

## AS TALLINNA VESI

### Preliminary results of operations in 2005, unaudited

#### Key performance indicators

<i>Amounts in million EUR</i>	<b>2005</b>	<b>2004</b>	<b>Change</b>
Sales	37,8	35,1	7,9%
Main operating activities	35,1	30,6	14,9%
Other operating activities	2,7	4,5	-39,6%
Gross profit	22,5	18,3	22,6%
Gross profit margin %	59,4%	52,3%	13,6%
Operating profit	18,1	16,3	10,8%
Operating profit margin %	47,7%	46,5%	2,7%
Profit before taxes	13,4	12,7	5,3%
Profit before taxes margin	35,4%	36,3%	-2,5%
Net profit	11,1	11,1	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 9.0 mln EUR, 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 35.1 mln EUR, 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 3.48 mln EUR, or by 1.4% compared to 2004.

## **Expenses and profitability**

Profits from other operating activities in 2005, primarily the provision of new connections, were 0.24 mln EUR, a 0.1 mln EUR decrease from 2004 levels.

The Cost of goods sold for the main operating activity was 12.9 mln EUR in 2005, an increase of 0.31 mln EUR 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 22.5 mln EUR, which represents an increase of 4.14 mln EUR, or 22.6%, compared to the gross profit of 18.3 mln EUR 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 1.5 mln EUR from 2.6 mln EUR in 2004 up to 4.1 mln EUR 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 0.13 mln EUR in 2005, representing a decrease of 0.83 mln EUR compared to 2004. In 2005, income gained from land sales has been offset by IPO costs of 1.66 mln EUR, 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 1.66 mln EUR, being made up of 1.27 mln EUR for professional services and taxes, and 0.39 mln EUR for staff bonus costs.

The Company's operating profit for 2005 was 18.1 mln EUR, an increase of 1.77 mln EUR, or 10.8%, over the operating profit of 16.3 mln EUR for 2004.

Net Financial expenses were 4.65 mln EUR in 2005, which is an increase of 1.09 mln EUR compared to 2004. The one-off increase in financial expenses of 1.16 mln EUR was due to non-recurring costs incurred resulting from the partial repayment and restructuring of EBRD loan in November 2005.

Income taxes increased by 0.58 mln EUR, from 1.68 mln EUR in 2004 up to 2.26 mln EUR 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 11.1 mln EUR, an increase of 0.09 mln EUR 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 0.7 mln EUR. In addition the company had to expense to the profit and loss account 0.47 mln EUR 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 0.96 mln EUR 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 5.1 mln EUR 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 151.7 mln EUR as at 31 December 2005, an increase of 9.5 mln EUR year-on-year. Current assets increased by 7.8 mln EUR, 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 126.3 mln EUR at 31 December 2005, an increase of 4.9 mln EUR 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 2.5 mln EUR, reflecting a decrease in the current portion of long-term borrowings from 5.7 mln EUR as of 31 December 2004 to 0.03 mln EUR 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 (2.9 mln EUR prepayment for the sale of fixed assets). Long-term liabilities increased by 8.0 mln EUR up to 74.6 mln EUR 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 19.6 mln EUR, a 8.9 mln EUR, 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 (5.1 mln EUR released from debt service reserve in December 2005).

Total cash inflow in 2005 was 6.8 mln EUR compared to a cash inflow of 1.1 mln EUR in 2004. Cash and cash equivalents stood at 13.2 mln EUR as at 31 December 2005, as of 31 December 2004 cash and cash equivalents stood at 6.5 mln EUR.

## **Investments**

In 2005 the Company invested 14.3 mln EUR 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 7.16 mln EUR 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 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 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 13.48 EUR, which is a 45.8% premium on the initial public offering settlement price of 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 15.7 mln EUR,
  - 9.7 mln EUR – networks extension and rehabilitation
  - 0.97 mln EUR – water quality (Ülemiste water treatment plant and raw water)
  - 3.3 mln EUR – Paljassaare wastewater treatment plant and wastewater treatment
  - 1.76 mln EUR – other investments (IT, water meters, etc)

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# AS TALLINNA VESI

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

Currency	thousands euros
Start of reporting period	1 January 2005
End of reporting period	31 December 2005
Address	Tallinn, Ädala 10
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Web page	<a href="http://www.tallinnavesi.ee">www.tallinnavesi.ee</a>
Field of activity	Production, treatment and distribution of water; 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 estimated 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 EUR)

