

## AS TALLINNA VESI

### RESULTS OF OPERATIONS IN 2<sup>nd</sup> QUARTER 2006

#### Key performance indicators

<i>Amounts in million EUR</i>	<b>2nd Q 2006</b>	<b>2nd Q 2005</b>	<b>Change</b>	<b>6 months 2006</b>	<b>6 months 2005</b>	<b>Change</b>
Sales	10,3	9,4	9,4%	21,5	19,4	10,9%
Main operating activities	9,5	8,8	8,2%	18,9	17,7	6,9%
Other operating activities	0,8	0,6	27,7%	2,6	1,7	52,8%
Gross profit	6,1	5,7	6,4%	12,1	11,6	4,8%
Gross profit margin %	59,1%	60,9%	-2,8%	56,4%	59,7%	-5,6%
Operating profit	5,1	3,1	65,4%	11,8	8,9	32,7%
Operating profit margin %	49,9%	33,0%	51,2%	55,0%	46,0%	19,6%
Profit before taxes	4,4	2,2	102,3%	10,5	7,2	46,3%
Profit before taxes margin	43,2%	23,4%	84,9%	48,8%	37,1%	31,8%
Net profit	1,4	2,2	-34,6%	7,5	4,9	52,5%
ROA %	1,0%	1,5%	-35,9%	5,0%	3,3%	49,4%
Debt to total capital employed	56,6%	58,2%	-2,7%	56,6%	58,2%	-2,7%
ROE%	2,2%	3,6%	-38,3%	11,5%	8,0%	43,9%
Current ratio	1,7	0,9	99,9%	1,7	0,9	99,9%

*Gross profit margin – Gross profit / Net sales*

*Operating profit margin – Operating profit / Net sales*

*Profit before taxes margin – Profit before taxes / Net sales*

*ROA – Net profit / Total Assets*

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

*ROE - Net profit / Total Equity*

*Current ratio – Current assets / Current Liabilities*

#### Sales

In the 2<sup>nd</sup> quarter of 2006 the Company's total sales increased, year on year, by 9.4% to 10.3 mln EUR. Sales from the Company's main operating activities were 9.5 mln EUR. 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 services area, and fees received from the City of Tallinn for operating and maintaining the stormwater system.

Sales of water and wastewater treatment were 8.8 mln EUR, which is an 11.9% increase compared to the second quarter of 2005.

In quarter two sales to residential customers increased by 9.9% to 4.6 mln EUR primarily as a result of the tariff increase from 1 January 2006. Sales to commercial customers within the services area increased 11.2% to 4.0 million EUR, due to the tariff increase from 1 January 2006, and a 1.3% increase in the volumes of water supplied and wastewater treated when compared to the second quarter of 2005. Sales to commercial customers outside of the service area – primarily bulk volumes of wastewater treatment services provided to the surrounding municipalities reached 504,000 m<sup>3</sup> or

0.2 mln EUR in the 2<sup>nd</sup> quarter of 2006, an increase of over 100% on the corresponding quarter in 2005.

These factors demonstrate, the improvement within in areas sales resulting from the implementation of the new billing system, which improved the regularity of billing, and the continuing success of the company's strategy in connecting new customers and municipalities from outside the services area.

Sales from the operation and maintenance of the stormwater system decreased by 35.5% to 0.5 mln EUR. This reduction reflects the terms and conditions of the latest contract agreed between the Company and the City of Tallinn which secured this revenue stream through to 2015.

Sales revenues from other operating activities (mainly connections and stormwater construction) increased, year on year, by 27.7% to 0.8 mln EUR as a result of an increase in connections income from individual connectees. In the 1<sup>st</sup> quarter of 2006 this revenue stream was higher due to the compensation received from the City of Tallinn for stormwater constructions. This is compensated once per year in March and relates to the constructions completed in the previous year.

