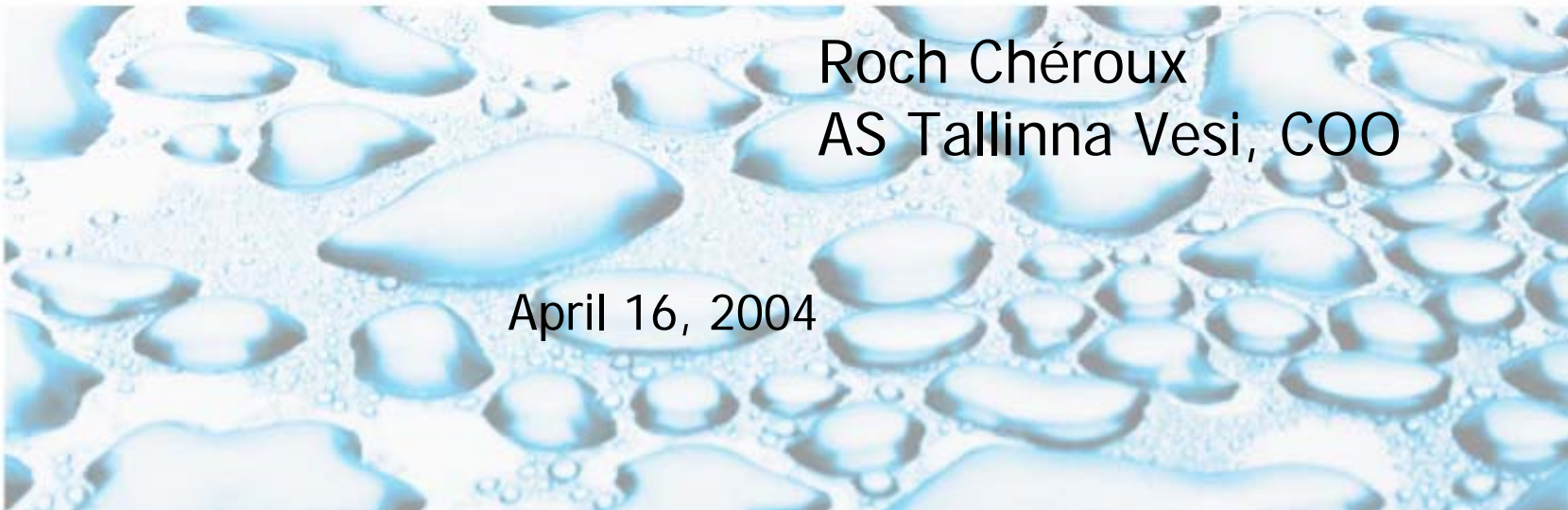


AS Tallinna Vesi as a Private Company



Roch Chérourx
AS Tallinna Vesi, COO

April 16, 2004

Tallinna Vesi - Key Data



- Population served – 406,000
- About 17 000 customers
 - over 12 000 private persons
 - over 4 500 legal entities + management companies
- 2003 Revenue = Euro 32,3 million
- 2003 Net Profit = Euro 6,7 million
- 350 Employees
- Water Sources – 90% surface water & 10% ground water
- Water production approx 75.5 MI/d
- Wastewater Treatment approx 130 MI/d
- Average consumption 104 l/d per capita

Objectives of City of Tallinn

Stated City Objectives for Share Sale

“....to attract a strategic investor who is fully committed to the development of the Company, and has the necessary technical, operational and financial capability to meet the established levels of service, as well as relevant international experience...”

Details of Transaction

Structure of Share Sale:

- Sale of 50.4% of Company's "A-Shares"
 - ✓ 28 m existing shares + 30 m new shares
 - ✓ City holds remainder of "A-Shares" (remaining 57m), and single "preferred" B-Share
- Minimum price for 58m shares was Euro 37.1 million

Bidding Requirements & Evaluation

Bidding Requirements

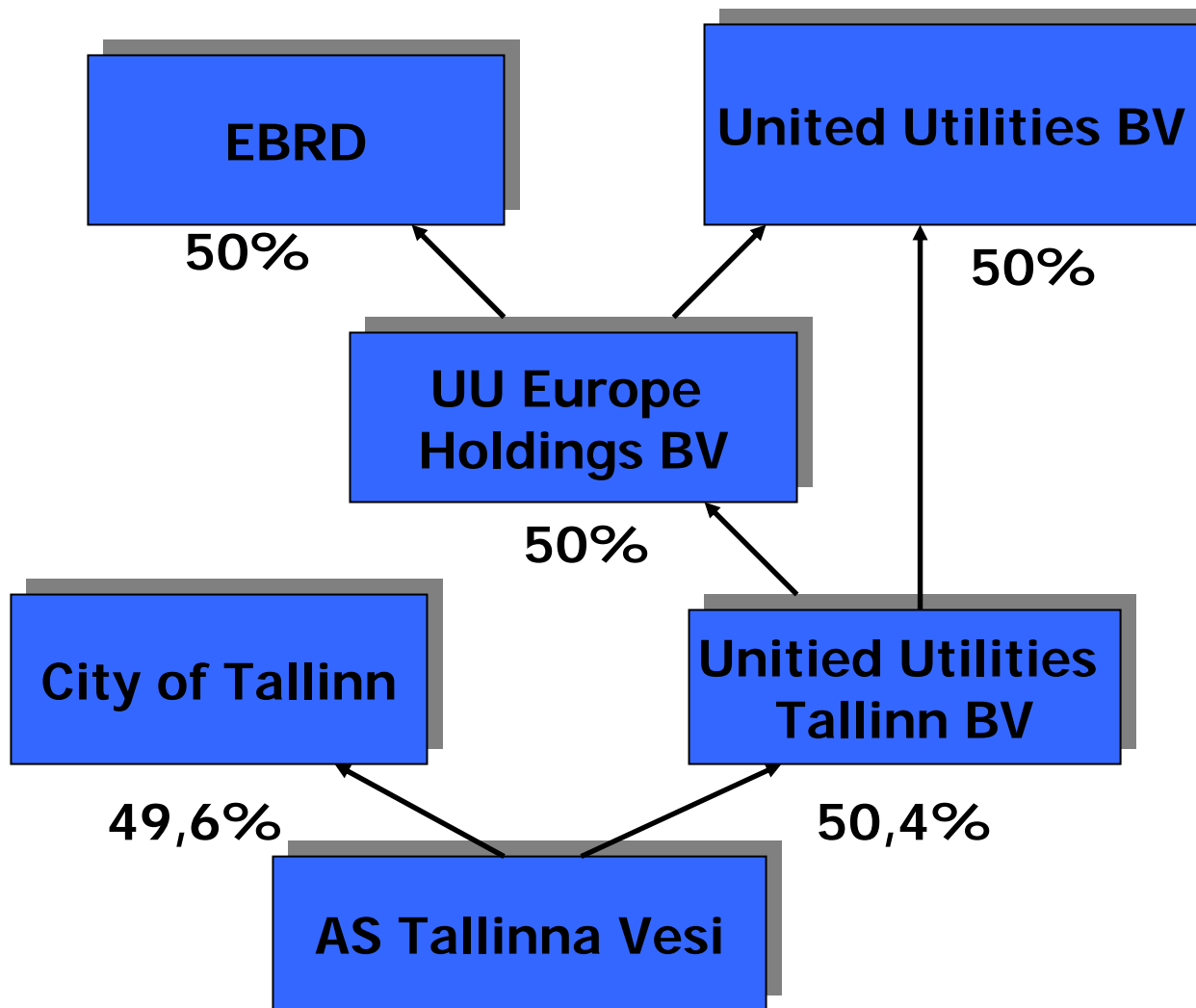
- unconditional offer price for purchase of shares
- unconditional offer for yearly change in water and wastewater service price for the next 5 years
- detailed business plan including:
 - ✓ proposed investment schedule
 - ✓ sources of financing