ASSETS	Note	2005	2004
<b>CURRENT ASSETS</b>			
Cash at bank and in hand		13 234	6 455
Customer receivables		4 255	3 301
Other receivables		10	4
Accrued income and prepaid expenses		338	248
Inventories		202	209
Assets for sale		89	104
<b>TOTAL CURRENT ASSETS</b>		<b>18 128</b>	<b>10 321</b>
<b>NON-CURRENT ASSETS</b>			
Long-term deposit		0	4 956
Other long-term investment assets		0	85
Tangible assets	2	117 503	113 756
Intangible assets	2	2 811	1 180
Unfinished assets - non connections	2	6 058	6 560
Unfinished pipelines - new connections	2	6 979	5 092
Prepayments for fixed assets	2	222	233
<b>TOTAL NON-CURRENT ASSETS</b>		<b>133 573</b>	<b>131 861</b>
<b>TOTAL ASSETS</b>		<b>151 701</b>	<b>142 182</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Current portion of long-term borrowings		29	5 679
Trade and other payables, incl. dividends		3 420	3 560
Taxes payable		1 452	1 312
Short-term provisions		18	58
Deferred income		4 382	1 188
<b>TOTAL CURRENT LIABILITIES</b>		<b>9 302</b>	<b>11 798</b>
<b>NON-CURRENT LIABILITIES</b>			
Finance lease		27	108
Bank loans		74 527	66 416
Other payables		6	6
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>74 560</b>	<b>66 531</b>
<b>TOTAL LIABILITIES</b>		<b>83 863</b>	<b>78 329</b>
<b>EQUITY CAPITAL</b>			
Share capital		12 782	12 782
Share premium		24 734	24 734
Statutory legal reserve		1 278	5 969
Accumulated profit		17 901	9 314
Net profit for the period		11 143	11 054
<b>TOTAL EQUITY CAPITAL</b>		<b>67 839</b>	<b>63 853</b>
<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>		<b>151 701</b>	<b>142 182</b>

Chairman of the Management Board:



AS TALLINNA VESI

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

(thousand EUR)

	Note	2005	2004	2005 4th quarter	2004 4th quarter
Sales from main operating activities	3	35 146	30 602	8 967	7 826
Revenues from other operating activities		2 691	4 456	701	1 427
<b>Net sales</b>	3	<b>37 838</b>	<b>35 057</b>	<b>9 668</b>	<b>9 252</b>
Cost of goods sold main operating activities	4	-12 914	-12 607	-3 448	-3 149
Cost of goods sold other operating activities	4	-2 450	-4 117	-678	-1 423
<b>GROSS PROFIT</b>		<b>22 474</b>	<b>18 334</b>	<b>5 542</b>	<b>4 681</b>
Marketing expenses	4	-433	-392	-5	-103
General administration expenses	4	-4 107	-2 604	-843	-685
Other income/ expenses (-)		125	954	13	-46
<b>OPERATING PROFIT</b>		<b>18 059</b>	<b>16 292</b>	<b>4 707</b>	<b>3 847</b>
Financial income / expenses (-)		-4 655	-3 559	-2 014	-951
<b>PROFIT BEFORE TAXES</b>		<b>13 404</b>	<b>12 734</b>	<b>2 693</b>	<b>2 896</b>
Income tax on dividends	5	-2 260	-1 679	0	0
<b>NET PROFIT FOR THE PERIOD</b>		<b>11 143</b>	<b>11 054</b>	<b>2 693</b>	<b>2 896</b>
Attributable to:					
Equity holders of A-shares		11 143	11 054	2 692	2 896
B-share holder		0,6	0,6	0,6	0,6
<b>Earnings per share in euros</b>	6	<b>0,56</b>	<b>0,55</b>	<b>0,13</b>	<b>0,14</b>

  
Chairman of the Management Board:

## AS TALLINNA VESI

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

(thousand EUR)

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating profit	18 059	16 292
Adjustment for depreciation	5 032	5 081
Adjustment for income and expenses from constructions	-241	-339
Other finance income and expenses	-1 279	-245
Profit from sale of fixed assets	-759	-182
Expensed fixed assets	25	121
Capitalization of operating expenses	-1 488	-2 491
Movement in current assets involved in operating activities	3 691	-3 130
Movement in liabilities involved in operating activities	410	-706
Interest paid	-3 825	-3 676
<b>Total cash flow from operating activities</b>	<b>19 626</b>	<b>10 726</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of shares of associated company	0	400
Acquisition of fixed assets (incl pipelines construction)	-12 774	-8 545
Proceeds from pipelines financed by construction income	3 355	3 794
Proceeds from sale of and prepayments received for fixed assets	3 026	243
Proceeds from sale of real estate investments	748	144
Interest received	324	170
<b>Total cash flow from investing activities</b>	<b>-5 322</b>	<b>-3 794</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Received long-term loans	44 503	2 000
Repayment of long-term loans	-42 500	-1 214
Finance lease payments	-109	-168
Dividends paid	-7 158	-4 793
Income tax on dividends	-2 260	-1 679
<b>Total cash flow from financing activities</b>	<b>-7 525</b>	<b>-5 855</b>
<b>Change in cash and bank accounts</b>	<b>6 779</b>	<b>1 077</b>
<b>CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>6 455</b>	<b>5 378</b>
<b>CASH AND EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>13 234</b>	<b>6 455</b>



Chairman of the Management Board:

AS TALLINNA VESI

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

(thousand EUR)

	Share capital	Share premium	Statutory legal reserve	Accumulated profit	Net profit	Total equity
<b>31 December 2003</b>	<b>12 782</b>	<b>24 734</b>	<b>5 969</b>	<b>7 426</b>	<b>6 681</b>	<b>57 593</b>
Transfer of financial year profit to the accumulated profit	0	0	0	6 681	-6 681	0
Dividend	0	0	0	-4 793	0	-4 793
Net profit of the financial year	0	0	0	0	11 054	11 054
<b>31 December 2004</b>	<b>12 782</b>	<b>24 734</b>	<b>5 969</b>	<b>9 314</b>	<b>11 054</b>	<b>63 853</b>
Transfer of financial year profit to the accumulated profit	0	0	0	11 054	-11 054	0
Transfer of Statutory legal reserve to the accumulated profit	0	0	-4 691	4 691	0	0
Dividend	0	0	0	-7 158	0	-7 158
Net profit of the financial period	0	0	0	0	11 143	11 143
<b>31 December 2005</b>	<b>12 782</b>	<b>24 734</b>	<b>1 278</b>	<b>17 901</b>	<b>11 143</b>	<b>67 839</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 interim report in euros is converted using the exchange rate 15.6466 EEK per EUR from the interim report prepared in kroons thousands for the same period.

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



Chairman of the Management Board:

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

(thousand EUR)

## 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>	19 416	119 111	30 178	953	4 013	5 955	547	535	1 625	182 334
Acquisition	0	0	0	0	6 663	3 459	0	0	0	10 122
Sale of fixed assets	-93	0	-141	0	0	0	0	0	0	-235
Write-off of fixed assets	-13	-184	-288	-26	0	0	0	0	0	-512
Reclassification within balance sheet	21	0	0	0	11	0	-5	0	0	27
Reclassification to expenses	0	0	0	0	-32	0	0	0	0	-32
Expensed pipelines	0	0	0	0	0	-4 117	0	0	0	-4 117
Reclassification from assets in progress	575	2 475	1 241	118	-4 096	-205	-309	78	124	0
<b>31.12.2004</b>	19 907	121 401	30 990	1 044	6 560	5 092	233	613	1 748	187 589
Acquisition	0	0	0	0	8 243	4 753	1 266	0	0	14 262
Sale of fixed assets	-5	-8	-191	0	0	0	0	0	0	-205
Write-off of fixed assets	-65	-205	-1 019	-12	0	0	0	0	-12	-1 312
Reclassification within balance sheet	0	15	0	0	0	0	0	0	0	15
Reclassification to expenses	0	0	0	0	-4	0	-11	0	0	-15
Expensed pipelines	0	0	0	0	0	-2 450	0	0	0	-2 450
Reclassification from assets in progress	2 529	3 177	2 405	191	-8 741	-416	-1 266	271	1 849	0
<b>31.12.2005</b>	22 365	124 380	32 185	1 223	6 058	6 979	222	885	3 585	197 883
<b>Accumulated depreciation</b>										
<b>31.12.2003</b>	3 161	35 901	15 887	618	0	0	0	392	403	56 362
Depreciation	260	1 765	2 485	69	0	0	0	58	329	4 965
Depreciation of fixed assets sold and written-off (-)	-41	-166	-328	-25	0	0	0	0	0	-559
Reclassification	0	0	0	0	0	0	0	0	0	0
<b>31.12.2004</b>	3 380	37 500	18 044	662	0	0	0	450	732	60 768
Depreciation	244	1 864	2 212	85	0	0	0	153	336	4 894
Depreciation of fixed assets sold and written-off (-)	-65	-165	-1 100	-10	0	0	0	0	-12	-1 352
<b>31.12.2005</b>	3 558	39 199	19 156	737	0	0	0	603	1 056	64 310
<b>Net book value</b>										
<b>31.12.2003</b>	16 255	83 210	14 291	335	4 013	5 955	547	143	1 222	125 972
<b>31.12.2004</b>	16 526	83 901	12 946	382	6 560	5 092	233	163	1 016	126 821
<b>31.12.2005</b>	18 807	85 181	13 029	486	6 058	6 979	222	282	2 529	133 573

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 274 thousand and 603 thousand euros in 2005 and 2004 respectively.

