

## AS TALLINNA VESI

### Preliminary results of operations in 2005, unaudited

#### Key performance indicators

| <i>Amounts in million EEK</i>  | <b>2005</b> | <b>2004</b> | <b>Change</b> |
|--------------------------------|-------------|-------------|---------------|
| Sales                          | 592,0       | 548,5       | 7,9%          |
| Main operating activities      | 549,9       | 478,8       | 14,9%         |
| Other operating activities     | 42,1        | 69,7        | -39,6%        |
| Gross profit                   | 351,6       | 286,9       | 22,6%         |
| Gross profit margin %          | 59,4%       | 52,3%       | 13,6%         |
| Operating profit               | 282,6       | 254,9       | 10,8%         |
| Operating profit margin %      | 47,7%       | 46,5%       | 2,7%          |
| Profit before taxes            | 209,7       | 199,2       | 5,3%          |
| Profit before taxes margin     | 35,4%       | 36,3%       | -2,5%         |
| Net profit                     | 174,4       | 173,0       | 0,8%          |
| ROA %                          | 7,3%        | 7,8%        | -5,5%         |
| Debt to total capital employed | 55,3%       | 55,1%       | 0,3%          |

*ROA – Net profit / Total Assets*

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

#### Sales

In the 4<sup>th</sup> quarter 2005 total sales from the Company's main operating activities were 140.3 mln EEK, which is a 14.6% increase compared to the corresponding period of 2004. Sales from water and wastewater increased by 16.3% compared to the 4<sup>th</sup> quarter in 2004.

For the whole year of 2005 total sales from the Company's main operating activities were 549.9 mln EEK, up 14.9% year-on-year. Sales from water and wastewater increased by 16.5%, which was in accordance with expectations and is largely attributable to the 15.75% increase in water and sewerage tariffs in 2005 for the Company's residential and commercial customers.

Sales to residential customers increased by 17% as a result of the tariff increase and a 0.8% increase in the total volume of water supplied and wastewater treated compared to 2004.

Sales to commercial customers increased by 16%, due to the tariff increase and a 1.1% increase in the total volume of water supplied and wastewater treated when compared to 2004. Included within these figures are sales volumes of wastewater treatment services provided to surrounding municipalities outside of the services area, which reached almost 1.2 mln m<sup>3</sup> during 2005, an increase of 19% on the corresponding period in 2004.

Sales from stormwater treatment and disposal, fire-fighting water, maintenance of fire hydrants and other work and services increased to 54.4 mln EEK, or by 1.4% compared to 2004.

## **Expenses and profitability**

Profits from other operating activities in 2005, primarily the provision of new connections, were 3.8 mln EEK, a 1.5 mln EEK decrease from 2004 levels.

The Cost of goods sold for the main operating activity was 202 mln EEK in 2005, an increase of 4.8 mln EEK or 2.4% from the equivalent period in 2004. This increase was driven by increased chemical costs (increased usage of methanol in order to reduce the level of nitrogen in the wastewater) and lower capitalization of expenditures.

The Company's gross profit for 2005 was 351.6 mln EEK, which represents an increase of 64.8 mln EEK, or 22.6%, compared to the gross profit of 286.9 mln EEK for 2004.

As a result of the above factors the Company achieved an improved gross profit margin of 59.4% for 2005 compared to 52.3% for 2004. This indicates the Company's ability to control operating costs and to convert the sales growth in main operating activities into improved profit margins.

General administration expenses increased by 23.5 mln EEK from 40.7 mln EEK in 2004 up to 64.3 mln EEK in 2005. This was attributable to the one-off IPO costs, Tallinn Stock Exchange listing costs and lower capitalization of operating expenses.

Other net income was 1.96 mln EEK in 2005, representing a decrease of 13 mln EEK compared to 2004. In 2005, income gained from land sales has been offset by IPO costs of 8.5 mln EEK, whereas in 2004, recognition of the sale of fixed assets and provisions released to the profit and loss account resulted in a significantly higher positive revenue stream.

In total, the results for the period ended 31 December 2005 include non-recurring IPO costs of 26 mln EEK, being made up of 19.9 mln EEK for professional services and taxes, and 6.1 mln EEK for staff bonus costs.

The Company's operating profit for 2005 was 282.6 mln EEK, an increase of 27,6 mln EEK, or 10.8%, over the operating profit of 254.9 mln EEK for 2004.

Net Financial expenses were 72.8 mln EEK in 2005, which is an increase of 17.2 mln EEK compared to 2004. The one-off increase in financial expenses of 18.2 mln EEK was due to non-recurring costs incurred resulting from the partial repayment and restructuring of EBRD loan in November 2005.

Income taxes increased by 9.1 mln EEK, from 26.3 mln EEK in 2004 up to 35.4 mln EEK in 2005 as a result of the higher dividend paid.

The Company's net profit for 2005, including the impact of one-off IPO and loan restructuring costs, was 174.4 mln EEK, an increase of 1.4 mln EEK compared to 2004.

## **Loan restructuring**

In November 2005 the Company signed amendments to its existing loan agreement with the EBRD and a new loan agreement with Nordea Bank Finland Plc Estonian branch for a 37.5 mln EUR 10-year loan facility.

The Company prepaid 36.837 mln EUR of its existing EBRD loan, leaving the outstanding balance at 37.5 mln EUR, which as a result of the amendments made has a fixed base rate of 4.19%, a risk margin of 48 bps and a 3 years grace period.

The Nordea loan agreement for 37.5 mln EUR has a base rate EURIBOR, a risk margin of 24 bps, a maturity date of November 2015 and a 5 years grace period.

Partial early prepayment of the EBRD loan, plus additional administration and legal costs relating to the amendments and prepayment accounted for 10.9 mln EEK. In addition the company had to expense to the profit and loss account 7.3 mln EEK of amortised costs from the original 80 mln EUR EBRD loan. These costs related to the front-end fee and other legal expenses and were capitalized over the lifetime of the original loan.

Due to loan restructuring the Company achieved a significant reduction in its weighted average cost of interest and annual interest costs. Before restructuring the company's weighted average cost of debt was approximately 4.9% per annum, after the restructuring it has been reduced to around 3.6% per annum, giving a saving in interest costs of approximately 15 mln EEK per annum when compared to 2005 interest costs.

The extensions of the grace periods for a further three and five years enables the company to maintain its leverage close to the current levels which are optimum for the company, as well as release 79.5 mln EEK of cash that previously was required to be held in a debt service reserve account until the maturity of the loan in 2015.

## **Balance sheet**

The Company's total assets were 2,373.6 mln EEK as at 31 December 2005, an increase of 148.9 mln EEK year-on-year. Current assets increased by 122.2 mln EEK, largely attributable to an increase in cash from operations and release of the debt service reserve (previously accounted under financial investments).

Tangible and intangible fixed assets and asset constructions in progress were 1,977.3 mln EEK at 31 December 2005, an increase of 76.3 mln EEK of the fixed asset base in the year, representing the Company's investment in assets in order to continuously upgrade services to customers.

Current liabilities decreased by 39 mln EEK, reflecting a decrease in the current portion of long-term borrowings from 88.9 mln EEK as of 31 December 2004 to 0.46 mln EEK as of 31 December 2005. This resulted from the extension of the grace period of the loans partially offset by an increase in deferred income (45.6 mln EEK prepayment for the sale of fixed assets). Long-term liabilities increased by 125.6 mln EEK up to 1,166.6 mln EEK at the end of December 2005, consisting almost entirely of the outstanding balance of the bank loans.

## **Cash flow**

In 2005, the Company's cash flow from operating activities was 307.1 mln EEK, a 139.2 mln EEK, or 83%, increase compared to 2004. This reflects the increased operating profit in the period as well as movement in current assets involved in operating activities (79.5 mln EEK released from debt service reserve in December 2005).

Total cash inflow in 2005 was 106.1 mln EEK compared to a cash inflow of 16.8 mln EEK in 2004. Cash and cash equivalents stood at 207.1 mln EEK as at 31 December 2005, as of 31 December 2004 cash and cash equivalents stood at 101 mln EEK.

## **Investments**

In 2005 the Company invested 223 mln EEK in non-current assets.

- Investments to the water network and water plant guarantee continuous improvement of water quality. These investments enabled the Company to achieve compliance with EU requirements twelve months ahead of target and also helped to reduce the level of water losses in the network from 21.4% in 2004 down to 17.95% in 2005, which is 8% ahead the contractual target.
- Investments to the wastewater treatment plant improved treated effluent quality. The ongoing nitrogen removal programme remains on target to deliver, and the Company continues its environmentally friendly sludge management policy, with 100% of Paljassaare sludge recycled.
- The implementation of the new Customer Billing and Service system will further improve the customer service.
- Extensions of the network, with over 600 new sewerage connections and 10.8 kilometers of new storm water network constructed.

## **Employees**

As of 31 December 2005 the Company employed 334 people consisting of 285 people in the Operations division and 49 people in Commercial and Corporate Services. As of end December 2004 the company employed 351 people with 297 people in the Operations division and 54 people in the other divisions.

## **Dividends and share performance**

In 2005, the Company paid out a dividend of 112 mln EEK based on the operational results of 2004. Based on the preliminary results of the 2005 financial year, the Management Board of AS Tallinna Vesi reported to the Supervisory Council that it anticipated that the Company would be able to pay out 157 mln EEK (10.04 mln EUR) of dividends. This is subject to approval by the Company's auditors (AS Deloitte Audit Eesti), Supervisory Council and the Annual General Meeting of the Shareholders, which will be held in May 2006, and if approved will lead to a 7.85 EEK (0.5 EUR) dividend per share.

