

Tallinna Vesi



AS Tallinna Vesi
Results of operations – for the 4th quarter and 2006 financial year

Currency	Thousand kroons
Start of reporting period	1 January 2006
End of reporting period	31 December 2006
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Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

CONTENTS

	Page
MANAGEMENT REPORT	3
MANAGEMENT CONFIRMATION	11
BALANCE SHEETS	12
INCOME STATEMENTS	13
CASH FLOW STATEMENTS	14
STATEMENTS OF CHANGES IN EQUITY	15
NOTES TO THE ACCOUNTS	
NOTE 1. ACCOUNTING PRINCIPLES	16
NOTE 2. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS	17
NOTE 3. NET SALES	18
NOTE 4. PERSONNEL EXPENSES	18
NOTE 5. COSTS AND EXPENSES	19
NOTE 6. FINANCIAL INCOME AND EXPENSES	20
NOTE 7. DIVIDENDS	20
NOTE 8. EARNINGS AND DIVIDENDS PER SHARE	20
NOTE 9. RELATED PARTIES	21
NOTE 10. FINANCIAL INDICATORS	22
NOTE 11. LIST OF SUPERVISORY BOARD MEMBERS	22

MANAGEMENT REPORT

RESULTS OF OPERATIONS - FOR THE 4th QUARTER AND 2006 FINANCIAL YEAR

Overview

Growth in sales of water and treatment of wastewater, a reduction in costs from the 2005 IPO and loan re-structuring, and refinement of the Company's asset base have enabled the company to deliver growth in profitability year on year. The operating profit for the full year of 2006 was 337.9 mln EEK, which is a 55.3 mln EEK, or 19.6% increase compared to 2005. During 2006 sales to residential customers increased by 9.7% year on year, sales to commercial customers within the service area increased by 10% year on year, and outside the service area sales increased up 59.3% year on year. To continue to improve the quality of product and service, improve the environment and meet this increased demand the Company has invested an amount of 246.5 mln EEK in 2006, the highest in the Company's history and a 10% increase year on year.

Key Financial Indicators

million EEK	4th Q 2006	4th Q 2005	Change	12 months 2006	12 months 2005	Change
Sales	207,5	151,3	37,2%	693,2	592,0	17,1%
Main operating activities	148,9	140,3	6,1%	589,2	549,9	7,1%
Other operating activities	58,6	11,0	434,3%	104,0	42,1	147,1%
Gross profit	93,6	87,2	7,3%	375,6	351,6	6,8%
Gross profit margin %	45,1%	57,6%	-21,8%	54,2%	59,4%	-8,8%
Operating profit	74,4	73,7	1,1%	337,9	282,6	19,6%
Operating profit margin %	35,9%	48,7%	-26,3%	48,7%	47,7%	2,1%
Profit before taxes	63,1	42,1	49,8%	294,9	209,7	40,6%
Profit before taxes margin	30,4%	27,9%	9,2%	42,5%	35,4%	20,1%
Net profit	63,1	42,1	49,8%	248,0	174,4	42,3%
ROA %	2,6%	1,8%	43,8%	10,0%	7,3%	36,6%
Debt to total capital employed	53,4%	55,3%	-3,5%	53,4%	55,3%	-3,5%
ROE%	5,5%	4,0%	38,0%	21,5%	16,4%	31,0%
Current ratio	2,2	1,9	11,4%	2,2	1,9	11,4%

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

Profit and Loss Statement

2006 Financial Year

Sales

In 2006 total sales from the Company's main operating activities were 589.2 mln EEK, up 7.1% year-on-year. 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 from water and wastewater increased by 10.8%, which was in accordance with expectations and is largely attributable to the 9.6% increase in water and sewerage tariffs in 2006 for the Company's residential and commercial customers.

Sales to residential customers increased by 9.7% to 288.7 mln EEK. Sales to commercial customers within the services area increased by 10% to 246.9 million EEK in 2006, due to the tariff increase and an increase in volumes sold. Sales to commercial customers outside of the service area – primarily bulk volumes of wastewater treatment services provided to the surrounding municipalities - reached 1.9 million m³ or 13.4 mln EEK, which represents a 66% increase in sales value compared to 2005. This growth in volumes demonstrates the continuing success of the company's strategy in connecting new customers and municipalities.

Sales revenues from other operating activities (mainly connections and stormwater construction) increased, year on year, by 61.9 mln EEK to 104 mln EEK as a result of an increase in connections income from individual connectees in both the domestic and commercial sectors.

Gross Margin

For the 2006 financial year the cost of goods sold for the main operating activity was 220.5 mln EEK, which is an 18.5 mln EEK, or 9.2% increase compared to the previous year. The main increases were chemical costs, 7.2 mln EEK higher year on year, environmental taxes, 6.1 mln EEK higher year on year, and other costs of goods sold, 3.8 mln EEK higher year on year.

The increase in chemical costs in the first half of the year 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 1st quarter of 2007 and as a result will be able to release a provision worth 13.3 mln EEK for taxes foregone that would have had to be paid had the project not been successful. In the second half of the year the Company has continued to make investments into chemical at comparable levels to the first half of 2006 to continue to meet this key environmental objective. It is possible that, against a background of increasing commodity prices, the cost of chemicals may rise in the future, as the continued achievement of this objective requires chemical quantities similar to those used in 2006.

The increase in environmental taxes is the result of a 100% rise in tariffs paid on treated wastewater discharged to the sea. Tariffs have been set by the Law on Environmental Fees imposed by the Parliament for the period from 2006 to 2009.

During 2006 other costs of good sold increased due to the following factors, during the 1st quarter of 2006 costs expensed to the Profit and Loss account were higher as a result of lower salary capitalisations resulting from the timing of the capital expenditures programme, cost increases were close to zero during the two middle quarters and were driven higher by labour related increases in the price of support services contracts in the fourth quarter of 2006.

Profits from other operating activities, which include water, sewerage and storm water connection construction income were 7 mln EEK in 2006, a 3.2 mln EEK increase from 2005 levels as a consequence of the increased connections activity.

Gross profit for the 2006 financial year was 375.6 mln EEK, which is an increase of 24 mln EEK, or 6.8% compared to 2005.

Operating margin

For the 2006 financial year marketing expenses were 2.8 mln EEK higher than in 2005. Almost all of this increase resulted from additional depreciation charges from the new customer management system.

During 2006 general administration expenses were 51.3 mln EEK, which is 12.9 mln EEK lower than in 2005. In 2005 general administration expenses were inflated by 17.5 mln EEK of one-off IPO costs. After removing this non-recurring increase this cost category was 4.6 mln EEK higher than 2005 due to increases in two main categories. Firstly, an increase in salary costs of 2 mln EEK (14%) as a consequence of increases paid to retain key members of staff, and secondly, an increase in other general administration expenses of 2.2 mln EEK, the majority of which was incurred in the fourth quarter for the reasons outlined more fully in the 4th quarter commentary.

In the 2006 financial year total staff salary costs accounted for 67.4 mln EEK, which is 3.3 mln EEK lower than in 2005. However, included in the 2005 amount are 6.1 mln EEK of IPO bonuses paid to all employees. After removing this one off amount total staff costs increased by 2.7 mln EEK, or 4.2%, year on year. The average number of staff employed in 2006 decreased by 15 to 322.

For the 2006 financial year, other income was 23.2 mln EEK, including 24 mln EEK from the recognition of profits subsequent to concluding the sale of excess land in Paljassaare.

For the 2006 financial year the company achieved an operating profit of 337.9 mln EEK, compared to the operating profit of 282.6 mln EEK achieved in 2005. The operating profit margin increased from 47.7% to 48.7%.

Financial expenses

Net Financial expenses were 43 mln EEK in 2006, which is a decrease of 29.9 mln EEK compared to 2005. The restructuring of the Company's long-term debt in November 2005 increased the financial expenses by 18.2 mln EEK i.e. the remaining savings were due to changes in loan agreement terms after restructuring lowering the interest rate and increased financial income.

Profit Before Tax

For the 2006 financial year profit before taxes was 294.9 mln EEK, which is an 85.2 mln EEK increase compared to 2005.

4th Quarter of 2006

Sales

In the 4th quarter of 2006 the Company's total sales increased, year on year, by 37.2% to 207.5 mln EEK. Sales from the Company's main operating activities were 148.9 mln EEK.

Sales of water and wastewater treatment were 138.7 mln EEK, a 9.3% increase compared to the fourth quarter of 2005, resulting from the increase in tariffs from 1 January 2006 and growth in sales volumes to customers outside the services area. Included within this amount were the following increase by sector: Sales to residential customers increased by 8.9% to 73 mln EEK, sales to commercial customers within the service area increased by 8% to 61.7 mln EEK and sales to customers outside of the services area increased by 46% to 3.9 mln EEK.

In the 4th quarter of 2006 sales from the operation and maintenance of the stormwater system decreased by 35.5% to 7.5 mln EEK compared to the same period in 2005. 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 by over 400% to 58.6 mln EEK compared to the 4th quarter of 2005. This was due to a single significant commercial connection worth approximately 30 mln EEK, supplemented by increased volumes of residential connectees.

Gross Margin

The cost of goods sold for the main operating activity was 58.2 mln EEK in the 4th quarter of 2006, an increase of 4.8 mln EEK or 8.9% from the equivalent period in 2005. This increase was largely driven by increased chemical costs, environmental taxes and other cost of goods sold.

In the 4th quarter of 2006 chemical costs increased by 1.6 mln EEK, or 35.5%, to 6 mln EEK. As reported in previous periods the Company made significant investments in chemicals to ensure compliance with a key Ministry of Environment objective. In the 4th quarter of 2006 the Company has continued to comply with the same environmental targets for the discharge of nitrogen into the Baltic Sea, the result of this is an investment level in chemicals comparable to the first half of the year.

Environmental tax costs increased by 1.3 mln EEK, or 66% and is due to tariff increases outlined in the analysis of the 2006 financial year.

Other cost of goods sold in the main operating activity increased by 1.8 mln EEK, or 23% year on year. This was principally due to increased costs on a number of support services contracts, such as security, vehicle plant hire, and reflects the significant increase in labour costs in Tallinn

As a result of all of the above the Company's gross profit for the 4th quarter of 2006 was 93.6 mln EEK, which represents an increase of 6.4 mln EEK, or 7.3%, compared to the gross profit of 87.2 mln EEK for the 4th quarter of 2005.

Operating Margin

Marketing expenses increased by 1 mln EEK to 2.5 mln EEK during the 4th quarter of 2006 compared to the corresponding period in 2005. This was a result of increases in salary costs, depreciation and other

marketing expenses. These increases were mainly due to, the recruitment of extra staff to improve the connections activity, additional depreciation charges relating to the implementation of the new customer management system, and an increase in postal and other general expenses.

General administration expenses increased by 2.9 mln EEK to 15.1 mln EEK in the 4th quarter of 2006 as a consequence of an increase in depreciation and other general administration expenses. The increase in depreciation is a one off cost resulting from a re-evaluation of the net realizable value of small fixed assets. Other general expenses are higher as a result of lower salary capitalisations as the implementation of the 1st phase of the customer management system comes to a close.

Included within the above cost categories are staff costs. These totaled 18.1 mln EEK in the 4th quarter of 2006, which is a less than 1% increase compared to the same period in 2005.

Other net expenses totaled 1.5 mln EEK in 4th quarter 2006 compared to a 0.2 mln EEK income stream in the 4th quarter of 2005.

As a result of all of the above the Company's operating profit for the 4th quarter of 2006 was 74.4 mln EEK, an increase of 0.7 mln EEK compared to an operating profit of 73.7 mln EEK achieved in the 4th quarter of 2005.

Financial expenses

Net Financial expenses were 11.3 mln EEK in the 4th quarter of 2006, which is a decrease of 20.2 mln EEK compared to the 4th quarter of 2005. The restructuring of the Company's long-term debt in November 2005 increased the 4th quarter financial expenses by 18.2 mln EEK, with the remaining savings of 2 mln EEK due to improvements in the loan agreement terms after restructuring.

Profit Before Tax

The Company's profit before taxes for the 4th quarter of 2006 was 63.1 mln EEK, which represents an increase of 21.0 mln EEK, or 49.8%, compared to the profit before taxes of 42.1 mln EEK for the 4th quarter of 2005.

Balance sheet

The Company's total assets were 2,472 mln EEK as at 31 December 2006, representing an increase of 98.2 mln EEK compared to 31 December 2005. Current assets increased by 46.8 mln EEK, 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 2,138.5 mln EEK at 31 December 2006, an increase of 52.0 mln EEK of the fixed asset base during twelve months of the year. During twelve months of the year the Company has invested 246.5 million EEK in the following areas: 166.2 mln EEK networks extension and rehabilitation, 43.7 mln EEK Paljassaare wastewater treatment plant and wastewater treatment, 16.7 mln EEK water quality (Ülemiste water treatment plant and raw water) and 19.9 mln EEK other investments (IT, capital maintenance, meters, etc).

Current liabilities increased by 6.7 mln EEK to 153.1 mln EEK in twelve 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 53.4% as at 31 December 2006. Long-term liabilities stood at 1,166.2 mln EEK at the end of December 2006, consisting almost entirely of the outstanding balance of the two long-term bank loans.

Cash flow

During 2006, the Company generated 320.6 mln EEK of cash flows from operating activities, an increase of 13.5 mln EEK, or 4.4% compared to the corresponding period in 2005. The key factor affecting this improvement was a 55.3 mln EEK increase in operating profit.

In 2006 net cash outflows from investing activities were 73.0 mln EEK, 10.2 mln EEK less than in 2005. This was largely due to higher proceeds received from pipelines financed by construction income in 2006 offset by prepayments and proceeds from the sale of assets.

Cash outflows from financing activities were 205.2 mln EEK during twelve months of the year, which is 87.4 mln EEK more than the outflows in the corresponding period in 2005. This significant reduction was mainly due to a net receipt of 31.3 mln EEK from long-term loans in 2005, as well as lower dividend and corresponding tax payments in 2005.

As a result of all of the above factors, the total cash inflow in twelve months of 2006 was 42.3 mln EEK compared to a cash inflow of 106.1 mln EEK in twelve months of 2005. Cash and cash equivalents stood at 249.4 mln EEK as at 31 December 2006.

Employees

As of 31 December 2006 the Company employed 318 people consisting of 227 people in the Operations division and 91 people in Commercial and Corporate Services. The number of employees has decreased in Operations division 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.

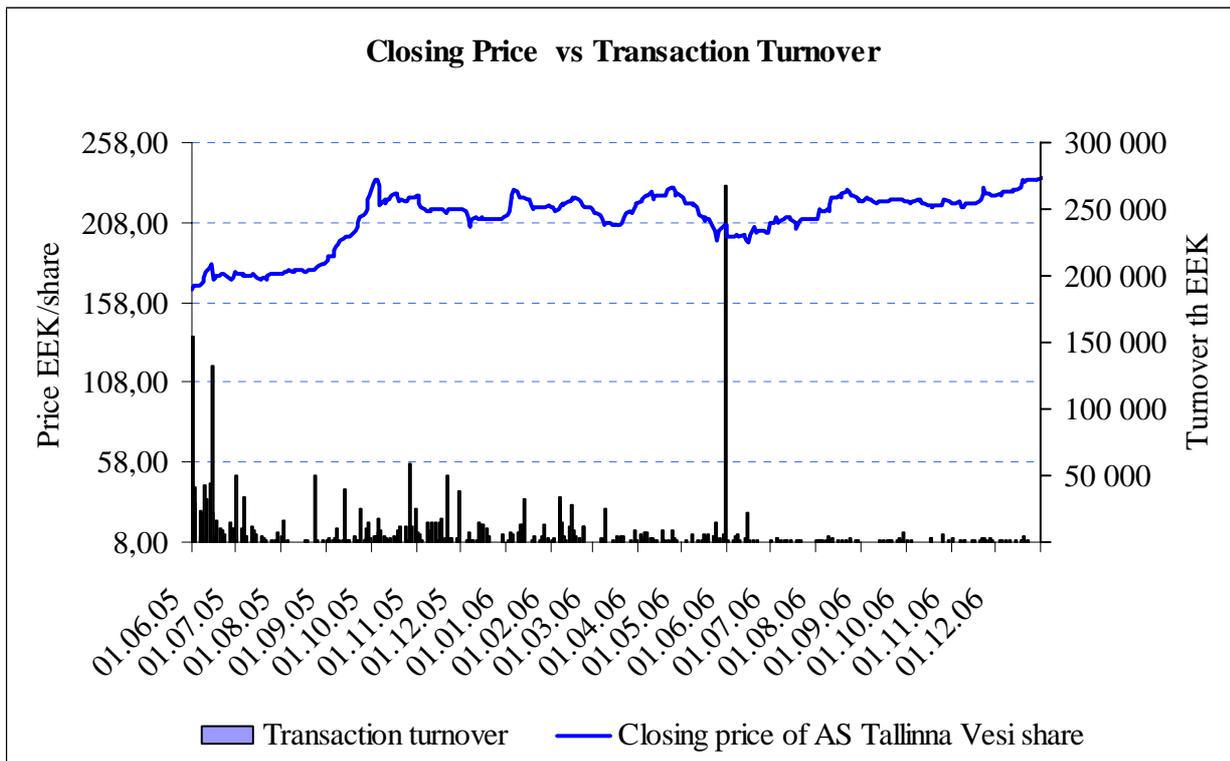
Dividends and share performance

Based on the results of the 2005 financial year, the Management Board of AS Tallinna Vesi paid 157 mln EEK dividends in June 2006.

As of 31 December 2006 AS Tallinna Vesi shareholders, with a holding over 5%, were:

United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%
Morgan Stanley + Co International Equity client account	6.87%
Citygroup Global Markets Ltd	5.00%

At the end of the reporting period, 31 December 2006, the closing price of the AS Tallinna Vesi share was 234.86 EEK (15.01 EUR).



Operational achievements in 2006

- 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 25% over the base year. Total investment into this project that has lasted over three years was over 30 mln EEK. 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 40 mln EEK and it is expected to be completed in the first half of 2007.
- During 2006 we received the final report from the Supervisory Foundation confirming the Company's compliance with all but one LoS in 2005. The one non-compliance relates to a new LoS that requires any unplanned interruptions not to last more than twelve hours. The company failed this LoS on only three occasions in 2005 due to extraordinary conditions.
- In 2006 the company delivered 246m in investments in fixed assets. This is a 10% increase year on year and the highest value in our history.
- In 2006 the new customer management system was implemented. This new system enables our customer service staff to have all information about any particular customer including but not limited to, connection contract history, billing history, payment history and communication history. This allows our staff to have a complete understanding of customer issues and significantly improves the speed and quality of our responses.
- Included within the customer management system are a full range of customer payment options, cash & electronic banking, plus direct debit and payment plans. To date almost 20% of our customers have signed up for direct debit.

Outlook for 2007

- The solid set of financials achieved in 2006 in a challenging environment gives the Company a strong basis to start 2007.
- The growth in consumption within the services area is expected to continue as the economy is still developing at a fast pace
- The contracts in place with the surrounding municipalities, and the development of these areas, are expected to continue to feed the growth in volumes outside the services area
- The clear vision developed with its long-term strategic objectives (to deliver custom service excellence – to deliver operational excellence – to grow the activity of the company – to deliver shareholder value) will guide the activity of the Company with a strong emphasis on improving performance.
- The 2007 objectives have been aligned throughout the Company to create a consistent system aimed at achieving the strategic objectives. They give clear guidance to each individual member of staff and demonstrate how they contribute to achieving the Company's objectives.

Additional information:

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AS TALLINNA VESI

MANAGEMENT CONFIRMATION

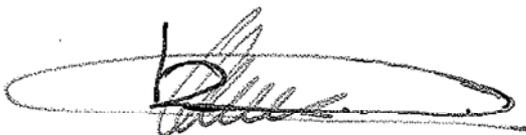
The Management Board of AS Tallinna Vesi (hereinafter the company) has prepared the interim accounts for the period ended 31 December 2006. The interim accounts are not reviewed by the auditors.

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 31 December 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 31 December 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 17 January 2006 have been assessed as part of this review.

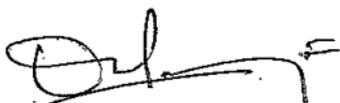
The company is carrying on its activities as a going concern.



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

17 January 2006

BALANCE SHEETS AT 31 DECEMBER 2006 AND 2005

(thousand EEK)

ASSETS	Note	2006	2005
CURRENT ASSETS			
Cash at bank and in hand		249 413	207 067
Customer receivables		71 490	66 737
Accrued income and prepaid expenses		4 756	5 286
Inventories		3 142	3 156
Assets for sale		1 648	1 390
TOTAL CURRENT ASSETS		330 449	283 636
NON-CURRENT ASSETS			
Tangible assets		1 877 106	1 838 528
Intangible assets	2	52 595	43 981
Unfinished assets - non connections	2	91 676	94 793
Unfinished pipelines - new connections	2	117 162	109 190
Prepayments for fixed assets	2	2 794	3 479
TOTAL NON-CURRENT ASSETS	2	2 141 333	2 089 971
TOTAL ASSETS		2 471 782	2 373 607
LIABILITIES			
CURRENT LIABILITIES			
Current portion of long-term borrowings		473	1 340
Trade and other payables, incl. dividends		85 250	53 507
Taxes payable		30 508	22 724
Short-term provisions		538	289
Deferred income		36 325	68 569
TOTAL CURRENT LIABILITIES		153 094	146 429
NON-CURRENT LIABILITIES			
Finance lease		0	415
Bank loans		1 166 098	1 165 219
Other payables		100	100
TOTAL NON-CURRENT LIABILITIES		1 166 198	1 165 734
TOTAL LIABILITIES		1 319 292	1 312 163
EQUITY CAPITAL			
Share capital		200 001	200 001
Share premium		387 000	387 000
Statutory legal reserve		20 000	20 000
Accumulated profit		297 443	280 089
Net profit for the period		248 046	174 354
TOTAL EQUITY CAPITAL		1 152 490	1 061 444
TOTAL LIABILITIES AND EQUITY CAPITAL		2 471 782	2 373 607

AS TALLINNA VESI

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005

(thousand EEK)

	Note	Quarter 4		Year ended 31 December	
		2006	2005	2006	2005
Sales from main operating activities	3	148 909	140 309	589 176	549 918
Revenues from other operating activities	3	58 612	10 970	104 048	42 111
Net sales		207 521	151 279	693 224	592 029
Costs of goods sold (main operating activities)	4, 5	-58 219	-53 460	-220 537	-202 055
Costs of goods sold (other operating activities)	5	-55 752	-10 613	-97 096	-38 338
GROSS PROFIT		93 550	87 206	375 591	351 636
Marketing expenses	4, 5	-2 467	-1 469	-9 578	-6 778
General administration expenses	4, 5	-15 148	-12 294	-51 319	-64 257
Other income/ expenses (-)	5	-1 487	208	23 229	1 959
OPERATING PROFIT		74 448	73 651	337 923	282 560
Financial income / expenses (-)	6	-11 338	-31 517	-42 981	-72 838
PROFIT BEFORE TAXES		63 110	42 134	294 942	209 722
Income tax on dividends	7	0	0	-46 896	-35 368
NET PROFIT FOR THE PERIOD		63 110	42 134	248 046	174 354
Attributable to:					
Equity holders of A-shares		63 100	42 124	248 036	174 344
B-share holder		10	10	10	10
Earnings per share in kroons	8	3,16	2,11	12,40	8,72

AS TALLINNA VESI

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005

(thousand EEK)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit	337 923	282 560
Adjustment for depreciation	81 047	78 741
Adjustment for income and expenses from constructions	-6 952	-3 773
Other financial income and expenses	-1 571	-20 012
Profit from sale of fixed assets	-24 917	-11 870
Expensed fixed assets	1 106	394
Capitalization of operating expenses	-20 921	-23 280
Movement in current assets involved in operating activities	-4 143	57 754
Movement in liabilities involved in operating activities	6 873	6 414
Interest paid	-47 894	-59 854
Total cash flow from operating activities	320 551	307 074
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of fixed assets (incl pipelines construction)	-192 047	-199 875
Proceeds from pipelines financed by construction income	112 662	52 494
Proceeds from sale of and prepayments received for fixed assets	-1 293	47 345
Proceeds from sale of assets and real estate investments	1 106	11 700
Interest received	6 545	5 067
Total cash flow from investing activities	-73 027	-83 269
CASH FLOWS FROM FINANCING ACTIVITIES		
Received long-term loans	0	696 318
Repayment of long-term loans	0	-664 981
Finance lease payments	-1 282	-1 707
Dividends paid	-157 000	-112 000
Income tax on dividends	-46 896	-35 368
Total cash flow from financing activities	-205 178	-117 738
Change in cash and bank accounts	42 346	106 067
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD	207 067	101 000
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	249 413	207 067

AS TALLINNA VESI

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005

(thousand EEK)

	Share capital	Share premium	Statutory legal reserve	Accumulated profit	Net profit	Total equity
31 December 2004	200 001	387 000	93 394	145 734	172 961	999 090
Transfer of financial year profit to the accumulated profit	0	0	0	172 961	-172 961	0
Transfer of statutory legal reserve to the accumulated profit	0	0	-73 394	73 394	0	0
Dividends	0	0	0	-112 000	0	-112 000
Net profit of the financial year	0	0	0	0	174 354	174 354
31 December 2005	200 001	387 000	20 000	280 089	174 354	1 061 444
Transfer of financial year profit to the accumulated profit	0	0	0	174 354	-174 354	0
Dividends	0	0	0	-157 000	0	-157 000
Net profit of the financial period	0	0	0	0	248 046	248 046
31 December 2006	200 001	387 000	20 000	297 443	248 046	1 152 490

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005

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.

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005

(thousand EEK)

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	
Acquisition cost at										
31.12.2004	311 470	1 899 519	484 895	16 335	102 634	79 675	3 648	9 598	27 357	2 935 131
Acquisition	0	0	0	0	128 979	74 363	19 803	0	0	223 145
Sale of fixed assets	-83	-126	-2 994	-5	0	0	0	0	0	-3 208
Write-off of fixed assets	-1 011	-3 212	-15 943	-181	0	0	0	0	-184	-20 531
Reclassification within balance sheet	0	229	0	0	0	0	0	0	0	229
Reclassification to expenses	0	0	0	0	-59	-3	-169	0	0	-231
Expensed pipelines	0	0	0	0	0	-38 339	0	0	0	-38 339
Reclassification from assets in progress	39 565	49 711	37 630	2 994	-136 761	-6 506	-19 803	4 243	28 927	0
31.12.2005	349 941	1 946 121	503 588	19 143	94 793	109 190	3 479	13 841	56 100	3 096 196
Acquisition	0	0	0	0	139 665	106 811	0	0	0	246 476
Sale of fixed assets	-7 876	-8 965	-5 088	-7	0	0	0	0	0	-21 936
Write-off of fixed assets	0	-967	-4 930	-2 483	0	0	0	0	-7 006	-15 386
Reclassification within balance sheet	0	0	0	0	-43	-33	0	0	0	-76
Reclassification to expenses	0	-1	0	0	-614	0	-489	0	0	-1 104
Expensed pipelines	0	0	0	0	0	-97 096	0	0	0	-97 096
Reclassification from assets in progress	3 009	80 746	41 057	879	-142 125	-1 710	-195	3 702	14 637	0
31.12.2006	345 074	2 016 934	534 627	17 532	91 676	117 162	2 795	17 543	63 731	3 207 074
Accumulated depreciation										
31.12.2004	52 889	586 747	282 329	10 357	0	0	0	7 041	11 454	950 817
Depreciation	3 886	29 905	35 934	1 359	0	0	0	2 389	5 261	78 734
Depreciation of fixed assets sold and written-off (-)	-1 094	-3 334	-18 531	-182	0	0	0	0	-185	-23 326
31.12.2005	55 681	613 318	299 732	11 534	0	0	0	9 430	16 530	1 006 225
Depreciation	3 864	31 471	34 143	1 844	0	0	0	1 978	7 747	81 047
Depreciation of fixed assets sold and written-off (-)	-70	-3 740	-8 231	-2 484	0	0	0	0	-7 006	-21 531
31.12.2006	59 475	641 049	325 644	10 894	0	0	0	11 408	17 271	1 065 741
Net book value										
31.12.2004	258 581	1 312 772	202 566	5 978	102 634	79 675	3 648	2 557	15 903	1 984 314
31.12.2005	294 260	1 332 803	203 856	7 609	94 793	109 190	3 479	4 411	39 570	2 089 971
31.12.2006	285 599	1 375 885	208 983	6 638	91 676	117 162	2 795	6 135	46 460	2 141 333

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

For the year ended 31 December the net balance sheet value of finance leases was 2 448 thousand kroons for 2006 and 4 514 thousand kroons for 2005.

Interest capitalised to fixed assets was 1 075 thousand kroons in 2005.

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005

(thousand EEK)

NOTE 3. NET SALES	Quarter 4		Year ended 31 December	
	2006	2005	2006	2005
Revenues from main operating activities				
Water supply service	72 710	66 231	289 250	262 693
Waste water disposal service	65 954	60 669	259 727	232 852
Stormwater treatment and disposal service	7 513	11 644	30 052	46 574
Fire hydrants service	832	510	3 007	2 040
Other works and services	1 900	1 255	7 140	5 759
Total revenues from main operating activities	148 909	140 309	589 176	549 918
Revenues from other operating activities				
Water, sewerage and storm water connections construction income	58 612	10 970	104 048	42 111
TOTAL NET SALES	207 521	151 279	693 224	592 029

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

NOTE 4. PERSONNEL EXPENSES

	Quarter 4		Year ended 31 December	
	2006	2005	2006	2005
Salaries and wages	-13 610	-13 495	-50 532	-52 949
Social security taxation	-4 535	-4 495	-16 832	-17 739
Staff costs total	-18 145	-17 990	-67 364	-70 688
Average number of employees during the reporting period	311	340	322	337

NOTES TO THE INTERIM ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005

(thousand EEK)

NOTE 5. COSTS AND EXPENSES

Cost of goods sold (main operating activities)	Quarter 4		Year ended 31 December	
	2006	2005	2006	2005
Tax on special use of water	-2 529	-2 333	-10 050	-9 049
Chemicals	-6 044	-4 461	-20 638	-13 477
Electricity	-6 282	-5 708	-24 594	-23 628
Pollution tax	-2 575	-1 480	-11 988	-6 905
Staff costs	-12 389	-12 651	-46 521	-45 692
Research and development	-98	-96	-129	-186
Depreciation and amortization	-18 889	-19 088	-73 278	-73 582
Other costs of goods sold	-9 413	-7 643	-33 339	-29 536
Total cost of goods sold (main operating activities)	-58 219	-53 460	-220 537	-202 055
Cost of goods sold (other operating activities)				
Water, sewerage and storm water connections construction cost	-55 752	-10 613	-97 096	-38 338
Marketing Expenses				
Staff costs	-1 253	-945	-4 710	-4 777
Depreciation and amortization	-404	-96	-2 453	-192
Other marketing expenses	-810	-428	-2 415	-1 809
Total cost of marketing expenses	-2 467	-1 469	-9 578	-6 778
General Administration Expenses				
Staff costs	-4 503	-4 394	-16 133	-20 219
Depreciation and amortization	-2 098	-1 451	-5 316	-4 967
Other general administration expenses	-8 547	-6 449	-29 870	-39 071
Total cost of general administration expenses	-15 148	-12 294	-51 319	-64 257

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 26 003 thousand kroons, being made up of 19 935 thousand kroons for services and 6 068 thousand kroons for staff bonus costs. Of the total costs for services 8 490 thousand kroons are included in other income/expenses with the balance posted against the relevant cost category.

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005

(thousand EEK)

NOTE 6. FINANCIAL INCOME AND EXPENSES

	2006	2005
Interest income	7 033	4 966
Interest expense	-48 444	-57 791
Loans restructuring costs	-1 035	-19 497
Other financial income / expenses (-)	-535	-516
Total financial income / expenses	-42 981	-72 838

NOTE 7. DIVIDENDS

	2006	2005
Dividends declared during the period	157 000	112 000
Dividends paid during the period	157 000	112 000
Income tax on dividends declared	-46 896	-35 368
Income tax accounted	-46 896	-35 368

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

NOTE 8. EARNINGS AND DIVIDENDS PER SHARE

	2006	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)	248 036	174 344
Weighted average number of ordinary shares for the purposes of basic earnings per share	20 000 000	20 000 000
Earnings per share in kroons	12,40	8,72
Dividends per A-share in kroons	7,85	5,60
Dividends per B-share in kroons	10 000	10 000

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

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005

(thousand EEK)

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 significant transactions with the shareholders. 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 31.12.2005 and 31.12.2006 are recorded as follows:

	Tallinn City Government and related boards	The companies belonging to the same group with the United Utilities (Tallinn) B.V.
2005		
Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi		
Deferred income	71	0
Accounts payable - short-term trade and other payables, incl. dividends	0	2 423
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	77 465	0
General administration expenses	0	12 990
Other income (-) / expenses	0	504
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	13 480
2006		
Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi		
Accounts payable - short-term trade and other payables, incl. dividends	0	2 176
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	65 275	0
General administration expenses	0	14 729
Other income (-)/ expenses	0	10
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	11 593

	Year ended 31 December	
	2006	2005
Management Board fees excluding social tax	2 097	2 121
Supervisory Board fees excluding social tax	500	70

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 YEAR ENDED 31 DECEMBER 2006 AND 2005

NOTE 10. FINANCIAL INDICATORS

	2006	2005
Operating Margin ⁽¹⁾	48,7%	47,7%
Net profit margin ⁽²⁾	35,8%	29,5%
Return on equity ⁽³⁾	22,4%	16,9%
Return on assets ⁽⁴⁾	10,2%	7,6%
Debt to equity ratio ⁽⁵⁾	1,1	1,2
Current ratio ⁽⁶⁾	2,2	1,9

Notes:

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

NOTE 11. LIST OF SUPERVISORY BOARD MEMBERS

Robert John Gallienne
Kevin Starling
Henry Emanuel Russell
David John Kilgour
Elmar Sepp
Helo Meigas
Rein Ratas
Toivo Tootsen
Valdur Laid