### **Expenses and profitability**

Profits from other operating activities, which include water, sewerage and storm water connection construction income were 0.06 mln EUR, a 0.007 mln EUR decrease from 2005 levels.

The Cost of goods sold for the main operating activity was 3.5 mln EUR in the 2<sup>nd</sup> quarter of 2006, an increase of 0.3 mln EUR or 11.1% from the equivalent period in 2005. This increase was largely driven by increased chemical costs, pollution taxes, electricity and lower cost capitalizations.

The increase in chemical costs was due to increased usage of methanol required to reduce the concentration of nitrogen discharged into the Baltic Sea. Working in partnership with the Ministry of Environment the Company had targeted the achievement of this key environmental objective by 30 June 2006. Based upon the measurements taken by the Company this target has been achieved. The Company will now send a full report to the Ministry of Environment for their verification and approval. During this project the Company had taken a prudent view of success and had accounted for potential failure, creating a provision of 0.9 mln EUR for taxes foregone. However, on receiving final approval, the Company will be able to release this provision into the income statement in the 2<sup>nd</sup> half of 2006.

Pollution tax costs increased as a result of a 100% rise in tariffs paid on treated wastewater discharged to the sea. Tariffs are set in the Law on Environmental Fees imposed by Parliament for the period from 2006 to 2009.

Electricity costs increased as a result of increased consumption due to higher volumes treated, additional power needs for the nitrogen projects and a rise in electricity tariffs starting from 1<sup>st</sup> March 2006.

Lower capitalisation of costs in the 2<sup>nd</sup> quarter of 2006 arose as a result of the different profile and timing of the capital investment programme – in the early part of 2005 significant investments were made in the development of the new customer management and asset management systems. This timing difference of cost capitalisations is expected to unwind throughout 2006 as the Company

remains on course to deliver an investment programme of approximately 15.3 mln EUR, an almost 10% increase year on year which will be the highest in the Company's history.

The Company's gross profit for the 2<sup>nd</sup> quarter of 2006 was 6.1 mln EUR, which represents an increase of 0.4 mln EUR, or 6.4%, compared to the gross profit of 5.7 mln EUR for the 2<sup>nd</sup> quarter of 2005.

Marketing expenses increased by 0.04 mln EUR to 0.1 mln EUR during the 2<sup>nd</sup> quarter 2006. This increase was entirely due to additional depreciation charges relating to the implementation of KLIF, the new customer management system

General administration expenses decreased by 1.1 mln EUR from 1.9 mln EUR in the 2<sup>nd</sup> quarter of 2005 down to 0.8 mln EUR in 2006. This was due to the fact that in the 2<sup>nd</sup> quarter of 2005 general administration expenses included 1.1 mln EUR of IPO costs.

Other net income was -0.01 mln EUR in 2<sup>nd</sup> quarter 2006 compared to -0.6 mln EUR in 2<sup>nd</sup> quarter 2005. In the 2<sup>nd</sup> quarter of 2005 other income included 0.5 mln EUR of IPO service costs.

The Company's operating profit for the 2<sup>nd</sup> quarter of 2006 was 5.1 mln EUR, an increase of 2.0 mln EUR, or 65.4%, above the operating profit of 3.1 mln EUR achieved in the 2<sup>nd</sup> quarter of 2005. Operating profit margin increased from 33% up to 49.9% for the relevant periods.

Net Financial expenses were 0.7 mln EUR in the 2<sup>nd</sup> quarter of 2006, which is a decrease of 0.2 mln EUR compared to the 2<sup>nd</sup> quarter of 2005. This is due to the restructuring of the loans in November 2005, which lowered the Company's interest risk margins. This positive effect was reduced by an increase in the 6 month Euribor rate, which rose from 2.097% as of end June 2005 up to 3.245% as of end June 2006.

The Company's profit before taxes for the 2<sup>nd</sup> quarter of 2006 was 4.4 mln EUR, which represents an increase of 2.2 mln EUR, or 102%, compared to the profit before taxes of 2.2 mln EUR for the 2<sup>nd</sup> quarter of 2005.

## **Balance sheet**

The Company's total assets were 150.6 mln EUR as at 30 June 2006, representing a decrease of 1.1 mln EUR compared to 31 December 2005. Current assets increased by 0.5 mln EUR, which was largely attributable to an increase in accounts receivable reflecting increased sales of water and wastewater treatment services.

Tangible, intangible and unfinished assets were 126.1 mln EUR at 30 June 2006, a decrease of 0.3 mln EUR of the fixed asset base during the first six month of the year. This was largely attributable to sale of assets and compensations received from the City of Tallinn for stormwater constructions. During the first six months of the year the company invested 4.3 mln EUR and is still targeting to complete its approximately 15.3 mln EUR investment program during the 2<sup>nd</sup> half of the year.

Current liabilities increased by 1.4 mln EUR to 10.7 mln EUR in the first six months of the year. This was mainly due to the tax liabilities related to dividends recorded – this is a timing issue and will unwind in 3<sup>rd</sup> quarter.

Long-term liabilities stood at 74.5 mln EUR at the end of June 2006, consisting almost entirely of the outstanding balance of the bank loans.

### **Cash flow**

During the first 6 months of 2006, the Company generated 10.4 mln EUR of cash flows from operating activities, an increase of 3.3 mln EUR, or 47.3% compared to corresponding period in 2005. The key factors affecting the operating cash flow were the increase in profits (as described above) and positive movements in working capital.

Cash flows from investing activities were –0.4 mln EUR, a 0.8 mln EUR worsening of the position when compared to the first 6 months of 2005. This was largely due to the prepayments for the sale of assets received that were received in the first half of 2005

Cash flows from financing activities were –10.1 mln EUR during first six months of the year reflecting the dividend payout in June 2006. In first six months of 2005 cash flows from financing activities were –5.3 mln EUR, 4.8 mln EUR lower. This significant reduction was mainly due to the final drawdown of the original EBRD loan facilities which partially offset the effect of the dividend payout and taxes, and the loan principal repayment.

Total cash outflow in the first six months of 2006 was –0.04 mln EUR compared to a cash inflow of 2.2 mln EUR in the first six months of 2005. Cash and cash equivalents stood at 13.2 mln EUR as at 30 June 2006.

### **Employees**

As of 30 June 2006 the Company employed 326 people consisting of 238 people in the Operations division and 88 people in Commercial and Corporate Services. The number of employees has decreased by 8 people since the beginning of the year.

### **Dividends and share performance**

Based on the results of the 2005 financial year, the Management Board of AS Tallinna Vesi paid 10 mln EUR dividends in June 2006.

As of 30 June 2006 AS Tallinna Vesi shareholders, with a holding over 5%, were:

United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%
Nordea Bank Finland Plc clients account trading	8.57%
Morgan Stanley + Co International Equity client account	6.58%

At the end of the reporting period, 30 June 2006, the closing price of the AS Tallinna Vesi share was 13.28 EUR.

#### Additional information:

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# AS TALLINNA VESI

## *Six months report for the quarter ended 30 June 2006*

Currency	Thousand euros
Start of reporting period	1 January 2006
End of reporting period	30 June 2006
Address	Tallinn, Ädala 10
Chairman of the Management Board	Roch Jean Guy Antoine Cheroux
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; 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 30 June 2006. The interim accounts are not reviewed by auditors.

The preparation of the interim accounts according to International Financial Reporting Standards as adopted by the EU involves estimates made by the Management Board of the Company's assets and liabilities as at 30 June 2006, 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 30 June 2006. 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 14 July 2006 have been assessed as part of this review.

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



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



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



**David Nigel Hetherington**  
Member of the Management Board

14 July 2006

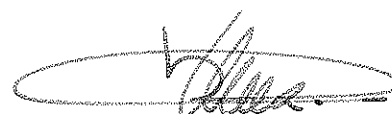
## AS TALLINNA VESI

## BALANCE SHEETS

AT 30 JUNE 2006 AND 2005 AND 31 DECEMBER 2005

(thousand EUR)

ASSETS	Note	2006	30 June 2005	31 December 2005
<b>CURRENT ASSETS</b>				
Cash at bank and in hand		13 193	8 704	13 234
Customer receivables		4 605	3 674	4 265
Accrued income and prepaid expenses		478	520	338
Inventories		215	227	202
Assets for sale		105	100	89
<b>TOTAL CURRENT ASSETS</b>		<b>18 596</b>	<b>13 225</b>	<b>18 128</b>
<b>NON-CURRENT ASSETS</b>				
Long-term deposit		0	4 997	0
Tangible assets		115 946	116 501	117 503
Intangible assets	2	2 601	1 796	2 811
Unfinished assets - non connections	2	7 575	5 887	6 058
Unfinished pipelines - new connections	2	5 646	4 831	6 979
Prepayments for fixed assets	2	204	233	222
<b>TOTAL NON-CURRENT ASSETS</b>	2	<b>131 973</b>	<b>134 246</b>	<b>133 573</b>
<b>TOTAL ASSETS</b>		<b>150 569</b>	<b>147 471</b>	<b>151 701</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Current portion of long-term borrowings		60	5 834	86
Trade and other payables, incl. dividends		3 014	4 016	3 420
Taxes payable including dividends income tax		5 367	1 448	1 452
Short-term provisions		26	6	18
Deferred income		2 276	3 971	4 382
<b>TOTAL CURRENT LIABILITIES</b>		<b>10 744</b>	<b>15 275</b>	<b>9 359</b>
<b>NON-CURRENT LIABILITIES</b>				
Finance lease		7	64	27
Bank loans		74 499	70 508	74 471
Other payables		6	6	6
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>74 513</b>	<b>70 579</b>	<b>74 504</b>
<b>TOTAL LIABILITIES</b>		<b>85 257</b>	<b>85 854</b>	<b>83 863</b>
<b>EQUITY CAPITAL</b>				
Share capital		12 782	12 782	12 782
Share premium		24 734	24 734	24 734
Statutory legal reserve		1 278	1 278	1 278
Accumulated profit		19 010	17 901	17 901
Net profit for the period		7 507	4 922	11 143
<b>TOTAL EQUITY CAPITAL</b>		<b>65 312</b>	<b>61 617</b>	<b>67 839</b>
<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>		<b>150 569</b>	<b>147 471</b>	<b>151 701</b>



## AS TALLINNA VESI

## INCOME STATEMENTS

FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2006 AND 2005

(thousand EUR)

	Note	Quarter 2		6 months		Year ended 31 December
		2006	2005	2006	2005	2005
Sales from main operating activities	3	9 488	8 770	18 896	17 676	35 146
Revenues from other operating activities	3	772	604	2 611	1 708	2 691
<b>Net sales</b>		<b>10 260</b>	<b>9 374</b>	<b>21 507</b>	<b>19 385</b>	<b>37 838</b>
Costs of goods sold (main operating activities)	4, 5	-3 477	-3 130	-6 982	-6 278	-12 914
Costs of goods sold (other operating activities)	5	-714	-539	-2 392	-1 527	-2 450
<b>GROSS PROFIT</b>		<b>6 068</b>	<b>5 705</b>	<b>12 133</b>	<b>11 580</b>	<b>22 474</b>
Marketing expenses	4, 5	-144	-106	-307	-213	-433
General administration expenses	4, 5	-796	-1 934	-1 602	-2 659	-4 107
Other income/ expenses (-)	5	-10	-570	1 605	209	125
<b>OPERATING PROFIT</b>		<b>5 119</b>	<b>3 094</b>	<b>11 829</b>	<b>8 917</b>	<b>18 059</b>
Financial income / expenses (-)	6	-689	-905	-1 325	-1 735	-4 655
<b>PROFIT BEFORE TAXES</b>		<b>4 429</b>	<b>2 189</b>	<b>10 505</b>	<b>7 182</b>	<b>13 404</b>
Income tax on dividends	7	-2 997	0	-2 997	-2 260	-2 260
<b>NET PROFIT FOR THE PERIOD</b>		<b>1 432</b>	<b>2 189</b>	<b>7 507</b>	<b>4 922</b>	<b>11 143</b>
Attributable to:						
Equity holders of A-shares		1 432	2 189	7 507	4 921	11 143
B-share holder		0,6	0,6	0,6	0,6	0,6
<b>Earnings per share in euros</b>	8	<b>0,07</b>	<b>0,11</b>	<b>0,38</b>	<b>0,25</b>	<b>0,56</b>





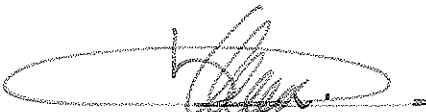
AS TALLINNA VESI

CASH FLOW STATEMENTS

FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2006 AND 2005

(thousand EUR)

	6 months		Year ended
	2006	2005	31 December
			2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating profit	11 829	8 917	18 059
Adjustment for depreciation	2 547	2 472	5 032
Adjustment for income and expenses from constructions	-219	-182	-241
Other financial income and expenses	-51	-84	-1 279
Profit from sale of fixed assets	-1 577	-759	-759
Expensed fixed assets	40	11	25
Capitalization of operating expenses	-666	-751	-1 488
Movement in current assets involved in operating activities	-482	-807	3 691
Movement in liabilities involved in operating activities	479	132	410
Interest paid	-1 480	-1 877	-3 825
<b>Total cash flow from operating activities</b>	<b>10 421</b>	<b>7 074</b>	<b>19 626</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of fixed assets (incl pipelines construction)	-3 553	-5 344	-12 774
Proceeds from pipelines financed by construction income	3 088	1 874	3 355
Proceeds from sale of and prepayments received for fixed assets	-200	3 010	3 026
Proceeds from sale of assets and real estate investments	71	748	748
Interest received	212	151	324
<b>Total cash flow from investing activities</b>	<b>-383</b>	<b>440</b>	<b>-5 322</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Received long-term loans	0	7 003	44 503
Repayment of long-term loans	0	-2 790	-42 500
Finance lease payments	-44	-59	-109
Dividends paid	-10 034	-7 158	-7 158
Income tax on dividends	0	-2 260	-2 260
<b>Total cash flow from financing activities</b>	<b>-10 079</b>	<b>-5 264</b>	<b>-7 525</b>
<b>Change in cash and bank accounts</b>	<b>-41</b>	<b>2 249</b>	<b>6 779</b>
<b>CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>13 234</b>	<b>6 455</b>	<b>6 455</b>
<b>CASH AND EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>13 193</b>	<b>8 704</b>	<b>13 234</b>



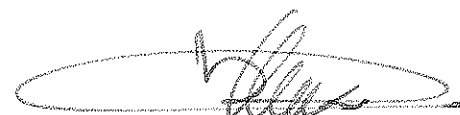
Chairman of the Management Board:

AS TALLINNA VESI

STATEMENTS OF CHANGES IN EQUITY  
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2006 AND 2005

(thousand EUR)

	Share capital	Share premium	Statutory legal reserve	Accumulated profit	Net profit	Total equity
<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
Dividends	0	0	0	-7 158	0	-7 158
Net profit of the financial year	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>
<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
Dividends	0	0	0	-7 158	0	-7 158
Net profit of the financial period	0	0	0	0	4 922	4 922
<b>30 June 2005</b>	<b>12 782</b>	<b>24 734</b>	<b>1 278</b>	<b>17 901</b>	<b>4 922</b>	<b>61 617</b>
<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>
Transfer of financial year profit to the accumulated profit	0	0	0	11 143	-11 143	0
Dividends	0	0	0	-10 034	0	-10 034
Net profit of the financial period	0	0	0	0	7 507	7 507
<b>30 June 2006</b>	<b>12 782</b>	<b>24 734</b>	<b>1 278</b>	<b>19 010</b>	<b>7 507</b>	<b>65 312</b>



Chairman of the Management Board:

AS TALLINNA VESI

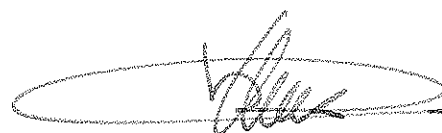
**NOTES TO THE INTERIM ACCOUNTS  
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2006 AND 2005**

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**NOTE 1. ACCOUNTING PRINCIPLES**

The interim accounts 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 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.



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2006 AND 2005

(thousand EUR)

NOTE 2. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS

	Tangible assets in use				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 other intangible assets	
<b>Acquisition cost at</b>										
<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
Acquisition	0	0	0	0	3 154	1 135	0	0	0	4 288
Sale of fixed assets	-503	-573	-101	0	0	0	0	0	0	-1 177
Write-off of fixed assets	0	-10	-121	-51	0	0	0	0	0	-182
Reclassification within balance sheet	0	0	0	0	-3	0	0	0	0	-3
Reclassification to expenses	0	0	0	0	-22	0	-18	0	0	-40
Expensed pipelines	0	0	0	0	0	-2 392	0	0	0	-2 392
Reclassification from assets in progress	33	1 049	477	15	-1 612	-75	0	114	0	0
<b>30.06.2006</b>	21 895	124 846	32 440	1 187	7 575	5 646	204	998	3 585	198 378
<b>Accumulated depreciation</b>										
<b>31.12.2004</b>	3 380	37 500	18 044	662	0	0	0	450	732	60 768
Depreciation	248	1 911	2 297	87	0	0	0	153	336	5 032
Depreciation of fixed assets sold and written-off (-)	-70	-213	-1 184	-12	0	0	0	0	-12	-1 491
<b>31.12.2005</b>	3 559	39 198	19 156	737	0	0	0	603	1 056	64 309
Depreciation	123	1 001	1 058	42	0	0	0	101	223	2 547
Depreciation of fixed assets sold and written-off (-)	-4	-187	-210	-51	0	0	0	0	0	-452
<b>30.06.2006</b>	3 678	40 012	20 004	728	0	0	0	703	1 279	66 405
<b>Net book value</b>										
<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	85 182	13 029	486	6 058	6 979	222	282	2 529	133 573
<b>30.06.2006</b>	18 217	84 834	12 436	459	7 575	5 646	204	295	2 306	131 973

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

For the six month period ended 30 June the net balance sheet value of finance leases was 209 thousand euros for 2006 and 274 thousand euros for 2005.

Interest capitalised to fixed assets was 69 thousand euros in 2005.

Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2006 AND 2005

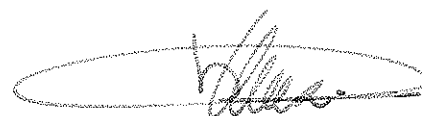
(thousand EUR)

NOTE 3. NET SALES	Quarter 2		6 months		Year ended 31
	2006	2005	2006	2005	December 2005
<b>Revenues from main operating activities</b>					
Water supply service	4 629	4 164	9 273	8 541	16 789
Waste water disposal service	4 201	3 723	8 361	7 403	14 882
Stormwater treatment and disposal service	480	744	960	1 488	2 977
Fire hydrants service	44	33	93	65	130
Other works and services	134	106	209	178	368
<b>Total revenues from main operating activities</b>	<b>9 488</b>	<b>8 770</b>	<b>18 896</b>	<b>17 676</b>	<b>35 146</b>
<b>Revenues from other operating activities</b>					
Water, sewerage and storm water connections construction income	772	604	2 611	1 708	2 691
<b>TOTAL NET SALES</b>	<b>10 260</b>	<b>9 374</b>	<b>21 507</b>	<b>19 385</b>	<b>37 838</b>

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

NOTE 4. PERSONNEL EXPENSES

	2006	2005	2006	2005	2005
Salaries and wages	-811	-1 075	-1 637	-1 811	-3 384
Social security taxation	-274	-360	-549	-607	-1 134
<b>Staff costs total</b>	<b>-1 085</b>	<b>-1 435</b>	<b>-2 186</b>	<b>-2 418</b>	<b>-4 518</b>
<b>Average number of employees during the reporting period</b>	<b>326</b>	<b>341</b>	<b>329</b>	<b>340</b>	<b>337</b>



Chairman of the Management Board:

**NOTES TO THE INTERIM ACCOUNTS  
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2006 AND 2005**

(thousand EUR)

**NOTE 5. COSTS AND EXPENSES**

Cost of goods sold (main operating activities)	Quarter 2		6 months		Year ended 31 December
	2006	2005	2006	2005	2005
Tax on special use of water	-158	-161	-322	-310	-578
Chemicals	-310	-166	-618	-332	-861
Electricity	-396	-343	-813	-797	-1 510
Pollution tax	-200	-117	-372	-248	-441
Staff costs	-756	-696	-1 517	-1 368	-2 920
Research and development	0	-2	0	-3	-12
Depreciation and amortization	-1 147	-1 147	-2 314	-2 318	-4 703
Other costs of goods sold	-511	-498	-1 027	-902	-1 888
<b>Total cost of goods sold (main operating activities)</b>	<b>-3 477</b>	<b>-3 130</b>	<b>-6 982</b>	<b>-6 278</b>	<b>-12 914</b>
<b>Cost of goods sold (other operating activities)</b>					
Water, sewerage and storm water connections construction cost	-714	-539	-2 392	-1 527	-2 450
<b>Marketing Expenses</b>					
Staff costs	-76	-74	-146	-148	-305
Depreciation and amortization	-34	-2	-97	-3	-12
Other marketing expenses	-33	-31	-64	-61	-116
<b>Total cost of marketing expenses</b>	<b>-144</b>	<b>-106</b>	<b>-307</b>	<b>-213</b>	<b>-433</b>
<b>General Administration Expenses</b>					
Staff costs	-252	-665	-523	-902	-1 292
IPO bonus to employees	0	0	0	0	0
IPO services	0	0	0	0	0
Depreciation and amortization	-69	-76	-137	-151	-317
Other general administration expenses	-475	-1 194	-943	-1 606	-2 497
<b>Total cost of general administration expenses</b>	<b>-796</b>	<b>-1 934</b>	<b>-1 602</b>	<b>-2 659</b>	<b>-4 107</b>

**Other income/expenses** - In both 2005 and 2006 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 and costs generated from a consultancy project in the Republic of Tajikistan.

In total, the costs 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. Of the total costs for services 543 thousand euros are included in other income/expenses with the balance posted against the category where the cost was incurred.



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2006 AND 2005

(thousand EUR)

NOTE 6. FINANCIAL INCOME AND EXPENSES	6 months		Year ended 31
	2006	2005	December 2005
Interest income	209	162	317
Interest expense	-1 483	-1 814	-3 694
Loans restructuring costs	-33	-65	-1 246
Other financial income / expenses (-)	-17	-34	-52
Foreign exchange gain/loss (-)	0	16	19
<b>Total financial income / expenses</b>	<b>-1 325</b>	<b>-1 735</b>	<b>-4 655</b>

NOTE 7. DIVIDENDS	6 months		Year ended 31
	2006	2005	December 2005
Dividends declared during the period	10 034	7 158	7 158
Dividends paid during the period	10 034	7 158	7 158
Income tax on dividends declared	-2 997	-2 260	-2 260
<b>Income tax accounted</b>	<b>-2 997</b>	<b>-2 260</b>	<b>-2 260</b>

The income tax rates were 24/76 and 23/77 respectively in 2005 and 2006.

NOTE 8. EARNINGS AND DIVIDENDS PER SHARE

	6 months		Year ended 31
	2006	2005	December 2005
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)	7 507	4 921	11 143
Weighted average number of ordinary shares for the purposes of basic earnings per share	20 000 000	20 000 000	20 000 000
Earnings per share in euros	0,38	0,25	0,56
Dividends per A-share in euros	0,50	0,36	0,36
Dividends per B-share in euros	639	639	639

Diluted earnings per share for the periods ended 30 June 2005 and 2006 and 31 December 2005 are equal to the earnings per share figures stated above.



**NOTES TO THE INTERIM ACCOUNTS  
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2006 AND 2005**

(thousand EUR)

**NOTE 9. RELATED PARTIES**

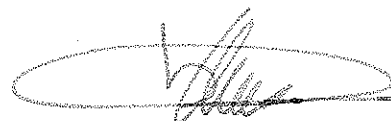
Transactions with related parties are considered to be transactions with members of the Supervisory Board and Management Board, their relatives and the companies in which they hold majority interest and transactions with the shareholder having significant influence. Dividend payments are indicated in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

The transactions with related parties in 2005 and 2006 and respective balances as of 30.06.2005 and 30.06.2006 are recorded as follows:

	<b>Tallinn City Government and related boards</b>	<b>The companies belonging to the same group with the United Utilities (Tallinn) B.V.</b>
<b>2005 for 6 months</b>		
<b>Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi</b>		
Accrued income and prepaid expenses	0	301
Accounts payable - short-term trade and other payables, incl. dividends	0	168
<b>Transactions recorded to the Income Statement of AS Tallinna Vesi</b>		
Net sales	2 096	0
General administration expenses	0	325
<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	450
<b>2006 for 6 months</b>		
<b>Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi</b>		
Customer receivables	111	0
Accrued income and prepaid expenses	0	307
Deferred income	94	0
Accounts payable - short-term trade and other payables, incl. dividends	0	195
<b>Transactions recorded to the Income Statement of AS Tallinna Vesi</b>		
Net sales	2 936	0
General administration expenses	0	597
<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	408

	<b>6 months</b>		<b>Year ended 31 December</b>
	<b>2006</b>	<b>2005</b>	<b>2005</b>
<b>Management Board fees excluding social tax</b>	72	68	136
<b>Supervisory Board fees excluding social tax</b>	16	0,7	4,5

The fees disclosed above are contractual payments made by the Company to the management board members. In addition to this the board members have also received direct compensation from the companies belonging to the group of United Utilities (Tallinn) B.V. as overseas secondees.



Chairman of the Management Board:



# AS TALLINNA VESI

## NOTES TO THE INTERIM ACCOUNTS FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2006 AND 2005

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### NOTE 28. FINANCIAL INDICATORS

	6 months		Year ended 31 December
	2006	2005	2005
Operating Margin <sup>(1)</sup>	55,0%	46,0%	47,7%
Net profit margin <sup>(2)</sup>	34,9%	25,4%	29,5%
Return on equity <sup>(3)</sup>	11,3%	7,8%	16,9%
Return on assets <sup>(4)</sup>	5,0%	3,4%	7,6%
Debt to equity ratio <sup>(5)</sup>	1,3	1,4	1,2
Current ratio <sup>(6)</sup>	1,7	0,9	1,9

Notes:

- <sup>(1)</sup> Operating profit as a percentage of net sales
- <sup>(2)</sup> Net profit as a percentage of net sales
- <sup>(3)</sup> Net profit as a percentage of average total equity capital
- <sup>(4)</sup> Net profit as a percentage of average total assets
- <sup>(5)</sup> Total liabilities divided by total equity capital
- <sup>(6)</sup> Total current assets divided by total current liabilities