Starting from 1 June 2005, AS Tallinna Vesi shares have been listed on the main list of the Tallinn Stock Exchange. AS Tallinna Vesi shareholders, with a holding over 5% as of 31 December 2005, were:

|   |        |
|---|--------|
| United Utilities (Tallinn) BV                   | 35.3%  |
| City of Tallinn                                 | 34.7%  |
| Nordea Bank Finland Plc clients account trading | 11.56% |

At the end of the reporting period, 31 December 2005, the closing price of the AS Tallinna Vesi share was 210.92 EEK (13.48 EUR), which is a 45.8% premium on the initial public offering settlement price of 144.73 EEK (9.25 EUR).

## Outlook for 2006

### Projects:

- The Company plans to further improve the customer service quality through the implementation of a Guaranteed Standards Scheme (1<sup>st</sup> in Baltics) as well as offer direct debit and web-based services.
- The Paljassaare Nitrogen project will be completed.

### Investments:

- The 2006 investments programme is concentrated mainly on the water, sewer and stormwater network. The investments in network rehabilitation will continue to increase and secure the improvements in water quality already achieved, whilst the extensions to the network will expand the water and wastewater services to more customers. Significant investments are also being made in the upgrade of the sludge processing plant and composting fields at Paljassaare, which will enable the Company to maintain and improve on its environmentally friendly wastewater treatment and disposal processes.
- In 2006 the total investments plan is 246 mln EEK,
  - 151.7 mln EEK – networks extension and rehabilitation
  - 15.2 mln EEK – water quality (Ülemiste water treatment plant and raw water)
  - 51.5 mln EEK – Paljassaare wastewater treatment plant and wastewater treatment
  - 27.5 mln EEK – other investments (IT, water meters, etc)

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# AS TALLINNA VESI

## *Annual report for the year ended 31 December 2005*

|                                  |   |
|----------------------------------|---|
| Currency                         | thousands kroons  |
| Start of reporting period        | 1 January 2005  |
| End of reporting period          | 31 December 2005  |
| Address                          | Tallinn, Ädala 10   |
| Chairman of the Management Board | Robert John Gallienne   |
| Commercial register number       | 10 257 326  |
| Telephone                        | +372 62 62 202  |
| Telefax                          | +372 62 62 300  |
| E-mail                           | <a href="mailto:tvesi@tvesi.ee">tvesi@tvesi.ee</a>  |
| Web page                         | <a href="http://www.tallinnavesi.ee">www.tallinnavesi.ee</a>                                    |
| Field of activity                | Production, treatment and distribution of water;<br>storm and wastewater disposal and treatment |

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**AS TALLINNA VESI**

**MANAGEMENT CONFIRMATION**

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The Management Board of AS Tallinna Vesi (hereinafter the company) has prepared the interim accounts for the period ended 31 December 2005. The interim accounts are not reviewed by auditors.

The preparation of the interim accounts according to International Financial Reporting Standards as adopted by EU involves estimates made by the Management Board of the Company's assets and liabilities as at 31 December 2005, and of income and expenses during the reporting period. These estimates are based on current information about AS Tallinna Vesi and consider all plans and risks as at 31 December 2005. The actual results of these business transactions recorded may differ from such estimates.

The interim accounts give a true and fair view of the financial position, economic performance and cash flows of the company.

All material subsequent events that occurred by the interim accounts preparation date of 20 January 2006 have been assessed as part of this review.

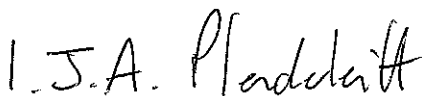
The company is carrying on its activities as a going concern.



**Robert John Gallienne**  
Chairman of the Management Board



**Roch Jean Guy Antoine Cheroux**  
Member of the Management Board



**Ian John Alexander Plenderleith**  
Member of the Management Board

20 January 2006

## AS TALLINNA VESI

CONDENSED BALANCE SHEET  
AT 31 DECEMBER 2005 AND 2004

(thousand EEK)

