incl:	706 716	707 408
Private clients, incl:	372 342	379 322
Water supply service	207 033	211 379
Waste water disposal service	165 309	167 943
Corporate clients, incl:	267 683	273 338
Water supply service	147 717	152 092
Waste water disposal service	119 966	121 246
Outside service area clients, incl:	53 430	40 003
Water supply service	13 138	7 841
Waste water disposal service	40 292	32 162
Over pollution fee	13 261	14 745
Storm water treatment and disposal service	51 412	46 957
Fire hydrants service	3 016	3 083
Other works and services	16 182	14 998
Total revenue	777 326	772 446

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

Note 18. Staff costs

for the year ended 31 December	2010	2009
Salaries and wages	-67 903	-71 400
Social security and unemployment insurance taxation	-22 617	-23 777
Staff costs total (Note 19)	-90 520	-95 177
Number of employees at the end of reporting period	319	336

Note 19. Cost of goods sold, marketing and general administration expenses

for the year ended 31 December

Cost of goods sold	2010	2009
Tax on special use of water	-13 254	-11 479
Chemicals	-22 425	-20 082
Electricity	-42 316	-33 422
Pollution tax	-35 831	-16 918
Staff costs (Note 18)	-63 051	-70 273
Development	-126	-29
Depreciation and amortization (Note 9)	-79 677	-81 006
Transport	-18 915	-17 427
Other costs of goods sold	-48 036	-33 428
Total cost of goods sold	-323 631	-284 064
Marketing expenses		
Staff costs (Note 18)	-5 009	-4 516
Depreciation and amortization (Note 9)	-5 221	-5 207
Other marketing expenses	-2 085	-1 490
Total cost of marketing expenses	-12 315	-11 213
General administration expenses		
Staff costs (Note 18)	-22 460	-20 388
Depreciation and amortization (Note 9)	-3 029	-2 940
Other general administration expenses	-31 630	-30 165
Total cost of general administration expenses	-57 119	-53 493

Note 20. Other income / expenses

for the year ended 31 December	2010	2009
Profit from government grant (Note 13, 24A)	51 783	41 373
Other income / expenses (-)	-6 319	-3 109
Total other income / expenses	45 464	38 264

Note 21. Finance income and expenses

for the year ended 31 December	2010	2009
Interest income	16 569	25 266
Interest expense, incl swap interests	-37 124	-36 413
Change in swap fair value	-19 354	-16 116
Other financial expenses	-218	-33 601
Total finance income / expenses	-40 127	-60 864

Note 22. 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

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

Paid-up dividends per shares:		
Dividends per A-share (in kroons)	25,00	11,50
Dividends per B-share (in kroons)	10 000	10 000

Note 23. Earnings per share

for the year ended 31 December	2010	2009
Net profit for the period ended 31.12 minus B-share preference rights (in kroons)	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
Earnings per A share (in kroons)	12,83	17,00
Earnings per B share (in kroons)	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.

Note 24. Notes to the cash flow statement

Note 24A. Compensations received for construction of pipelines

for the year ended 31 December	2010	2009
Income		
Connection fees and government grants received for pipelines taken into use (Note 13 and 20)	163 784	226 158
Increase in prepayments for pipelines (Note 15 and 24B)	1 138	-8 013
Change in accounts receivable from pipelines (Note 24B)	-48 536	20 780
Change in accrued income for government grants	-20 329	-83 153
Proceeds from connection fees	96 057	155 772
Acquisition cost of pipelines taken into use (Note 9 and 20)	-111 958	-178 646

The connection fees from and the acquisition costs of pipelines taken into use are eliminated from "Cash flows of operating activities" as these are recorded within "Cash flows from investing activities". In 2010 the net amount eliminated was -51 826 thousand kroons (2009: -47 512 thousand kroons) (Note 20).

Note 24B. Change in current assets and liabilities

In addition to the changes in the balance sheet, current assets and liabilities have been adjusted as follows:

for the year ended 31 December	2010	2009
Current assets		
Change in balance sheet	-38 555	-141 421
Adjustments:		
Change in cash and cash equivalents	-85 392	62 614
Movements between non-current and current assets	-83 314	1 617
Change in accrued interests	-786	142
Change in accounts receivable from pipelines (Note 24A)	48 536	-20 780
Change in accrued income for government grants	20 329	83 153
Total change in current assets	-139 182	-14 675
Current liabilities		
Change in balance sheet	133 430	-77 337
Adjustments:		
Change in non-current borrowings	-3 879	82 686
Change in trade payables – capital expenditures (Note 24C)	-7 496	-7 226
Swap reclassification	-20 408	0
Prepayment of single and developing areas	-2 020	0
Change in prepayments for the sale of property, plant and equipment, and deposits	43	24
Change in prepayments for pipelines (Note 15 and 24A)	-1 138	8 013
Total change in current liabilities	98 532	6 160