Interest capitalised to fixed assets was 69 thousand kroons and 172 thousand euros in 2005 and 2004 respectively.



Chairman of the Management Board:

AS TALLINNA VESI

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

(thousand EUR)

NOTE 3. NET SALES

	2005	2004	2005 4th quarter	2004 4th quarter
<b>Sales from main operating activities</b>				
Water supply service	16 789	14 105	4 233	3 523
Waste water disposal service	14 882	13 070	3 877	3 450
Stormwater treatment and disposal service	2 977	2 859	744	715
Fire hydrants service	130	125	33	31
Other work and services	368	444	80	107
<b>Total sales from main operating activities</b>	<b>35 146</b>	<b>30 602</b>	<b>8 967</b>	<b>7 826</b>
<b>Revenues from other operating activities</b>				
Water, sewerage and storm water connections construction income	2 691	4 456	701	1 427
<b>TOTAL NET SALES</b>	<b>37 838</b>	<b>35 057</b>	<b>9 668</b>	<b>9 252</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 EUR)

NOTE 4. COSTS AND EXPENSES

Cost of goods sold main operating activities

	2005	2004	2005 4th quarter	2004 4th quarter
Tax on special use of water	-578	-593	-149	-146
Chemicals	-861	-600	-285	-138
Electricity	-1 510	-1 671	-365	-468
Pollution tax	-441	-536	-95	-135
Staff costs	-2 920	-2 853	-840	-641
Research & development	-12	-5	-6	-3
Depreciation and amortization	-4 703	-4 785	-1 220	-1 166
Other costs of goods sold	-1 888	-1 564	-488	-451
<b>Total cost of goods sold main operating activities</b>	<b>-12 914</b>	<b>-12 607</b>	<b>-3 448</b>	<b>-3 149</b>

Cost of goods sold other operating activities

	2005	2004	2005 4th quarter	2004 4th quarter
Water, sewerage and storm water connections construction cost	-2 450	-4 117	-678	-1 423

Marketing Expenses

	2005	2004	2005 4th quarter	2004 4th quarter
Staff costs	-305	-271	-84	-72
Depreciation and amortization	-12	-7	-6	-1
Other marketing expenses	-116	-114	-29	-29
<b>Total cost of marketing expenses</b>	<b>-433</b>	<b>-392</b>	<b>-120</b>	<b>-103</b>

General Administration Expenses

	2005	2004	2005 4th quarter	2004 4th quarter
Staff costs	-904	-1 011	-179	-363
IPO bonus	-388	0	0	0
Depreciation and amortization	-317	-289	-93	-73
Other general administration expenses	-1 766	-1 304	-457	-248
IPO services	-731	0	0	0
<b>Total cost of general administration expenses</b>	<b>-4 107</b>	<b>-2 604</b>	<b>-729</b>	<b>-685</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 543 thousand euros IPO costs in 2005.

In total, the results for the period ended 31 December 2005 include IPO costs of 1 662 thousand euros, being made up of 1 274 thousand euros for services and 388 thousand euros 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 EUR)

NOTE 5. DIVIDENDS

	2005	2004
Dividend declared during the period	7 158	4 793
Dividend paid during the period	7 158	4 793
Income tax on dividends declared	-2 260	-1 684
The income tax paid on dividends received	0	5
<b>The income tax accounted</b>	<b>-2 260</b>	<b>-1 679</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)	11 143	11 054
Weighted average number of ordinary shares for the purposes of basic earnings per share	20 000 000	20 000 000
Earnings per share in euros	0,56	0,55
Dividends per A-share in euros	0,36	0,24
Dividends per B-share in euros	639	639

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 5 969 thousand kroons to 1 278 thousand euros 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 EUR)

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 Government and related boards	United Utilities (Tallinn) B.V. and United Utilities International*
<b>2004</b>		
<b>Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi</b>		
Accrued income and prepaid expenses	99	0
Accounts payable - short-term trade and other payables	0	97
<b>Transactions recorded to the Income Statement of AS Tallinna Vesi</b>		
Net sales	6 341	3
General administration expenses	0	490
<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	914
<b>2005</b>		
<b>Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi</b>		
Accrued income and prepaid expenses	5	0
Accounts payable - short-term trade and other payables, incl. dividends	0	155
<b>Transactions recorded to the Income Statement of AS Tallinna Vesi</b>		
Net sales	4 951	0
General administration expenses	0	830
Other income (-)/ expenses		32
<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	862

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	136	132
The fees paid to Supervisory Board members excluding social tax	1,0	1,2

  
Chairman of the Management Board: