

*Tallinna Vesi*



**AS Tallinna Vesi**  
**Interim report for 3<sup>rd</sup> quarter and first nine months of 2006**

Currency	Thousand euros
Start of reporting period	1 January 2006
End of reporting period	30 September 2006
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Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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## AS TALLINNA VESI

### MANAGEMENT REPORT

#### RESULTS OF OPERATIONS IN 3<sup>rd</sup> QUARTER 2006

(million euros)

#### Overview

Strong growth in sales of water and wastewater treatment in the 3<sup>rd</sup> quarter of 2006 enabled the company to continue to deliver growth in profitability, operating profit margin increasing from 50.5% to 52.5% and profit before taxes margin from 40.2% to 45.2%. In this quarter sales to residential customers increased by 13% year on year, sales to commercial customers within the service area increased by 10.8% year on year, and outside the service area sales reached 437 000 m<sup>3</sup>, up from 308 000 m<sup>3</sup> in Q3 2005. To continue to improve the quality of product and service, environmental issues and meet this increased demand the Company has invested 8.7 mln EUR in first nine months of the year.

#### Key performance indicators

<i>Million EUR</i>	3rd Q 2006	3rd Q 2005	Change	9 months 2006	9 months 2005	Change
Sales	9,5	8,8	8,5%	31,0	28,2	10,2%
Main operating activities	9,2	8,5	8,7%	28,1	26,2	7,5%
Other operating activities	0,3	0,3	3,9%	2,9	2,0	45,9%
Gross profit	5,9	5,4	10,4%	18,0	16,9	6,5%
Gross profit margin %	61,9%	60,9%	1,7%	58,1%	60,1%	-3,3%
Operating profit	5,0	4,4	13,0%	16,8	13,4	26,1%
Operating profit margin %	52,5%	50,5%	4,1%	54,2%	47,4%	14,4%
Profit before taxes	4,3	3,5	22,2%	14,8	10,7	38,3%
Profit before taxes margin	45,2%	40,2%	12,6%	47,7%	38,0%	25,5%
Net profit	4,3	3,5	22,2%	11,8	8,5	39,9%
ROA %	2,8%	2,3%	20,3%	7,7%	5,6%	37,7%
Debt to total capital employed	54,9%	57,2%	-3,9%	54,9%	57,2%	-3,9%
ROE%	6,2%	5,4%	14,4%	17,0%	13,0%	30,9%
Current ratio	1,9	1,0	98,2%	1,9	1,0	98,2%

*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 3<sup>rd</sup> quarter of 2006 the Company's total sales increased, year on year, by 8.5% to 9.5 mln EUR. Sales from the Company's main operating activities were 9.2 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 8.6 mln EUR, which is a 12.8% increase compared to the third quarter of 2005. Strong growth in revenues was achieved in sales both to residential customers and commercial customers, both within and outside of the service area.

In quarter three sales to residential customers increased by 13% to 4.5 mln EUR. This resulted primarily from the 9.6% tariff increase from 1 January 2006 and a 3% increase in the volumes of water supplied and wastewater treated when compared to the third quarter of 2005.

Sales to commercial customers within the services area increased by 10.8% to 3.9 million EUR in 3<sup>rd</sup> quarter 2006, due to the 9.6% tariff increase and a 1.5% increase in volumes. Sales to commercial customers outside of the service area – primarily bulk volumes of wastewater treatment services provided to the surrounding municipalities - reached 437,000 m<sup>3</sup> or 0.2 mln EUR, which represents a 54% increase in sales value compared to the 3<sup>rd</sup> quarter of 2005.

The growth in volumes demonstrates, the improvement from in areas sales due to growth in customer numbers and average consumption, and outside of the services area through the continuing success of the company's strategy in connecting new customers and municipalities. The increase in water and wastewater consumption can be partly explained by the strong economic growth, reflected in increased household disposable incomes and the active real estate development in Tallinn and surrounding areas.

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 in 2006 is contractually agreed and has secured this revenue stream through to 2015.

Sales revenues from other operating activities (mainly connections and stormwater construction) increased, year on year, by 3.9% to 0.3 mln EUR as a result of a slight increase in connections income from individual connectees.

### **Expenses and profitability**

Profits from other operating activities, which include water, sewerage and storm water connection construction income were 0.04 mln EUR, a 0.01 mln EUR increase from 2005 levels.

The cost of goods sold for the main operating activity was 3.4 mln EUR in the 3<sup>rd</sup> quarter of 2006, an increase of 0.2 mln EUR or 6% from the equivalent period in 2005. This increase was largely driven by increased chemical costs and environmental taxes.

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 and approvals have been received from Harju County and the Environmental Inspectorate. The final report is now with the Ministry of Environment for their final approval. The Company hopes to receive approval in the 4<sup>th</sup> quarter of 2006 and as a result will be able to release a provision worth 0.9 mln EUR for taxes foregone that would have had to be paid had the project been unsuccessful. It is possible that the cost of chemicals may rise in the future, as the continued achievement of this key objective requires chemical quantities similar to those used in 2006 in an environment of increasing commodity prices.

Environmental 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 the Parliament for the period from 2006 to 2009. Tax on special use of water increased to 0.16 mln EUR compared to the 3<sup>rd</sup> quarter of 2005 due to increase in volumes of treated and pumped groundwater.

The Company's gross profit for the 3<sup>rd</sup> quarter of 2006 was 5.9 mln EUR, which represents an increase of 0.5 mln EUR, or 10.4%, compared to the gross profit of 5.4 mln EUR for the 3<sup>rd</sup> quarter of 2005. Gross profit margin was 61.9 % compared to 60.9% in the 3<sup>rd</sup> quarter of 2005.

Marketing expenses increased by 0.05 mln EUR to 0.1 mln EUR during the 3<sup>rd</sup> quarter of 2006. This increase was mainly due to additional depreciation charges relating to the implementation of KLIF, the new customer management system

General administration expenses decreased by 0.01 mln EUR from 0.72 mln EUR in the 3<sup>rd</sup> quarter of 2005 down to 0.71 mln EUR in 2006 as a consequence of a decrease in depreciation and other general administration expenses. In the first nine months of 2005 general administration expenses were extraordinarily high due to 1.1 mln EUR of one-off IPO costs.

Personnel expenses were 0.96 mln EUR in the 3<sup>rd</sup> quarter of 2006, a 3.7% decrease compared to the same period in 2005. This was mainly due to the decreased number of employees, as the average number of employees fell from 341 to 319 quarter on quarter. This sharp decrease in number of employees is caused by the high demand for skilled workers in the construction sector, not by a change in the Company's structure.

Other expenses reduced to 0.04 mln EUR in 3<sup>rd</sup> quarter 2006 compared to 0.1 mln EUR in 3<sup>rd</sup> quarter of 2005, primarily due to improved debt management.

The Company's operating profit for the 3<sup>rd</sup> quarter of 2006 was 5.0 mln EUR, an increase of 0.6 mln EUR, or 13%, above the operating profit of 4.4 mln EUR achieved in the 3<sup>rd</sup> quarter of 2005. Operating profit margin increased from 50.5% up to 52.5% for the relevant periods.

Net Financial expenses were 0.7 mln EUR in the 3<sup>rd</sup> quarter of 2006, which is a decrease of 0.2 mln EUR compared to the 3<sup>rd</sup> quarter of 2005. The restructuring of the Company's long-term debt in November 2005 lowered the Company's interest expenses by 0.2 mln EUR compared to the 3<sup>rd</sup> quarter of 2005.

The Company's profit before taxes for the 3<sup>rd</sup> quarter of 2006 was 4.3 mln EUR, which represents an increase of 0.8 mln EUR, or 22.2%, compared to the profit before taxes of 3.5 mln EUR for the 3<sup>rd</sup> quarter of 2005.

## **Balance sheet**

The Company's total assets were 154.5 mln EUR as at 30 September 2006, representing an increase of 2.8 mln EUR compared to 31 December 2005. Current assets increased by 1.5 mln EUR, which was largely attributable to an increase in cash and accounts receivable reflecting increased sales of water and wastewater treatment services.

Tangible, intangible and unfinished assets were 134.6 mln EUR at 30 September 2006, an increase of 1.3 mln EUR of the fixed asset base during the first nine months of the year. During the first nine months of the year the Company has invested 8.7 million EUR in the following areas: 5.7 mln EUR networks extension and rehabilitation, 1.7 mln EUR Paljassaare wastewater treatment plant and wastewater

treatment, 0.4 mln EUR water quality (Ülemiste water treatment plant and raw water) and 0.9 mln EUR other investments (IT, capital maintenance, meters, etc).

Current liabilities increased by 1.0 mln EUR to 10.3 mln EUR in the first nine months of the year This was mainly due to increased trade payables, reflecting the higher levels of investments.

The company continues to maintain its leverage level within its target range of 50-60% with total liabilities to total capital employed of 55% as at 30 September 2006. Long-term liabilities stood at 74.5 mln EUR at the end of September 2006, consisting almost entirely of the outstanding balance of the bank loans.

## **Cash flow**

During the first nine months of 2006, the Company generated 15.5 mln EUR of cash flows from operating activities, an increase of 4.1 mln EUR, or 33.6% compared to the corresponding period in 2005. The key factor affecting this improvement was a 3.5 mln EUR increase in operating profit. The improvement in operating cash flows has also been assisted by the direct debit payment option offered with 17% of the Company's customers having signed to date.

Net cash outflows from investing activities were 1.4 mln EUR, 0.3 mln EUR less than the first nine months of 2005. This was largely due to higher proceeds received from pipelines financed by construction income.

Cash outflows from financing activities were 13.1 mln EUR during first nine months of the year, which is 7.8 mln EUR more than the outflows in the corresponding period in 2005. This significant reduction was mainly due to the inflow from the final drawdown of the original EBRD loan facilities sum of 7.0 mln EUR in April 2005.

As a result of all of the above factors, the total cash inflow in the first nine months of 2006 was 1.1 mln EUR compared to a cash inflow of 4.7 mln EUR in the first nine months of 2005. Cash and cash equivalents stood at 14.3 mln EUR as at 30 September 2006.

## **Employees**

As of 30 September 2006 the Company employed 318 people consisting of 231 people in the Operations division and 87 people in Commercial and Corporate Services. The number of employees has decreased by 16 people since the beginning of the year as a result of the highly competitive labor market and not a significant change in the Company's structure.

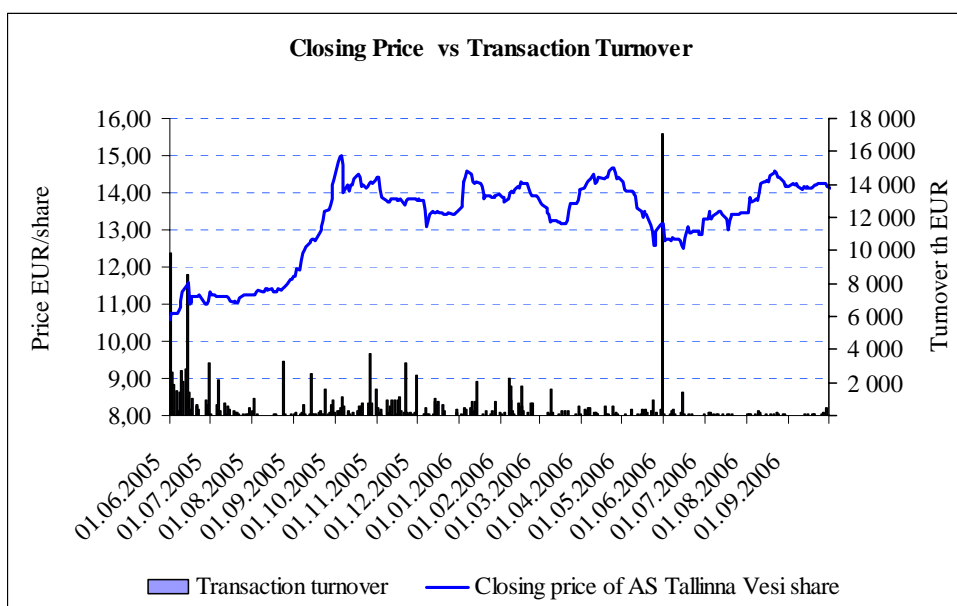
## **Dividends and share performance**

Based on the results of the 2005 financial year, the Management Board of AS Tallinna Vesi paid 10.0 mln EUR dividends in June 2006.

As of 30 September 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	8.66%
Morgan Stanley + Co International Equity client account	6.83%

At the end of the reporting period, 30 September 2006, the closing price of the AS Tallinna Vesi share was 221.40 EEK (14.15 EUR).



## Operational achievements

- The City approved a 10.8% increase in tariffs starting from 1 January 2007.
- The Company concluded the Nitrogen removal project in Paljassaare wastewater treatment plant. As a result the nitrogen loads discharged to the Baltic Sea decreased by more than 25% over the base year. Total investment into this project that has lasted over three years was over 1.9 mln EUR. As a result of achieving the target Tallinn was removed from the HELCOM Baltic Sea hot spot list. This is a major achievement and a significant recognition of the Company's contribution to the environment.
- In September 2006 the Company started construction works on the new Paljassaare sludge processing building. The building will allow for the more effective and efficient operation and maintenance of this equipment and realise further benefits in the operation of the wastewater and sludge treatment processes. This will enable the Company to continue with its environmentally friendly and cost effective policy of disposing zero sludge to landfill. The total cost of the project is over 2.6 mln EUR and it is expected to be completed in the first half of 2007.
- Quarter 3 was an unusually dry quarter in Tallinn. Certain areas of the City experienced significant increased demand due to residents watering their gardens during the dry summer. The company was able to meet all of these demands and the water supplied into the distribution network continued to be of a very high quality.

### Additional information:

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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 September 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 September 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 September 2006. The actual results of these business transactions recorded may differ from such estimates.

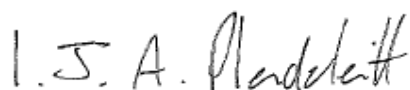
The interim accounts give a true and fair view of the financial position, economic performance and cash flows of the company.

All material subsequent events that occurred by the interim accounts preparation date of 13 October 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

13 October 2006



## AS TALLINNA VESI

## BALANCE SHEETS

AT 30 SEPTEMBER 2006 AND 2005 AND 31 DECEMBER 2005

(thousand EUR)

ASSETS	Note	30 September 2006	2005	31 December 2005
<b>CURRENT ASSETS</b>				
Cash at bank and in hand		14 290	11 110	13 234
Customer receivables		4 671	3 780	4 265
Accrued income and prepaid expenses		378	541	338
Inventories		209	199	202
Assets for sale		98	89	89
<b>TOTAL CURRENT ASSETS</b>		<b>19 646</b>	<b>15 719</b>	<b>18 128</b>
<b>NON-CURRENT ASSETS</b>				
Long-term deposit		0	5 023	0
Tangible assets		118 027	115 944	117 503
Intangible assets	2	2 531	1 685	2 811
Unfinished assets - non connections	2	7 148	7 208	6 058
Unfinished pipelines - new connections	2	6 930	6 301	6 979
Prepayments for fixed assets	2	192	233	222
<b>TOTAL NON-CURRENT ASSETS</b>	2	<b>134 828</b>	<b>136 394</b>	<b>133 573</b>
<b>TOTAL ASSETS</b>		<b>154 474</b>	<b>152 113</b>	<b>151 701</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Current portion of long-term borrowings		47	5 829	86
Trade and other payables, incl. dividends		5 318	4 945	3 420
Taxes payable		1 623	1 168	1 452
Short-term provisions		30	15	18
Deferred income		3 311	4 427	4 382
<b>TOTAL CURRENT LIABILITIES</b>		<b>10 330</b>	<b>16 384</b>	<b>9 359</b>
<b>NON-CURRENT LIABILITIES</b>				
Finance lease		0	44	27
Bank loans		74 513	70 533	74 471
Other payables		6	6	6
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>74 520</b>	<b>70 583</b>	<b>74 504</b>
<b>TOTAL LIABILITIES</b>		<b>84 850</b>	<b>86 967</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		11 820	8 450	11 143
<b>TOTAL EQUITY CAPITAL</b>		<b>69 624</b>	<b>65 146</b>	<b>67 839</b>
<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>		<b>154 474</b>	<b>152 113</b>	<b>151 701</b>

## AS TALLINNA VESI

## INCOME STATEMENTS

FOR THE 9 MONTHS PERIOD ENDED 30 SEPTEMBER 2006 AND 2005

(thousand EUR)

	Note	Quarter 3		9 months		Year ended 31 December
		2006	2005	2006	2005	2005
Sales from main operating activities	3	9 242	8 503	28 138	26 179	35 146
Revenues from other operating activities	3	293	282	2 904	1 990	2 691
<b>Net sales</b>		<b>9 535</b>	<b>8 784</b>	<b>31 042</b>	<b>28 169</b>	<b>37 838</b>
Costs of goods sold (main operating activities)	4, 5	-3 379	-3 188	-10 361	-9 466	-12 914
Costs of goods sold (other operating activities)	5	-251	-245	-2 642	-1 772	-2 450
<b>GROSS PROFIT</b>		<b>5 905</b>	<b>5 351</b>	<b>18 039</b>	<b>16 931</b>	<b>22 474</b>
Marketing expenses	4, 5	-148	-101	-454	-313	-433
General administration expenses	4, 5	-710	-719	-2 312	-3 378	-4 107
Other income/ expenses (-)	5	-38	-97	1 567	112	125
<b>OPERATING PROFIT</b>		<b>5 010</b>	<b>4 434</b>	<b>16 839</b>	<b>13 352</b>	<b>18 059</b>
Financial income / expenses (-)	6	-698	-906	-2 022	-2 641	-4 655
<b>PROFIT BEFORE TAXES</b>		<b>4 312</b>	<b>3 528</b>	<b>14 817</b>	<b>10 711</b>	<b>13 404</b>
Income tax on dividends	7	0	0	-2 997	-2 260	-2 260
<b>NET PROFIT FOR THE PERIOD</b>		<b>4 312</b>	<b>3 528</b>	<b>11 820</b>	<b>8 450</b>	<b>11 143</b>
Attributable to:						
Equity holders of A-shares		4 312	3 528	11 819	8 450	11 143
B-share holder		0,6	0,6	0,6	0,6	0,6
<b>Earnings per share in euros</b>	8	<b>0,22</b>	<b>0,18</b>	<b>0,59</b>	<b>0,42</b>	<b>0,56</b>

AS TALLINNA VESI

CASH FLOW STATEMENTS

FOR THE 9 MONTHS PERIOD ENDED 30 SEPTEMBER 2006 AND 2005

(thousand EUR)

	9 months		Year ended
	2006	2005	31 December
			2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating profit	16 839	13 352	18 059
Adjustment for depreciation	3 813	3 714	5 032
Adjustment for income and expenses from constructions	-261	-218	-241
Other financial income and expenses	-76	-119	-1 279
Profit from sale of fixed assets	-1 592	-770	-759
Expensed fixed assets	42	14	25
Capitalization of operating expenses	-1 015	-1 064	-1 488
Movement in current assets involved in operating activities	-552	-902	3 691
Movement in liabilities involved in operating activities	-194	-510	410
Interest paid	-1 481	-1 880	-3 825
<b>Total cash flow from operating activities</b>	<b>15 522</b>	<b>11 617</b>	<b>19 626</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of fixed assets (incl pipelines construction)	-6 082	-8 253	-12 774
Proceeds from pipelines financed by construction income	4 522	2 583	3 355
Proceeds from sale of and prepayments received for fixed assets	-178	3 021	3 026
Proceeds from sale of assets and real estate investments	71	748	748
Interest received	297	228	324
<b>Total cash flow from investing activities</b>	<b>-1 370</b>	<b>-1 672</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	-65	-84	-109
Dividends paid	-10 034	-7 158	-7 158
Income tax on dividends	-2 997	-2 260	-2 260
<b>Total cash flow from financing activities</b>	<b>-13 096</b>	<b>-5 290</b>	<b>-7 525</b>
<b>Change in cash and bank accounts</b>	<b>1 056</b>	<b>4 655</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>14 290</b>	<b>11 110</b>	<b>13 234</b>

AS TALLINNA VESI

STATEMENTS OF CHANGES IN EQUITY

FOR THE 9 MONTHS PERIOD ENDED 30 SEPTEMBER 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	8 450	8 450
<b>30 September 2005</b>	<b>12 782</b>	<b>24 734</b>	<b>1 278</b>	<b>17 901</b>	<b>8 450</b>	<b>65 146</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	11 820	11 820
<b>30 September 2006</b>	<b>12 782</b>	<b>24 734</b>	<b>1 278</b>	<b>19 010</b>	<b>11 820</b>	<b>69 624</b>

## **AS TALLINNA VESI**

### **NOTES TO THE INTERIM ACCOUNTS FOR THE 9 MONTHS PERIOD ENDED 30 SEPTEMBER 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.

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE 9 MONTHS PERIOD ENDED 30 SEPTEMBER 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>	<b>19 907</b>	<b>121 401</b>	<b>30 990</b>	<b>1 044</b>	<b>6 560</b>	<b>5 092</b>	<b>233</b>	<b>613</b>	<b>1 748</b>	<b>187 589</b>
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>	<b>22 365</b>	<b>124 380</b>	<b>32 185</b>	<b>1 223</b>	<b>6 058</b>	<b>6 979</b>	<b>222</b>	<b>885</b>	<b>3 585</b>	<b>197 883</b>
Acquisition	0	0	0	0	5 999	2 671	0	0	0	8 670
Sale of fixed assets	-503	-573	-149	0	0	0	0	0	0	-1 226
Write-off of fixed assets	0	-28	-156	-53	0	0	0	0	0	-237
Reclassification within balance sheet	0	0	0	0	-3	-2	0	0	0	-5
Reclassification to expenses	0	0	0	0	-23	0	-18	0	0	-42
Expensed pipelines	0	0	0	0	0	-2 642	0	0	0	-2 642
Reclassification from assets in progress	94	2 899	1 751	45	-4 883	-75	-12	168	14	0
<b>30.09.2006</b>	<b>21 956</b>	<b>126 677</b>	<b>33 630</b>	<b>1 216</b>	<b>7 148</b>	<b>6 930</b>	<b>192</b>	<b>1 053</b>	<b>3 600</b>	<b>202 401</b>
<b>Accumulated depreciation</b>										
<b>31.12.2004</b>	<b>3 380</b>	<b>37 500</b>	<b>18 044</b>	<b>662</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>450</b>	<b>732</b>	<b>60 768</b>
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>	<b>3 559</b>	<b>39 198</b>	<b>19 156</b>	<b>737</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>603</b>	<b>1 056</b>	<b>64 309</b>
Depreciation	185	1 506	1 597	62	0	0	0	94	369	3 813
Depreciation of fixed assets sold and written-off (-)	-4	-205	-286	-53	0	0	0	0	0	-549
<b>30.09.2006</b>	<b>3 739</b>	<b>40 499</b>	<b>20 467</b>	<b>746</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>696</b>	<b>1 425</b>	<b>67 573</b>
<b>Net book value</b>										
<b>31.12.2004</b>	<b>16 526</b>	<b>83 901</b>	<b>12 946</b>	<b>382</b>	<b>6 560</b>	<b>5 092</b>	<b>233</b>	<b>163</b>	<b>1 016</b>	<b>126 821</b>
<b>31.12.2005</b>	<b>18 807</b>	<b>85 182</b>	<b>13 029</b>	<b>486</b>	<b>6 058</b>	<b>6 979</b>	<b>222</b>	<b>282</b>	<b>2 529</b>	<b>133 573</b>
<b>30.09.2006</b>	<b>18 216</b>	<b>86 179</b>	<b>13 163</b>	<b>469</b>	<b>7 148</b>	<b>6 930</b>	<b>192</b>	<b>357</b>	<b>2 174</b>	<b>134 828</b>

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

For the nine month period ended 30 September the net balance sheet value of finance leases was 187 thousand euros for 2006 and 288 thousand euros for 2005.

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

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE 9 MONTHS PERIOD ENDED 30 SEPTEMBER 2006 AND 2005

(thousand EUR)

NOTE 3. NET SALES	Quarter 3		9 months		Year ended 31
	2006	2005	2006	2005	December 2005
<b>Revenues from main operating activities</b>					
Water supply service	4 566	4 015	13 839	12 556	16 789
Waste water disposal service	4 024	3 601	12 384	11 004	14 882
Stormwater treatment and disposal service	480	744	1 441	2 232	2 977
Fire hydrants service	46	33	139	98	130
Other works and services	126	110	335	288	368
<b>Total revenues from main operating activities</b>	<b>9 242</b>	<b>8 503</b>	<b>28 138</b>	<b>26 179</b>	<b>35 146</b>
<b>Revenues from other operating activities</b>					
Water, sewerage and storm water connections construction income	293	282	2 904	1 990	2 691
<b>TOTAL NET SALES</b>	<b>9 535</b>	<b>8 784</b>	<b>31 042</b>	<b>28 169</b>	<b>37 838</b>

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

NOTE 4. PERSONNEL EXPENSES

	Quarter 3		9 months		Year ended 31
	2006	2005	2006	2005	December 2005
Salaries and wages	-723	-747	-2 360	-2 558	-3 384
Social security taxation	-237	-250	-786	-857	-1 134
<b>Staff costs total</b>	<b>-960</b>	<b>-997</b>	<b>-3 146</b>	<b>-3 415</b>	<b>-4 518</b>
<b>Average number of employees during the reporting period</b>	<b>319</b>	<b>341</b>	<b>326</b>	<b>340</b>	<b>337</b>

**NOTES TO THE INTERIM ACCOUNTS  
FOR THE 9 MONTHS PERIOD ENDED 30 SEPTEMBER 2006 AND 2005**

(thousand EUR)

**NOTE 5. COSTS AND EXPENSES**

Cost of goods sold (main operating activities)	Quarter 3		9 months		Year ended 31 December
	2006	2005	2006	2005	2005
Tax on special use of water	-159	-119	-481	-429	-578
Chemicals	-315	-244	-933	-576	-861
Electricity	-358	-349	-1 170	-1 145	-1 510
Pollution tax	-217	-98	-588	-347	-441
Staff costs	-665	-713	-2 181	-2 081	-2 920
Research and development	-2	-2	-2	-6	-12
Depreciation and amortization	-1 162	-1 165	-3 476	-3 483	-4 703
Other costs of goods sold	-502	-498	-1 529	-1 399	-1 888
<b>Total cost of goods sold (main operating activities)</b>	<b>-3 379</b>	<b>-3 188</b>	<b>-10 361</b>	<b>-9 466</b>	<b>-12 914</b>
<b>Cost of goods sold (other operating activities)</b>					
Water, sewerage and storm water connections construction cost	-251	-245	-2 642	-1 772	-2 450
<b>Marketing Expenses</b>					
Staff costs	-75	-73	-221	-221	-305
Depreciation and amortization	-34	-3	-131	-6	-12
Other marketing expenses	-39	-25	-103	-86	-116
<b>Total cost of marketing expenses</b>	<b>-148</b>	<b>-101</b>	<b>-454</b>	<b>-313</b>	<b>-433</b>
<b>General Administration Expenses</b>					
Staff costs	-221	-211	-743	-1 113	-1 292
IPO bonus to employees	0	0	0	0	0
IPO services	0	0	0	0	0
Depreciation and amortization	-69	-73	-206	-225	-317
Other general administration expenses	-420	-434	-1 363	-2 040	-2 497
<b>Total cost of general administration expenses</b>	<b>-710</b>	<b>-719</b>	<b>-2 312</b>	<b>-3 378</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.



**NOTES TO THE INTERIM ACCOUNTS  
FOR THE 9 MONTHS PERIOD ENDED 30 SEPTEMBER 2006 AND 2005**

(thousand EUR)

<b>NOTE 6. FINANCIAL INCOME AND EXPENSES</b>	<b>9 months</b>		<b>Year ended 31</b>
	<b>2006</b>	<b>2005</b>	<b>December 2005</b>
Interest income	295	240	317
Interest expense	-2 242	-2 761	-3 694
Loans restructuring costs	-50	-92	-1 246
Other financial income / expenses (-)	-25	-44	-52
Foreign exchange gain/loss (-)	-1	17	19
<b>Total financial income / expenses</b>	<b>-2 022</b>	<b>-2 641</b>	<b>-4 655</b>

<b>NOTE 7. DIVIDENDS</b>	<b>9 months</b>		<b>Year ended 31</b>
	<b>2006</b>	<b>2005</b>	<b>December 2005</b>
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**

	<b>9 months</b>		<b>Year ended 31</b>
	<b>2006</b>	<b>2005</b>	<b>December 2005</b>
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)	11 819	8 450	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	0,59	0,42	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 September 2005 and 2006 and 31 December 2005 are equal to the earnings per share figures stated above.

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE 9 MONTHS PERIOD ENDED 30 SEPTEMBER 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 30.09.2005 and 30.09.2006 are recorded as follows:

	Tallinn City Government and related boards	The companies belonging to the same group with the United Utilities (Tallinn) B.V.
<b>2005 for 9 months</b>		
<b>Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi</b>		
Accrued income and prepaid expenses	0	150
Accounts payable - short-term trade and other payables, incl. dividends	0	126
<b>Transactions recorded to the Income Statement of AS Tallinna Vesi</b>		
Net sales	3 932	0
General administration expenses	0	809
<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	608
<b>2006 for 9 months</b>		
<b>Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi</b>		
Customer receivables	164	0
Accrued income and prepaid expenses	0	154
Deferred income	139	0
Accounts payable - short-term trade and other payables, incl. dividends	0	147
<b>Transactions recorded to the Income Statement of AS Tallinna Vesi</b>		
Net sales	3 420	0
General administration expenses	0	692
<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	601

	9 months		Year ended 31 December
	2006	2005	2005
<b>Management Board fees excluding social tax</b>	103	102	136
<b>Supervisory Board fees excluding social tax</b>	24	0,9	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.

**Company shares belonging to the Management Board members**

As at report generation date Roch Jean Guy Antoine Cheroux owned 262 and Ian John Alexander Plenderleith 110 AS Tallinna Vesi shares.

## AS TALLINNA VESI

### NOTES TO THE INTERIM ACCOUNTS FOR THE 9 MONTHS PERIOD ENDED 30 SEPTEMBER 2006 AND 2005

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#### NOTE 28. FINANCIAL INDICATORS

	9 months		Year ended 31 December
	2006	2005	2005
Operating Margin <sup>(1)</sup>	54,2%	47,4%	47,7%
Net profit margin <sup>(2)</sup>	38,1%	30,0%	29,5%
Return on equity <sup>(3)</sup>	17,2%	13,1%	16,9%
Return on assets <sup>(4)</sup>	7,7%	5,7%	7,6%
Debt to equity ratio <sup>(5)</sup>	1,2	1,3	1,2
Current ratio <sup>(6)</sup>	1,9	1,0	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

#### NOTE 11. LIST OF SUPERVISORY BOARD MEMBERS

Robert John Gallienne	Head of the Supervisory Board
Kevin Starling	Member of the Supervisory Board
Henry Emanuel Russell	Member of the Supervisory Board
David John Kilgour	Member of the Supervisory Board
Elmar Sepp	Member of the Supervisory Board
Helo Meigas	Member of the Supervisory Board
Rein Ratas	Member of the Supervisory Board
Toivo Tootsen	Member of the Supervisory Board
Valdur Laid	Member of the Supervisory Board