Evaluation Criteria

- 60% - tariff changes for next five years
- 40% - share price

IWUU winning bid – Euro 85 million

Shareholding structure in ASTV



Improvements & Obligations

Areas for Improvement

- Service quality – many complaints about customer services and quality at point of delivery though treatment processes were effective
- Optimisation of Capital Investment
- Cost efficiency in operation & construction

Investor Obligations

- Levels of Service (LoS) Objectives, based on EU standards
- Detailed LoS Objectives set for next 5 years
- Review obligations and tariffs for period after 2010
- Regulation by independent Monitoring Unit

Services Agreement

- 96 Levels of Service including:
 - ✓ Improved water & wastewater quality E.g. water quality in a customer's tap on EU level by 2007
 - ✓ Development of water network by 2010 (ca 35 km)
 - ✓ Development of sewer network by 2010 (ca 190 km), and stormwater network (ca 45 km)
 - ✓ Water and sewage network rehabilitation
 - ✓ Tougher environmental regulations on discharge to the Baltic (nitrogen, phosphorus)
 - ✓ Improved customer care - Eg. faster response time
 - ✓ Reduce leakage by 25% by 2006
 - ✓ All customers metered by 2003
- Penalties for non-conformities
- Independent Monitoring Unit

Strategy to Achieve Objectives (1)

- Changes in organisation structure
 - ✓ Lead by Exec Team of Estonian & Expat Executives
 - ✓ All middle managers involved in the program
 - ✓ Centralisation / efficiency / avoid duplication
 - ✓ Internal Communication Program
 - ✓ Risk and Issue Management (work shops)
- Continuous operational efficiency improvement
- Improvement of procurement procedures to reduce cost
- Staff and management training for productivity and service delivery
- Performance related remuneration
- Improved health and safety practices
- Introduction of quality management techniques

Strategy to Achieve Objectives (2)

Good working relationships with key stakeholders!

- Regular meetings with the City – political & technical level
- Involvement in Tallinn city's 12-year development plan – ASTV's propositions built in the plan
- Involvement of the City in ASTV's Procurement committee
- Elaboration of the construction plan in accordance with the City
- Regular meetings with the Foundation

Achievements since privatisation (1)



- ISO 17025 for Labs (2001)
 - ISO 9001 (2002)
 - ISO 14001 (2003)
 - Improved Health & Safety Practices
 - Restructuring of the company in 2002
-
- Improved water quality (PAX, flushing, new network)
 - Improved wastewater quality (environmental benefits)
 - Replacement of 1400 fire hydrants
 - Reduction of sewer blockages 34% compared with 1999
 - All customers metered
 - NRW reduced by 15%

Achievements since privatisation (2)

- Rehabilitation of network
 - ✓ Water network over 26 km
 - ✓ Sewer network over 10 km
- Network extensions
 - ✓ Water more than 10 km
 - ✓ Sewer more than 42 km
 - ✓ Stormwater more than 10 km
- Improved Customer Care –
Call Centre, Internet page, 24 h meter reading phone
- 1600 new connections available – 80% connected



Privatisation benefits

- Level of Service delivery (2001- 2003)
- Cash benefit to City of Tallinn
 - ✓ 83,3 million Euro in 2001 - 2003
- International expertise in meeting EU quality standards
- Regulatory control + monitoring
- Limits on tariff increases (renegotiations)
 - First tariff increase only in 2004 by 10% (+ CPI)
 - In 2002 price adjusted by CPI (6,89)

"In some instances Ülemiste Water Treatment Plant's water sets a good example to bottled water."

Harri Jankovski,
Head of Water Companies
Association of Estonia

"Health inspectors are especially pleased with Tallinna Vesi's constant self control on water quality."

Agnes Jürgens, Health Protection
Inspection Specialist



0,01 kroons per liter

Pure tap water of high quality