| ASSETS                                      | Note | 2005             | 2004             |
|---|------|------------------|------------------|
| <b>CURRENT ASSETS</b>                       |      |                  |                  |
| Cash at bank and in hand                    |      | 207 067          | 101 000          |
| Customer receivables                        |      | 66 576           | 51 644           |
| Other receivables                           |      | 161              | 66               |
| Accrued income and prepaid expenses         |      | 5 286            | 3 886            |
| Inventories                                 |      | 3 156            | 3 266            |
| Assets for sale                             |      | 1 390            | 1 621            |
| <b>TOTAL CURRENT ASSETS</b>                 |      | <b>283 636</b>   | <b>161 483</b>   |
| <b>NON-CURRENT ASSETS</b>                   |      |                  |                  |
| Long-term deposit                           |      | 0                | 77 538           |
| Other long-term investment assets           |      | 0                | 1 330            |
| Tangible assets                             | 2    | 1 838 528        | 1 779 897        |
| Intangible assets                           | 2    | 43 981           | 18 460           |
| Unfinished assets - non connections         | 2    | 94 793           | 102 634          |
| Unfinished pipelines - new connections      | 2    | 109 190          | 79 675           |
| Prepayments for fixed assets                | 2    | 3 479            | 3 648            |
| <b>TOTAL NON-CURRENT ASSETS</b>             |      | <b>2 089 971</b> | <b>2 063 182</b> |
| <b>TOTAL ASSETS</b>                         |      | <b>2 373 607</b> | <b>2 224 665</b> |
| <b>LIABILITIES</b>                          |      |                  |                  |
| <b>CURRENT LIABILITIES</b>                  |      |                  |                  |
| Current portion of long-term borrowings     |      | 461              | 88 863           |
| Trade and other payables, incl. dividends   |      | 53 507           | 55 707           |
| Taxes payable                               |      | 22 724           | 20 534           |
| Short-term provisions                       |      | 289              | 912              |
| Deferred income                             |      | 68 569           | 18 582           |
| <b>TOTAL CURRENT LIABILITIES</b>            |      | <b>145 550</b>   | <b>184 598</b>   |
| <b>NON-CURRENT LIABILITIES</b>              |      |                  |                  |
| Finance lease                               |      | 415              | 1 685            |
| Bank loans                                  |      | 1 166 098        | 1 039 192        |
| Other payables                              |      | 100              | 100              |
| <b>TOTAL NON-CURRENT LIABILITIES</b>        |      | <b>1 166 613</b> | <b>1 040 977</b> |
| <b>TOTAL LIABILITIES</b>                    |      | <b>1 312 163</b> | <b>1 225 575</b> |
| <b>EQUITY CAPITAL</b>                       |      |                  |                  |
| Share capital                               |      | 200 001          | 200 001          |
| Share premium                               |      | 387 000          | 387 000          |
| Statutory legal reserve                     |      | 20 000           | 93 394           |
| Accumulated profit                          |      | 280 089          | 145 734          |
| Net profit for the period                   |      | 174 354          | 172 961          |
| <b>TOTAL EQUITY CAPITAL</b>                 |      | <b>1 061 444</b> | <b>999 090</b>   |
| <b>TOTAL LIABILITIES AND EQUITY CAPITAL</b> |      | <b>2 373 607</b> | <b>2 224 665</b> |

Chairman of the Management Board:





AS TALLINNA VESI

**CONDENSED INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2005 AND 2004**

(thousand EEK)

|   | Note | 2005           | 2004           | 2005<br>4th quarter | 2004<br>4th quarter |
|---|------|----------------|----------------|---------------------|---------------------|
| Sales from main operating activities          | 3    | 549 918        | 478 814        | 140 309             | 122 446             |
| Revenues from other operating activities      |      | 42 111         | 69 715         | 10 970              | 22 322              |
| <b>Net sales</b>                              | 3    | <b>592 029</b> | <b>548 529</b> | <b>151 279</b>      | <b>144 768</b>      |
| Cost of goods sold main operating activities  | 4    | -202 055       | -197 255       | -53 948             | -49 265             |
| Cost of goods sold other operating activities | 4    | -38 338        | -64 410        | -10 613             | -22 263             |
| <b>GROSS PROFIT</b>                           |      | <b>351 636</b> | <b>286 864</b> | <b>86 718</b>       | <b>73 240</b>       |
| Marketing expenses                            | 4    | -6 778         | -6 134         | -78                 | -1 614              |
| General administration expenses               | 4    | -64 257        | -40 739        | -13 197             | -10 712             |
| Other income/ expenses (-)                    |      | 1 959          | 14 927         | 209                 | -719                |
| <b>OPERATING PROFIT</b>                       |      | <b>282 560</b> | <b>254 918</b> | <b>73 652</b>       | <b>60 195</b>       |
| Financial income / expenses (-)               |      | -72 838        | -55 680        | -31 518             | -14 877             |
| <b>PROFIT BEFORE TAXES</b>                    |      | <b>209 722</b> | <b>199 238</b> | <b>42 134</b>       | <b>45 318</b>       |
| Income tax on dividends                       | 5    | -35 368        | -26 277        | 0                   | 0                   |
| <b>NET PROFIT FOR THE PERIOD</b>              |      | <b>174 354</b> | <b>172 961</b> | <b>42 134</b>       | <b>45 318</b>       |
| Attributable to:                              |      |                |                |                     |                     |
| Equity holders of A-shares                    |      | 174 344        | 172 951        | 42 124              | 45 308              |
| B-share holder                                |      | 10             | 10             | 10                  | 10                  |
| <b>Earnings per share in kroons</b>           | 6    | <b>8,72</b>    | <b>8,65</b>    | <b>2,11</b>         | <b>2,27</b>         |

AS TALLINNA VESI

CONDENSED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005 AND 2004

(thousand EEK)

|   | 2005            | 2004           |
|---|-----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                 |                |
| Operating profit  | 282 560         | 254 918        |
| Adjustment for depreciation                                     | 78 741          | 79 506         |
| Adjustment for income and expenses from constructions           | -3 773          | -5 306         |
| Other finance income and expenses                               | -20 012         | -3 835         |
| Profit from sale of fixed assets                                | -11 870         | -2 844         |
| Expensed fixed assets   | 394             | 1 900          |
| Capitalization of operating expenses                            | -23 280         | -38 974        |
| Movement in current assets involved in operating activities     | 57 754          | -48 978        |
| Movement in liabilities involved in operating activities        | 6 414           | -11 045        |
| Interest paid   | -59 854         | -57 513        |
| <b>Total cash flow from operating activities</b>                | <b>307 074</b>  | <b>167 829</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                 |                |
| Proceeds from sale of shares of associated company              | 0               | 6 259          |
| Acquisition of fixed assets (incl pipelines construction)       | -199 875        | -133 705       |
| Proceeds from pipelines financed by construction income         | 52 494          | 59 371         |
| Proceeds from sale of and prepayments received for fixed assets | 47 345          | 3 799          |
| Proceeds from sale of real estate investments                   | 11 700          | 2 250          |
| Interest received   | 5 067           | 2 661          |
| <b>Total cash flow from investing activities</b>                | <b>-83 269</b>  | <b>-59 365</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                     |                 |                |
| Received long-term loans  | 696 318         | 31 293         |
| Repayment of long-term loans                                    | -664 981        | -19 001        |
| Finance lease payments  | -1 707          | -2 632         |
| Dividends paid  | -112 000        | -75 000        |
| Income tax on dividends   | -35 368         | -26 277        |
| <b>Total cash flow from financing activities</b>                | <b>-117 738</b> | <b>-91 617</b> |
| <b>Change in cash and bank accounts</b>                         | <b>106 067</b>  | <b>16 847</b>  |
| <b>CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>      | <b>101 000</b>  | <b>84 153</b>  |
| <b>CASH AND EQUIVALENTS AT THE END OF THE PERIOD</b>            | <b>207 067</b>  | <b>101 000</b> |

AS TALLINNA VESI

**CONDENSED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2005 AND 2004**

(thousand EEK)

|   | Share capital  | Share premium  | Statutory legal reserve | Accumulated profit | Net profit     | Total equity     |
|---|----------------|----------------|-------------------------|--------------------|----------------|------------------|
| <b>31 December 2003</b>                                       | <b>200 001</b> | <b>387 000</b> | <b>93 394</b>           | <b>116 193</b>     | <b>104 541</b> | <b>901 129</b>   |
| Transfer of financial year profit to the accumulated profit   | 0              | 0              | 0                       | 104 541            | -104 541       | 0                |
| Dividend  | 0              | 0              | 0                       | -75 000            | 0              | -75 000          |
| Net profit of the financial year                              | 0              | 0              | 0                       | 0                  | 172 961        | 172 961          |
| <b>31 December 2004</b>                                       | <b>200 001</b> | <b>387 000</b> | <b>93 394</b>           | <b>145 734</b>     | <b>172 961</b> | <b>999 090</b>   |
| Transfer of financial year profit to the accumulated profit   | 0              | 0              | 0                       | 172 961            | -172 961       | 0                |
| Transfer of Statutory legal reserve to the accumulated profit | 0              | 0              | -73 394                 | 73 394             | 0              | 0                |
| Dividend  | 0              | 0              | 0                       | -112 000           | 0              | -112 000         |
| Net profit of the financial period                            | 0              | 0              | 0                       | 0                  | 174 354        | 174 354          |
| <b>31 December 2005</b>                                       | <b>200 001</b> | <b>387 000</b> | <b>20 000</b>           | <b>280 089</b>     | <b>174 354</b> | <b>1 061 444</b> |

  
Chairman of the Management Board:

**AS TALLINNA VESI**

**NOTES TO THE INTERIM ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2005 AND 2004**

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**NOTE 1. ACCOUNTING PRINCIPLES**

The interim accounts have been prepared according to International Financial Reporting Standards as adopted by EU, and give a true and fair view of the financial position, results of operations and cash flows of AS Tallinna Vesi. The same accounting policies are followed in the interim financial statements as in the most recent annual financial statements. The interim report is prepared in accordance with IAS 34 Interim Financial Reporting.

The presentation of accelerated depreciation in the case of the write off of fixed assets with a net book value higher than zero has been changed. In 2004 the net book value was recorded in the group other not related expenses when assets were written off, however in 2005 the respective expense is recorded within operational costs or the appropriate cost group. The 2004 accounts have been respectively reclassified to include this change.



Chairman of the Management Board:

NOTES TO THE INTERIM ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2005 AND 2004

(thousand EEK)

## NOTE 2. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS

|   | Tangible assets in usage |            |                         | Assets in progress |                                     |  | Intangible assets           |                   |                                | Total tangible and intangible non-current assets |
|---|--------------------------|------------|-------------------------|--------------------|-------------------------------------|--|-----------------------------|-------------------|--------------------------------|--|
|   | Land and buildings       | Facilities | Machinery and equipment | Other equipment    | Unfinished assets - non connections | Unfinished pipelines - new connections | Prepayment for fixed assets | Development costs | Acquired licenses and software |  |
| <b>Acquisition cost at</b>                            |                          |            |                         |                    |                                     |  |                             |                   |                                |  |
| <b>31.12.2003</b>                                     |                          |            |                         |                    |                                     |  |                             |                   |                                |  |
| Acquisition   | 303 802                  | 1 863 685  | 472 187                 | 14 905             | 62 797                              | 93 176                                 | 8 565                       | 8 375             | 25 421                         | 2 852 913  |
| Sale of fixed assets                                  | 0                        | 0          | 0                       | 0                  | 104 254                             | 54 125                                 | 0                           | 0                 | 0                              | 158 379  |
| Write-off of fixed assets                             | -1 462                   | 0          | -2 204                  | -6                 | 0                                   | 0                                      | 0                           | 0                 | 0                              | -3 672   |
| Reclassification within balance sheet                 | -205                     | -2 885     | -4 504                  | -412               | 0                                   | 0                                      | 0                           | 0                 | 0                              | -8 006   |
| Reclassified to expenses                              | 331                      | 0          | 0                       | 0                  | 173                                 | 0                                      | -81                         | 0                 | 0                              | 423  |
| Expensed pipelines                                    | 0                        | 0          | 0                       | 0                  | -495                                | -1                                     | 0                           | 0                 | 0                              | -496   |
| Reclassification from assets in progress              | 9 004                    | 38 719     | 19 416                  | 1 848              | -64 095                             | -64 410                                | 0                           | 0                 | 0                              | -64 410  |
| <b>31.12.2004</b>                                     |                          |            |                         |                    |                                     |  |                             |                   |                                |  |
| Acquisition   | 311 470                  | 1 899 519  | 484 895                 | 16 335             | 102 634                             | 79 675                                 | 3 648                       | 9 598             | 27 357                         | 2 935 131  |
| Sale of fixed assets                                  | 0                        | 0          | 0                       | 0                  | 128 979                             | 74 363                                 | 19 803                      | 0                 | 0                              | 223 145  |
| Write-off of fixed assets                             | -83                      | -126       | -2 994                  | -5                 | 0                                   | 0                                      | 0                           | 0                 | 0                              | -3 208   |
| Reclassification within balance sheet                 | -1 011                   | -3 212     | -15 943                 | -181               | 0                                   | 0                                      | 0                           | 0                 | -184                           | -20 531  |
| Reclassified to expenses                              | 0                        | 229        | 0                       | 0                  | 0                                   | 0                                      | 0                           | 0                 | 0                              | 229  |
| Expensed pipelines                                    | 0                        | 0          | 0                       | 0                  | -59                                 | -3                                     | -169                        | 0                 | 0                              | -231   |
| Reclassification from assets in progress              | 39 565                   | 49 711     | 37 630                  | 2 994              | -136 761                            | -38 339                                | 0                           | 0                 | 0                              | -38 339  |
| <b>31.12.2005</b>                                     |                          |            |                         |                    |                                     |  |                             |                   |                                |  |
| Acquisition   | 349 941                  | 1 946 121  | 503 588                 | 19 143             | 94 793                              | 109 190                                | 3 479                       | 13 841            | 56 100                         | 3 096 196  |
| <b>Accumulated depreciation</b>                       |                          |            |                         |                    |                                     |  |                             |                   |                                |  |
| <b>31.12.2003</b>                                     |                          |            |                         |                    |                                     |  |                             |                   |                                |  |
| Depreciation  | 49 466                   | 561 724    | 248 581                 | 9 669              | 0                                   | 0                                      | 0                           | 6 136             | 6 299                          | 881 875  |
| Depreciation of fixed assets sold and written-off (-) | 4 061                    | 27 624     | 38 874                  | 1 073              | 0                                   | 0                                      | 0                           | 905               | 5 155                          | 77 692   |
| Reclassification                                      | -638                     | -2 598     | -5 129                  | -385               | 0                                   | 0                                      | 0                           | 0                 | 0                              | -8 750   |
| <b>31.12.2004</b>                                     |                          |            |                         |                    |                                     |  |                             |                   |                                |  |
| Depreciation  | 52 889                   | 586 747    | 282 329                 | 10 357             | 0                                   | 0                                      | 0                           | 7 041             | 11 454                         | 950 817  |
| Depreciation of fixed assets sold and written-off (-) | 3 816                    | 29 163     | 34 613                  | 1 333              | 0                                   | 0                                      | 0                           | 2 389             | 5 261                          | 76 575   |
| Reclassification                                      | -1 024                   | -2 592     | -17 210                 | -156               | 0                                   | 0                                      | 0                           | 0                 | -185                           | -21 167  |
| <b>31.12.2005</b>                                     |                          |            |                         |                    |                                     |  |                             |                   |                                |  |
| Depreciation  | 55 681                   | 613 318    | 299 732                 | 11 534             | 0                                   | 0                                      | 0                           | 9 430             | 16 530                         | 1 006 225  |
| <b>Net book value</b>                                 |                          |            |                         |                    |                                     |  |                             |                   |                                |  |
| <b>31.12.2003</b>                                     |                          |            |                         |                    |                                     |  |                             |                   |                                |  |
| 31.12.2004  | 254 336                  | 1 301 961  | 223 606                 | 5 236              | 62 797                              | 93 176                                 | 8 565                       | 2 239             | 19 122                         | 1 971 038  |
| 31.12.2005  | 258 581                  | 1 312 772  | 202 566                 | 5 978              | 102 634                             | 79 675                                 | 3 648                       | 2 557             | 15 903                         | 1 984 314  |
|   | 294 260                  | 1 332 803  | 203 856                 | 7 609              | 94 793                              | 109 190                                | 3 479                       | 4 411             | 39 570                         | 2 089 971  |