Note 24C. Acquisition of property, plant and equipment, and intangible assets

for the year ended 31 December	2010	2009
Acquisition of property, plant and equipment, and intangible assets (Note 9)	-274 341	-251 132
Adjustments:		
Change in trade payables – capital expenditures (Note 24B)	7 496	7 226
Total acquisition of property, plant and equipment and intangible assets	-266 845	-243 906

Note 25. Operating lease

for the year ended 31 December

Leased assets	2010	2009
Total operating lease expenses for computers and vehicles	6 151	7 747
Following period operating lease payments from the non-cancellable contracts are as follows:	as of 31 December	
Less than 1 year	3 695	5 010
1-5 years	4 089	4 638
Total minimum lease payments	7 784	9 648

The underlying currency of all lease contracts is Estonian kroon. Leased assets have not been subleased.

Note 26. 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 have control or significant influence and transactions with shareholder having the significant influence. Dividend payments are indicated in the Statement of Changes in Equity.

as of 31 December

Shareholders having the significant influence

Balances recorded in working capital on the statement of financial position of the Group	2010	2009
Accounts receivable	112 568	2 160
Accrued income (Note 7)	113 529	93 200
Accounts payable - short-term trade and other payables (Note 11)	3 127	3 836

for the year ended 31 December

Transactions with the related parties	2010	2009
Sales services	53 828	49 740
Compensations from the local governments for constructing new pipelines (Note 13)	162 568	186 533
Purchase of administrative and consulting services	16 149	19 357
Financial income	11 460	10 047
Management Board fees excluding social tax	3 112	2 558
Supervisory Board fees excluding social tax	600	600

The fees disclosed above are contractual payments made by the Group to the Management Board and Supervisory Board members. In addition to this some Board Members have also received direct compensations from the companies belonging to the group of United Utilities (Tallinn) B.V. as overseas secondees.

Market prices were checked and used in the transactions with related parties.

The information about AS Tallinna Vesi shares belonging to the related parties is disclosed in note 16.

Paid-up dividends are described in note 22.

Note 27. Subsidiaries and business combinations

Subsidiary	Location	Activity	Holding (%) at 31.12.2010	Holding (%) at 31.12.2009
Watercom OÜ	Tallinn, Estonia	Provision of non-core services related to water business	100	0

AS Tallinna Vesi registered its subsidiary Watercom OÜ on 25.05.2010.

Note 28. Events after the balance sheet date

On the 1st January 2011 Estonia joined the Eurozone and Estonian kroon (EEK) was replaced by euro (EUR). As a result of that, since that day the Group converted its accounting into euros and the financial statements of 2011 and further years will be compiled in euros.

Comparative data will be converted by an official exchange rate for transition of 15.6466 EEK/EUR.

Note 29. Supplementary disclosures on the parent company of the group

Pursuant to the Accounting Act of the Republic of Estonia, information of the unconsolidated financial statements (primary statements) of the consolidating entity (parent company) shall be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the parent company the same accounting policies have been used as in preparing the consolidated financial statements. The accounting policy for reporting subsidiaries has been amended in the separate primary financial statements disclosed as supplementary information in the Annual Report in conjunction with IAS 27, Consolidated and Separate Financial Statements.

In the parent separate primary financial statements, disclosed to these consolidated financial statements (Supplementary disclosures), investments into the shares of subsidiaries are accounted for at cost less any impairment recognised.

The separate reports on the parent company

According to the Estonian Accounting Law, the amount which can be distributed to the shareholders is calculated as follows: adjusted unconsolidated equity less share capital, share premium and reserves

Statement of financial position

thousand EEK	as of 31 December 2010	as of 31 December 2009 adjusted	as of 1 January 2009 adjusted
Assets			
Current assets			
Cash and cash equivalents	204 859	292 474	229 860
Trade receivables, accrued income and prepaid expenses	313 388	191 317	112 638
Receivables from subsidiary	286	0	0
Inventories	4 776	3 819	3 760
Non-current assets held for sale	1 193	1 209	1 140
Total current assets	524 502	488 819	347 398
Non-current assets			
Long-term loan receivable from subsidiary	8 200	0	0
Investment in subsidiary	40	0	0
Property, plant and equipment	2 314 008	2 236 900	2 218 687
Intangible assets	30 857	40 319	43 428
Total non-current assets	2 353 105	2 277 219	2 262 115
Total assets	2 877 607	2 766 038	2 609 513
Liabilities and equity			
Current liabilities			
Current portion of long-term borrowings	119 286	1 936	82 843
Trade and other payables	98 722	81 751	87 271
Derivatives	15 062	16 116	0
Payables to subsidiary	129	0	0
Short-term provisions	1 829	3 570	2 486
Prepayments and deferred income	12 667	11 687	19 797
Total current liabilities	247 695	115 060	192 397
Non-current liabilities			
Deferred income from connection fees	90 198	83 948	50 462
Borrowings	1 367 958	1 174 034	1 084 642
Derivatives	20 408	0	0
Other payables	1 796	1 795	735
Total non-current liabilities	1 480 360	1 259 777	1 135 839
Total liabilities	1 728 055	1 374 837	1 328 236

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	542 551	784 200	674 276
Total equity	1 149 552	1 391 201	1 281 277
Total liabilities and equity	2 877 607	2 766 038	2 609 513

Statement of comprehensive income

for the year ennded 31 December, thousand EEK	2010	2009
Revenue	773 476	772 446
Costs of goods sold	-319 246	-284 064
Gross profit	454 230	488 382
Marketing expenses	-11 408	-11 213
General administration expenses	-57 051	-53 493
Other income/ expenses (-)	45 628	38 264
Operating profit	431 399	461 940
Financial income	16 572	25 267
Financial expenses	-56 696	-86 131
Profit before taxes	391 275	401 076
Income tax on dividends	-132 914	-61 142
Net profit	258 361	339 934
Total comprehensive income	258 361	339 934

Cash flow statement

for the year ennded 31 December, thousand EEK	2010	2009
Cash flows from operating activities		
Operating profit	431 399	461 940
Adjustment for depreciation/amortisation	87 605	89 153
Adjustment for profit from government grants and connection fees	-51 826	-47 512
Other finance expenses	-218	-29 203
Profit (-)/loss(+) from sale of property, plant and	-41	
equipment, and intangible assets		-150
Write down of property, plant and equipment	1 339	0
Change in current assets involved in operating activities	-137 824	-14 675
Change in liabilities involved in operating activities	97 022	6160
Interest paid	-38 232	-38 793
Total cash flow from operating activities	389 224	426 920
Cash flows from investing activities		
Granted loans	-8 200	0
Acquisition of property, plant and equipment, and intangible assets	-268 715	-243 906
Compensations received for construction of pipelines	96 057	155 772
Proceeds from sale of property, plant and equipment, and intangible assets	6 656	238
Interest received	17 355	15 077
Total cash flow used in investing activities	-156 847	-72 819
Cash flows from financing activities		
Received loans	312 932	700 968
Repayment of loans	0	-701 303
Dividends paid	-500 010	-230 010
Income tax on dividends	-132 914	-61 142
Total cash flow used in financing activities	-319 992	-291 487
Change in cash and cash equivalents	-87 615	62 614
Cash and cash equivalents at the beginning of the period	292 474	229 860
Cash and cash equivalents at the end of the period	204 859	292 474

Statement of changes in equity

thousand EEK	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
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
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 year	0	0	0	258 361	258 361
31 December 2010	**200 001**	**387 000**	**20 000**	**542 551**	**1 149 552**

Confirmation of the management and supervisory boards

The Management Board has prepared the management report and the financial statements of AS Tallinna Vesi on 25 February 2011. The Supervisory Board of AS Tallinna Vesi has reviewed the annual report, prepared by the Management Board, consisting of Management Report and the financial statements, the Management Board's proposal for profit distribution and the independent auditors' report, and has approved the annual report for presentation on the Shareholders' General Meeting.

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

Ian John Alexander Plenderleith
Chairman of the Management Board

Robert Thomas Yuille
Member of the Management Board

Siiri Lahe
Member of the Management Board

Robert John Gallienne
Chairman of the Supervisory Board

Leslie Anthony Bell
Member of the Supervisory Board

Simon Gardiner
Member of the Supervisory Board

Andrew James Prescottr
Member of the Supervisory Board

Mart Mägi
Member of the Supervisory Board

Rein Ratas
Member of the Supervisory Board

Ardo Ojasalu
Member of the Supervisory Board

Deniss Boroditš
Member of the Supervisory Board

Valdur Laid
Member of the Supervisory Board

AS PricewaterhouseCoopers
Pärnu mnt. 15
10141 Tallinn, Estonia
Telephone +372 614 1800
Fax +372 614 1900
www.pwc.ee

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Tallinna Vesi

We have audited the accompanying consolidated financial statements of AS Tallinna Vesi and its subsidiary, which comprise the consolidated statement of financial position as of 31 December 2010 and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

Management Board is responsible for the preparation, and true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error..

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation, and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of AS Tallinna Vesi and its subsidiary as of 31 December 2010, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

9. March 2011

Tiit Raimla
AS PricewaterhouseCoopers
Auditor's Certificate NO.2B7

Stan Nahkor
AS PricewaterhouseCoopers
Auditor's Certificate NO.50B

* This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of Information, views oropinions, the original language version of our report takes precedence over this translation.

AS Tallinna Vesi Management Board 2010

The Management Board represents the Company in its relations with third parties and manages the Company's daily activities and organises its accounting. The Management Board reports to and is instructed by the Supervisory Council. According to the Articles of Association the Management Board of AS Tallinna Vesi consists of two (2) to five (5) members who are elected for three (3) years.

The members of AS Tallinna Vesi Management Board are:

Ian John Alexander Plenderleith

Chairman of the Management Board,
Chief Executive Officer (CEO)

Chief Executive Officer and the Chairman of the Management Board of the Company from 1 October 2008. He worked for AS Tallinna Vesi as Chief Commercial Officer from October 2004 until August 2007. Between September 2007 and September 2008 he worked as the Finance Partner for the Business Development and International Division of United Utilities. He has over 15 years experience in a variety of financial roles within the Utilities sector both in the UK and internationally. He is a member of the Chartered Institute of Management Accountants.

Tallinna Vesi shares 31.12.10: 0

Robert Thomas Yuille

Member of the Management Board,
Chief Operating Officer (COO)

Robert Yuille, British, joined the company in April 2010 as Chief Operating Officer. He has spent over 30 years working for United Utilities and recently 7 years working for Sofia Water in Bulgaria. He holds a BSc Hons degree in Applied Chemistry form Stockport College and also a Masters Degree in Business Administration from Lancester University.

Tallinna Vesi shares 31.12.10: 0

Siiri Lahe

Chief Financial Officer (CFO),
on maternity leave as of November 2009

Siiri Lahe, Estonian, joined the company in November 1994. She has more than 13 years of experience and extensive managerial skills in AS Tallinna Vesi at several levels within the finance department. She has also been a member of the Executive Team of the company for two years. From August 1st 2007 she is the Chief Financial Officer of the company and a member of the Management Board. She has a higher education Degree in Economy and a Master's Degree in Public Administration from Tallinn University of Technology.

Tallinna Vesi shares 31.12.10: 700

AS Tallinna Vesi Supervisory Council

The Supervisory Council has the ultimate responsibility for the organisation of work of the Company, plans the activities of the Company and supervises the activities of the Management Board. The Council consists of nine (9) members whose term lasts two (2) years. Council members are elected and appointed in accordance with the following principles:

- Five (5) members of the Council are elected and removed by the shareholders' general meeting, whereas the person who receives the most of votes shall be considered elected. A Council member who is elected by the shareholders' general meeting may be removed before the end of his/her term, provided that at least 2/3 of the votes represented by the shares at the shareholders' general meeting vote in favour of the removal.

- Two (2) members of the Council are appointed and removed by the holder of the B-Share or by a shareholder whose shares represent at least 34% of the votes granted by the A-Shares, provided however that no single shareholder may appoint or remove more than two members of the Council.

The Tallinn Stock Exchange Rules require that if more than 30 per cent of the share capital of a company listed on the Tallinn Stock Exchange is held by a single shareholder, then at least two (2) members of the supervisory council of the relevant company must be independent. Thus, AS Tallinna Vesi held an Extraordinary General Meeting of shareholders on 22 November 2005 where two independent Council members were elected. Members of the Council elect from among themselves the Chairman of the Council who will organise the activities of the Council and chair Council meetings.

The members of AS Tallinna Vesi Supervisory Council are:

Robert John Gallienne

the Chairman of the Supervisory Council

Nominated by United Utilities Group, and elected at the AGM on May 23rd 2006. Has served as the CEO and Chairman of the Management Board of the Company between 1st April 2002 and 30th June 2006. Prior to this Mr. Gallienne held the position of Managing Director in Sofyiska Voda and Group Customer Services Director of Manila Water in the Philippines. He has over 26 years experience in senior management positions in the water industry both in England and overseas.

Tallinna Vesi shares 31.12.10: 0

Andrew James Prescott

Member of the Supervisory Council

Appointed by UUG on 16th of June 2009. Andrew James Prescott is Financial Planning and Analysis Manager of United Utilities Utility Solutions.He has previously worked for Princes Limited and Rank Leisure Holdings before joining United Utilities as Group Financial Control Manager in 2006. Mr. Prescott holds a BA in Economics and Economic History.

Tallinna Vesi shares 31.12.10: 0

Leslie Anthony Bell

Member of the Supervisory Council

Appointed by UUG on June 16th 2009. Leslie Anthony Bell is Managing Director of United Utilities Utility Solutions. He has previously worked for AMEC Civil Engineering before joining United Utilities in 2001 as Managing Director of United Utilities International. Mr. Bell holds a MSc in Engineering Geology.

Tallinna Vesi shares 31.12.10: 0

Simon Gardiner

Member of the Supervisory Council

Nominated by UUG on 14.12.2010. Simon Gardiner is the Head of Legal Department at United Utilities Group PLC. He was previously Group Legal Manager at United Utilities Group PLC and in 1994-1999 was an Associate at Law Office Osborne Clarke Solicitors. Mr. Gardiner is a solicitor as of 1996. .

Tallinna Vesi shares 31.12.10: 0

Tallinn City representatives:

Ardo Ojasalu

Member of the Supervisory Council

Appointed by the City of Tallinn on 1 May 2010. Ardo Ojasalu is chairman of IMG Konsultant AS. He has been the Supervisory Council chairman of Eestl Raudtee, Elektriraudtee and Ringhäälingu Saatekeskus. He has also worked at Optiva Bank and Hoiupank. Ardo Ojasalu graduated from Tallinn Technical University with a degree in computers and computer networks.

Tallinna Vesi shares 31.12.10: 0

Deniss Boroditš

Member of the Supervisory Council

Appointed by the City of Tallinn on 19 September 2007. Deniss Boroditš received a Bachelor's Degree in Law Studies from International University Concordia in 2001. Starting from April 2007 he is working as a Deputy Mayor of Tallinn and his main fields of responsibility are municipal engineering services, infrastructure, road maintenance, heating, water, communication, environment protection, maintenance of parks and green areas, waste management, state defence, rescue and emergency services.

Tallinna Vesi shares 31.12.10: 0

Rein Ratas

Member of the Supervisory Council

Rein Ratas was nominated by the City of Tallinn on 22 November 2005. Since 1999 Mr. Ratas has been employed by AS Tallmac as the Head of Environmental Department and an environmental expert. Simultaneously Rein Ratas has been teaching at the Estonian Agricultural University in Environmental Protection Institute. Prior to that Mr. Ratas was the Secretary General in the Environmental Ministry for 7 years. Rein Ratas has a PhD in the field of biology from the University of Tartu.

Tallinna Vesi shares 31.12.10: 0

Independent Members:

Mart Mägi

Member of the Supervisory Council

Mart Mägi was elected as the independent member of the Supervisory Council on 23 November 2007. Since 2008 Mart Mägi has been working as the Managing Director of the Amserv Grupp AS. Mart Mägi has extensive knowledge and experience in finance and business. He has an MBA degree in Insurance and Banking from Warsaw University, of Banking and Insurance and in Banking and Finance from University of Tartu..

Tallinna Vesi shares 31.12.10: 0

Valdur Laid

Member of the Supervisory Council

Valdur Laid was elected as the independent member of the Supervisory Council in 22 November 2005. Since February 2004 Valdur Laid holds the position of CEO in Elion, the largest telecom company in Estonia. He joined Elion in 2002 as the CFO and Member of the Management Board. Prior Elion, Valdur Laid was employed by the Bank of Estonia holding different managerial positions for 9 years. In 1999 – 2000 he served as an Executive Director and Member of the Management Board of the Bank of Estonia. Valdur Laid has an MBA degree from International Institute of Management Development in Lausanne, Switzerland.

Tallinna Vesi shares 31.12.10: 0

Additional information to the shareholders:

Siiri Lahe
Chief Financial Officer
Ädala 10, Tallinn 10614
Phone: (+372) 62 62 200
Fax: (+372) 62 62 300
E-mail: siiri.lahe@tvesi.ee