

Tallinna Vesi



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

Currency	Thousand euros
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

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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 21.6 mln EUR, which is a 3.5 mln EUR, 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 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 15.8 mln EUR in 2006, the highest in the Company's history and a 10% increase year on year.

Key Financial Indicators

<i>million EUR</i>	4th Q 2006	4th Q 2005	Change	12 months 2006	12 months 2005	Change
Sales	13,3	9,7	37,2%	44,3	37,8	17,1%
Main operating activities	9,5	9,0	6,1%	37,7	35,1	7,1%
Other operating activities	3,7	0,7	434,3%	6,6	2,7	147,1%
Gross profit	6,0	5,6	7,3%	24,0	22,5	6,8%
Gross profit margin %	45,1%	57,6%	-21,8%	54,2%	59,4%	-8,8%
Operating profit	4,8	4,7	1,1%	21,6	18,1	19,6%
Operating profit margin %	35,9%	48,7%	-26,3%	48,7%	47,7%	2,1%
Profit before taxes	4,0	2,7	49,8%	18,9	13,4	40,6%
Profit before taxes margin	30,4%	27,9%	9,2%	42,5%	35,4%	20,1%
Net profit	4,0	2,7	49,8%	15,9	11,1	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 37.7 mln EUR, 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 18.5 mln EUR. Sales to commercial customers within the services area increased by 10% to 15.8 million EUR 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 0.9 mln EUR, 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 3.9 mln EUR to 6.6 mln EUR 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 14.1 mln EUR, which is an 1.2 mln EUR, or 9.2% increase compared to the previous year. The main increases were chemical costs, 0.5 mln EUR higher year on year, environmental taxes, 0.4 mln EUR higher year on year, and other costs of goods sold, 0.2 mln EUR 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 0.9 mln EUR 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 0.4 mln EUR in 2006, a 0.2 mln EUR increase from 2005 levels as a consequence of the increased connections activity.

Gross profit for the 2006 financial year was 24.0 mln EUR, which is an increase of 1.5 mln EUR, or 6.8% compared to 2005.

Operating margin

For the 2006 financial year marketing expenses were 0.2 mln EUR 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 3.3 mln EUR, which is 0.8 mln EUR lower than in 2005. In 2005 general administration expenses were inflated by 1.1 mln EUR of one-off IPO costs. After removing this non-recurring increase this cost category was 0.3 mln EUR higher than 2005 due to increases in two main categories. Firstly, an increase in salary costs of 0.1 mln EUR (14%) as a consequence of increases paid to retain key members of staff, and secondly, an increase in other general administration expenses of 0.1 mln EUR, 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 4.3 mln EUR, which is 0.2 mln EUR lower than in 2005. However, included in the 2005 amount are 0.4 mln EUR of IPO bonuses paid to all employees. After removing this one off amount total staff costs increased by 0.2 mln EUR, 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 1.5 mln EUR, including 1.5 mln EUR 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 21.6 mln EUR, compared to the operating profit of 18.1 mln EUR achieved in 2005. The operating profit margin increased from 47.7% to 48.7%.

Financial expenses

Net Financial expenses were 2.7 mln EUR in 2006, which is a decrease of 1.9 mln EUR compared to 2005. The restructuring of the Company's long-term debt in November 2005 increased the financial expenses by 1.2 mln EUR 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 18.8 mln EUR, which is an 5.4 mln EUR 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 13.3 mln EUR. Sales from the Company's main operating activities were 9.5 mln EUR.

Sales of water and wastewater treatment were 8.9 mln EUR, 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 4.7 mln EUR, sales to commercial customers within the service area increased by 8% to 3.9 mln EUR and sales to customers outside of the services area increased by 46% to 0.3 mln EUR.

In the 4th quarter of 2006 sales from the operation and maintenance of the stormwater system decreased by 35.5% to 0.5 mln EUR 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 3.7 mln EUR compared to the 4th quarter of 2005. This was due to a single significant commercial connection worth approximately 1.9 mln EUR, supplemented by increased volumes of residential connectees.

Gross Margin

The cost of goods sold for the main operating activity was 3.7 mln EUR in the 4th quarter of 2006, an increase of 0.3 mln EUR 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 0.1 mln EUR, or 35.5%, to 0.4 mln EUR. 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 0.1 mln EUR, 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 0.1 mln EUR, 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 6.0 mln EUR, which represents an increase of 0.4 mln EUR, or 7.3%, compared to the gross profit of 5.6 mln EUR for the 4th quarter of 2005.

Operating Margin

Marketing expenses increased by 0.1 mln EUR to 0.2 mln EUR 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 0.2 mln EUR to 1.0 mln EUR 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 1.2 mln EUR in the 4th quarter of 2006, which is a less than 1% increase compared to the same period in 2005.

Other net expenses totaled 0.1 mln EUR in 4th quarter 2006 compared to a 0.01 mln EUR 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 4.8 mln EUR, an increase of 0.05 mln EUR compared to an operating profit of 4.7 mln EUR achieved in the 4th quarter of 2005.

Financial expenses

Net Financial expenses were 0.7 mln EUR in the 4th quarter of 2006, which is a decrease of 1.3 mln EUR 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 1.2 mln EUR, with the remaining savings of 0.1 mln EUR 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 4.0 mln EUR, which represents an increase of 1.3 mln EUR, or 49.8%, compared to the profit before taxes of 2.7 mln EUR for the 4th quarter of 2005.

Balance sheet

The Company's total assets were 158 mln EUR as at 31 December 2006, representing an increase of 6.3 mln EUR compared to 31 December 2005. Current assets increased by 3.0 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 136.7 mln EUR at 31 December 2006, an increase of 3.3 mln EUR of the fixed asset base during twelve months of the year. During twelve months of the year the Company has invested 15.8 million EUR in the following areas: 10.6 mln EUR networks extension and rehabilitation, 2.8 mln EUR Paljassaare wastewater treatment plant and wastewater treatment, 1.1 mln EUR water quality (Ülemiste water treatment plant and raw water) and 1.3 mln EUR other investments (IT, capital maintenance, meters, etc).

Current liabilities increased by 0.4 mln EUR to 9.8 mln EUR 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 74.5 mln EUR 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 20.5 mln EUR of cash flows from operating activities, an increase of 0.9 mln EUR, or 4.4% compared to the corresponding period in 2005. The key factor affecting this improvement was a 3.5 mln EUR increase in operating profit.

In 2006 net cash outflows from investing activities were 4.7 mln EUR, 0.7 mln EUR 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 13.1 mln EUR during twelve months of the year, which is 5.6 mln EUR more than the outflows in the corresponding period in 2005. This significant reduction was mainly due to a net receipt of 2.0 mln EUR 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 2.7 mln EUR compared to a cash inflow of 6.8 mln EUR in twelve months of 2005. Cash and cash equivalents stood at 15.9 mln EUR 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.

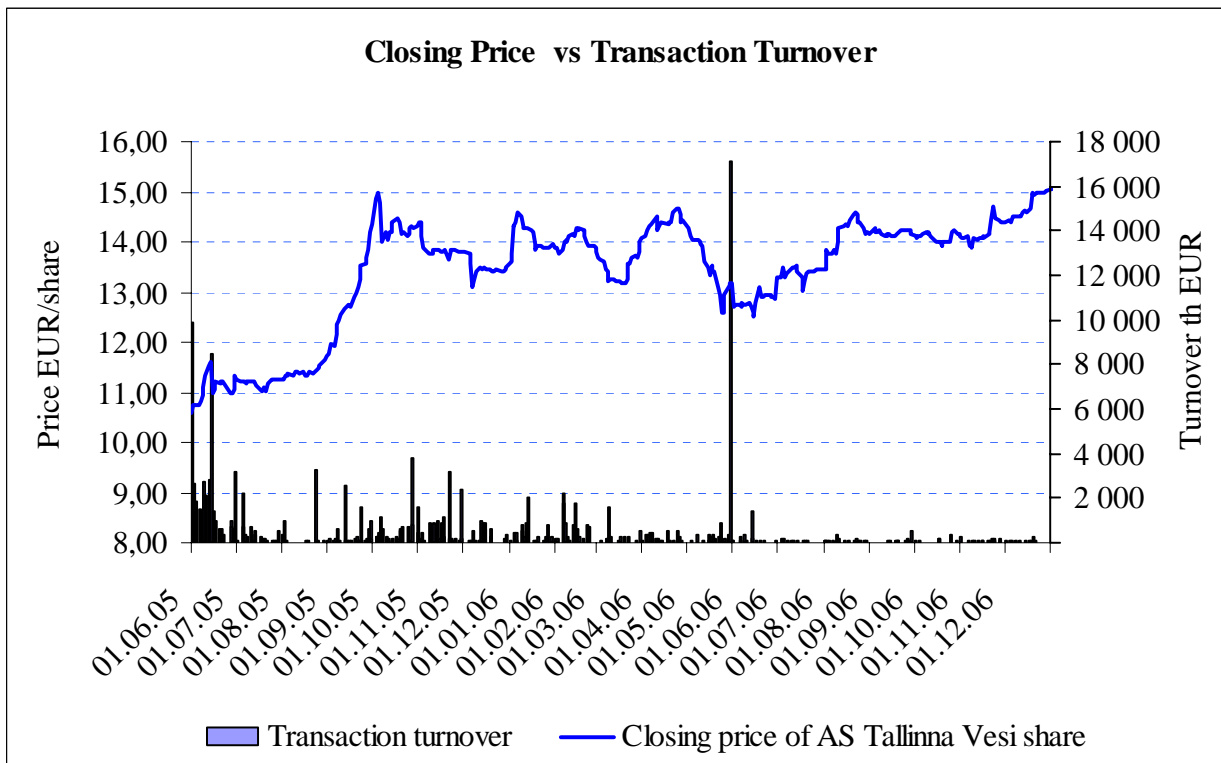
Dividends and share performance

Based on the results of the 2005 financial year, the Management Board of AS Tallinna Vesi paid 10.0 mln EUR 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 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 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.
- 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 15.7 mln EUR 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

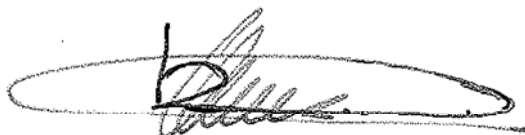
The Management Board of AS Tallinna Vesi (hereinafter the company) has prepared the interim accounts for the period ended 31 December 2006. The interim accounts are not reviewed by auditors.

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.

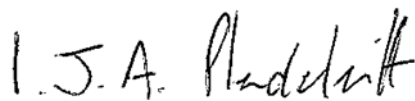
The interim accounts give a true and fair view of the financial position, economic performance and cash flows of the company.

All material subsequent events that occurred by the interim accounts preparation date of 17 January 2007 have been assessed as part of this review.

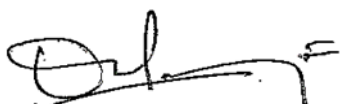
The company is carrying on its activities as a going concern.



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 EUR)

ASSETS	Note	2005	2005
CURRENT ASSETS			
Cash at bank and in hand		15 940	13 234
Customer receivables		4 569	4 265
Accrued income and prepaid expenses		304	338
Inventories		201	202
Assets for sale		105	89
TOTAL CURRENT ASSETS		21 120	18 128
NON-CURRENT ASSETS			
Tangible assets		119 969	117 503
Intangible assets	2	3 361	2 811
Unfinished assets - non connections	2	5 859	6 058
Unfinished pipelines - new connections	2	7 488	6 979
Prepayments for fixed assets	2	179	222
TOTAL NON-CURRENT ASSETS	2	136 856	133 573
TOTAL ASSETS		157 976	151 701
LIABILITIES			
CURRENT LIABILITIES			
Current portion of long-term borrowings		30	86
Trade and other payables, incl. dividends		5 448	3 420
Taxes payable		1 950	1 452
Short-term provisions		34	18
Deferred income		2 322	4 382
TOTAL CURRENT LIABILITIES		9 784	9 359
NON-CURRENT LIABILITIES			
Finance lease		0	27
Bank loans		74 527	74 471
Other payables		6	6
TOTAL NON-CURRENT LIABILITIES		74 534	74 504
TOTAL LIABILITIES		84 318	83 863
EQUITY CAPITAL			
Share capital		12 782	12 782
Share premium		24 734	24 734
Statutory legal reserve		1 278	1 278
Accumulated profit		19 010	17 901
Net profit for the period		15 853	11 143
TOTAL EQUITY CAPITAL		73 658	67 839
TOTAL LIABILITIES AND EQUITY CAPITAL		157 976	151 701

AS TALLINNA VESI

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005

(thousand EUR)

	Note	Quarter 4		Year ended 31 December	
		2006	2005	2006	2005
Sales from main operating activities	3	9 517	8 967	37 655	35 146
Revenues from other operating activities	3	3 746	701	6 650	2 691
Net sales		13 263	9 668	44 305	37 838
Costs of goods sold (main operating activities)	4, 5	-3 721	-3 417	-14 095	-12 914
Costs of goods sold (other operating activities)	5	-3 563	-678	-6 206	-2 450
GROSS PROFIT		5 979	5 573	24 005	22 474
Marketing expenses	4, 5	-158	-94	-612	-433
General administration expenses	4, 5	-968	-786	-3 280	-4 107
Other income/ expenses (-)	5	-95	13	1 485	125
OPERATING PROFIT		4 758	4 707	21 597	18 059
Financial income / expenses (-)	6	-725	-2 014	-2 747	-4 655
PROFIT BEFORE TAXES		4 033	2 693	18 850	13 404
Income tax on dividends	7	0	0	-2 997	-2 260
NET PROFIT FOR THE PERIOD		4 033	2 693	15 853	11 143
Attributable to:					
Equity holders of A-shares		4 033	2 692	15 852	11 143
B-share holder		0,64	0,64	0,64	0,64
Earnings per share in euros	8	0,20	0,13	0,79	0,56

AS TALLINNA VESI

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005

(thousand EUR)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit	21 597	18 059
Adjustment for depreciation	5 180	5 032
Adjustment for income and expenses from constructions	-444	-241
Other financial income and expenses	-100	-1 279
Profit from sale of fixed assets	-1 592	-759
Expensed fixed assets	71	25
Capitalization of operating expenses	-1 337	-1 488
Movement in current assets involved in operating activities	-265	3 691
Movement in liabilities involved in operating activities	439	410
Interest paid	-3 061	-3 825
Total cash flow from operating activities	20 487	19 626
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of fixed assets (incl pipelines construction)	-12 274	-12 774
Proceeds from pipelines financed by construction income	7 200	3 355
Proceeds from sale of and prepayments received for fixed assets	-83	3 026
Proceeds from sale of assets and real estate investments	71	748
Interest received	418	324
Total cash flow from investing activities	-4 667	-5 322
CASH FLOWS FROM FINANCING ACTIVITIES		
Received long-term loans	0	44 503
Repayment of long-term loans	0	-42 500
Finance lease payments	-82	-109
Dividends paid	-10 034	-7 158
Income tax on dividends	-2 997	-2 260
Total cash flow from financing activities	-13 113	-7 525
Change in cash and bank accounts	2 706	6 779
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD	13 234	6 455
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	15 940	13 234

AS TALLINNA VESI

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005

(thousand EUR)

	Share capital	Share premium	Statutory legal reserve	Accumulated profit	Net profit	Total equity
31 December 2004	12 782	24 734	5 969	9 314	11 054	63 853
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
31 December 2005	12 782	24 734	1 278	17 901	11 143	67 839
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	15 853	15 853
31 December 2006	12 782	24 734	1 278	19 010	15 853	73 658

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.

The interim report in euros is converted using the exchange rate 15.6466 EEK per EUR from the interim report prepared in thousands kroons for the same period.

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 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	
Acquisition cost at										
31.12.2004	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
31.12.2005	22 365	124 380	32 185	1 223	6 058	6 979	222	885	3 585	197 883
Acquisition	0	0	0	0	8 926	6 826	0	0	0	15 753
Sale of fixed assets	-503	-573	-325	0	0	0	0	0	0	-1 402
Write-off of fixed assets	0	-62	-315	-159	0	0	0	0	-448	-983
Reclassification within balance sheet	0	0	0	0	-3	-2	0	0	0	-5
Reclassification to expenses	0	0	0	0	-39	0	-31	0	0	-71
Expensed pipelines	0	0	0	0	0	-6 206	0	0	0	-6 206
Reclassification from assets in progress	192	5 161	2 624	56	-9 083	-109	-12	237	935	0
31.12.2006	22 054	128 906	34 169	1 120	5 859	7 488	179	1 121	4 073	204 969
Accumulated depreciation										
31.12.2004	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
31.12.2005	3 559	39 198	19 156	737	0	0	0	603	1 056	64 309
Depreciation	247	2 011	2 182	118	0	0	0	126	495	5 180
Depreciation of fixed assets sold and written-off (-)	-4	-239	-526	-159	0	0	0	0	-448	-1 376
31.12.2006	3 801	40 970	20 812	696	0	0	0	729	1 104	68 113
Net book value										
31.12.2004	16 526	83 901	12 946	382	6 560	5 092	233	163	1 016	126 821
31.12.2005	18 807	85 182	13 029	486	6 058	6 979	222	282	2 529	133 573
31.12.2006	18 253	87 935	13 356	424	5 859	7 488	179	392	2 969	136 856

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 156 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 YEAR ENDED 31 DECEMBER 2006 AND 2005

(thousand EUR)

NOTE 3. NET SALES	Quarter 4		Year ended 31 December	
	2006	2005	2006	2005
Revenues from main operating activities				
Water supply service	4 647	4 233	18 486	16 789
Waste water disposal service	4 215	3 877	16 600	14 882
Stormwater treatment and disposal service	480	744	1 921	2 977
Fire hydrants service	53	33	192	130
Other works and services	121	80	456	368
Total revenues from main operating activities	9 517	8 967	37 655	35 146
Revenues from other operating activities				
Water, sewerage and storm water connections construction income	3 746	701	6 650	2 691
TOTAL NET SALES	13 263	9 668	44 305	37 838

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	-870	-862	-3 230	-3 384
Social security taxation	-290	-287	-1 076	-1 134
Staff costs total	-1 160	-1 150	-4 305	-4 518
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 EUR)

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	-162	-149	-642	-578
Chemicals	-386	-285	-1 319	-861
Electricity	-401	-365	-1 572	-1 510
Pollution tax	-165	-95	-766	-441
Staff costs	-792	-809	-2 973	-2 920
Research and development	-6	-6	-8	-12
Depreciation and amortization	-1 207	-1 220	-4 683	-4 703
Other costs of goods sold	-602	-488	-2 131	-1 888
Total cost of goods sold (main operating activities)	-3 721	-3 417	-14 095	-12 914
Cost of goods sold (other operating activities)				
Water, sewerage and storm water connections construction cost	-3 563	-678	-6 206	-2 450
Marketing Expenses				
Staff costs	-80	-60	-301	-305
Depreciation and amortization	-26	-6	-157	-12
Other marketing expenses	-52	-27	-154	-116
Total cost of marketing expenses	-158	-94	-612	-433
General Administration Expenses				
Staff costs	-288	-281	-1 031	-1 292
Depreciation and amortization	-134	-93	-340	-317
Other general administration expenses	-546	-412	-1 909	-2 497
Total cost of general administration expenses	-968	-786	-3 280	-4 107

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.

AS TALLINNA VESI

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

(thousand EUR)

NOTE 6. FINANCIAL INCOME AND EXPENSES

	2006	2005
Interest income	449	317
Interest expense	-3 096	-3 694
Loans restructuring costs	-66	-1 246
Other financial income / expenses (-)	-34	-33
Total financial income / expenses	-2 747	-4 655

NOTE 7. DIVIDENDS

	2006	2005
Dividends declared during the period	10 034	7 158
Dividends paid during the period	10 034	7 158
Income tax on dividends declared	-2 997	-2 260
Income tax accounted	-2 997	-2 260

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

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)	15 852	11 143
Weighted average number of ordinary shares for the purposes of basic earnings per share	20 000 000	20 000 000
Earnings per share in euros	0,79	0,56
Dividends per A-share in euros	0,50	0,36
Dividends per B-share in euros	639	639

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

**NOTES TO THE INTERIM ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 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 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	5	0
Accounts payable - short-term trade and other payables, incl. dividends	0	155
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	4 951	0
General administration expenses	0	830
Other income (-) / expenses	0	32
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	0
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	139
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	4 172	0
General administration expenses	0	941
Other income (-)/ expenses	0	1
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	741

	Year ended 31 December	
	2006	2005
Management Board fees excluding social tax	134	136
Supervisory Board fees excluding social tax	32	4

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