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

Net balance sheet value of finance leases was 4 283 thousand and 9 434 thousand kroons in 2005 and 2004 respectively.

Interest capitalised to fixed assets was 1 075 thousand kroons in 2005 and 2004 respectively. 7



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2005 AND 2004

(thousand EEK)

NOTE 3. NET SALES

|  | 2005           | 2004           | 2005<br>4th quarter | 2004<br>4th quarter |
|--|----------------|----------------|---------------------|---------------------|
| <b>Sales from main operating activities</b>                        |                |                |                     |                     |
| Water supply service   | 262 693        | 220 688        | 66 231              | 55 119              |
| Waste water disposal service                                       | 232 852        | 204 494        | 60 669              | 53 973              |
| Stormwater treatment and disposal service                          | 46 574         | 44 731         | 11 644              | 11 183              |
| Fire hydrants service  | 2 040          | 1 959          | 510                 | 490                 |
| Other work and services  | 5 759          | 6 942          | 1 255               | 1 681               |
| <b>Total sales from main operating activities</b>                  | <b>549 918</b> | <b>478 814</b> | <b>140 309</b>      | <b>122 446</b>      |
| <b>Revenues from other operating activities</b>                    |                |                |                     |                     |
| Water, sewerage and storm water connections<br>construction income | 42 111         | 69 715         | 10 970              | 22 322              |
| <b>TOTAL NET SALES</b>   | <b>592 029</b> | <b>548 529</b> | <b>151 279</b>      | <b>144 768</b>      |

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



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2005 AND 2004

(thousand EEK)

NOTE 4. COSTS AND EXPENSES

Cost of goods sold main operating activities

|   | 2005            | 2004            | 2005<br>4th quarter | 2004<br>4th quarter |
|---|-----------------|-----------------|---------------------|---------------------|
| Tax on special use of water                               | -9 049          | -9 272          | -2 333              | -2 289              |
| Chemicals   | -13 477         | -9 387          | -4 461              | -2 163              |
| Electricity   | -23 628         | -26 151         | -5 708              | -7 323              |
| Pollution tax   | -6 905          | -8 380          | -1 480              | -2 109              |
| Staff costs   | -45 692         | -44 643         | -13 139             | -10 033             |
| Research & development                                    | -186            | -85             | -96                 | -47                 |
| Depreciation and amortization                             | -73 582         | -74 873         | -19 088             | -18 248             |
| Other costs of goods sold                                 | -29 536         | -24 464         | -7 643              | -7 053              |
| <b>Total cost of goods sold main operating activities</b> | <b>-202 055</b> | <b>-197 255</b> | <b>-53 948</b>      | <b>-49 265</b>      |

Cost of goods sold other operating activities

|   | 2005    | 2004    | 2005<br>4th quarter | 2004<br>4th quarter |
|---|---------|---------|---------------------|---------------------|
| Water, sewerage and storm water connections construction cost | -38 338 | -64 410 | -10 613             | -22 263             |

Marketing Expenses

|   | 2005          | 2004          | 2005<br>4th quarter | 2004<br>4th quarter |
|---|---------------|---------------|---------------------|---------------------|
| Staff costs                             | -4 777        | -4 240        | -1 319              | -1 134              |
| Depreciation and amortization           | -192          | -113          | -97                 | -23                 |
| Other marketing expenses                | -1 809        | -1 781        | -458                | -457                |
| <b>Total cost of marketing expenses</b> | <b>-6 778</b> | <b>-6 134</b> | <b>-1 874</b>       | <b>-1 614</b>       |

General Administration Expenses

|  | 2005           | 2004           | 2005<br>4th quarter | 2004<br>4th quarter |
|--|----------------|----------------|---------------------|---------------------|
| Staff costs  | -14 151        | -15 813        | -2 799              | -5 686              |
| IPO bonus  | -6 068         | 0              | 0                   | 0                   |
| Depreciation and amortization                        | -4 967         | -4 520         | -1 450              | -1 147              |
| Other general administration expenses                | -27 626        | -20 406        | -7 152              | -3 879              |
| IPO services   | -11 445        | 0              | 0                   | 0                   |
| <b>Total cost of general administration expenses</b> | <b>-64 257</b> | <b>-40 739</b> | <b>-11 401</b>      | <b>-10 712</b>      |

Other income/expenses includes the profits recognised on the sale of fixed assets during the period, the movement of the bad debt provision during the year and provisions recognised and released throughout the financial period. It also includes income & costs generated from a consultancy project in Tajikistan.

Other expenses include 8 490 thousand kroons IPO costs in 2005.

In total, the results for the period ended 31 December 2005 include IPO costs of 26 003 thousand kroons, being made up of 19 935 thousand kroons for services and 6 068 thousand kroons for staff bonus costs as referred to above.



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2005 AND 2004

(thousand EEK)

NOTE 5. DIVIDENDS

|   | 2005           | 2004           |
|---|----------------|----------------|
| Dividend declared during the period       | 112 000        | 75 000         |
| Dividend paid during the period           | 112 000        | 75 000         |
| Income tax on dividends declared          | -35 368        | -26 351        |
| The income tax paid on dividends received | 0              | 74             |
| <b>The income tax accounted</b>           | <b>-35 368</b> | <b>-26 277</b> |

The income tax rates were 26/74 and 24/76 respectively in 2004 and 2005.

NOTE 6. EARNINGS AND DIVIDENDS PER SHARE

|   | 2005       | 2004       |
|---|------------|------------|
| Earnings per share from continuing operations:  |            |            |
| Earnings for the purposes of basic earnings per share (net profit for the period minus B-share preference rights) | 174 344    | 172 951    |
| Weighted average number of ordinary shares for the purposes of basic earnings per share                           | 20 000 000 | 20 000 000 |
| Earnings per share in kroons  | 8,72       | 8,65       |
| Dividends per A-share in kroons   | 5,60       | 3,75       |
| Dividends per B-share in kroons   | 10 000,00  | 10 000,00  |

Diluted earnings per share for the periods ended 31 December 2005 and 31 December 2004 are equal to the earnings per share figures stated above.

NOTE 7. REDUCTION IN STATUTORY LEGAL RESERVE

The shareholders reduced the statutory legal reserve from 93 394 thousand kroons to 20 000 thousand kroons on 3 February 2005. The share capital was reduced in 2002, but the statutory legal reserve, which must be equal to at least 10% of the share capital, was not revised at this time.



AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2005 AND 2004

(thousand EEK)

NOTE 8. RELATED PARTIES

Transactions with related parties are considered to be transactions with parent, subsidiary and associated companies, members of the Supervisory Board and Management Board, their relatives and the companies in which they hold majority interest. Dividend payments are indicated in Statements of Changes in Equity.

The transactions with related parties in 2004 and 2005 and respective balances as of 31.12.2004 and 31.12.2005 are recorded as follows:

|  | Tallinn City<br>Government and<br>related boards | United Utilities<br>(Tallinn) B.V. and<br>United Utilities<br>International* |
|--|--|--|
| <b>2004</b>  |  |  |
| <b>Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi</b> |  |  |
| Accrued income and prepaid expenses  | 1 551  | 0  |
| Accounts payable - short-term trade and other payables                                   | 0  | 1 523  |
| <b>Transactions recorded to the Income Statement of AS Tallinna Vesi</b>                 |  |  |
| Net sales  | 99 216   | 40   |
| General administration expenses  | 0  | 7 663  |
| <b>Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi</b>  |  |  |
| Non-current assets incl unfinished assets and new connections                            | 0  | 14 306   |

**2005**

|  |        |        |
|--|--------|--------|
| <b>Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi</b> |        |        |
| Accrued income and prepaid expenses  | 71     | 0      |
| Accounts payable - short-term trade and other payables, incl. dividends                  | 0      | 2 423  |
| <b>Transactions recorded to the Income Statement of AS Tallinna Vesi</b>                 |        |        |
| Net sales  | 77 465 | 0      |
| General administration expenses  | 0      | 12 990 |
| Other income (-)/ expenses   |        | 504    |
| <b>Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi</b>  |        |        |
| Non-current assets incl unfinished assets and new connections                            | 0      | 13 480 |

The agreed market prices were implemented in transactions with related parties.

\*United Utilities (Tallinn) B.V. holds 35.3% of the Company. The ultimate controlling parties of United Utilities (Tallinn) B.V. are EBRD and United Utilities Plc. United Utilities International Ltd. is owned by United Utilities Plc.

|   | 2005  | 2004  |
|---|-------|-------|
| The fees paid to Management Board members excluding social tax  | 2 121 | 2 059 |
| The fees paid to Supervisory Board members excluding social tax | 15    | 18    |

  
Chairman of the Management Board: