

*Tallinna Vesi*



AS Tallinna Vesi  
Results of operations – for the 2<sup>nd</sup> quarter and first 6 months  
of 2007

Currency	Thousand EEK
Start of reporting period	1 January 2007
End of reporting period	30 June 2007
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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 2<sup>nd</sup> QUARTER 2007**

**Overview**

During the 2nd quarter of 2007 sales to residential customers increased by 11.7% year on year, sales to commercial customers within the service area increased by 9.2% year on year, and sales to commercial customers outside of the service area reached 524 000 m<sup>3</sup> or 3.9 mln EEK. The Company's quarterly operating profit was 89.7 mln EEK, which is a 9.6 mln EEK increase compared to the 2<sup>nd</sup> quarter of 2006. The Company launched to the market a new trademark Veemees, under which maintenance, emergency and construction services related to water supply and sewerage services will be offered to owners of private houses, housing associations, apartment owners, real estate developers and construction companies.

<i>EEK</i>	<b>II Q 2007</b>	<b>II Q 2006</b>	<b>Change</b>	<b>1H 2007</b>	<b>1H 2006</b>	<b>Change</b>
Sales	176.4	160.5	9.9%	381.8	336.5	13.4%
Main operating activities	164.4	148.5	10.7%	325.5	295.7	10.1%
Other operating activities	12.0	12.1	-0.5%	56.3	40.9	37.7%
Gross profit	108.8	95.0	14.5%	229.6	189.8	20.9%
Gross profit margin %	61.7%	59.1%	4.3%	60.1%	56.4%	6.6%
Operating profit	89.7	80.1	12.0%	195.5	185.1	5.6%
Operating profit margin %	50.9%	49.9%	2.0%	51.2%	55.0%	-6.9%
Profit before taxes	79.2	69.3	14.2%	174.5	164.4	6.1%
Profit before taxes margin %	44.9%	43.2%	3.9%	45.7%	48.8%	-6.4%
Net profit	23.9	22.4	6.5%	119.2	117.5	1.5%
ROA %	1.0%	0.9%	6.5%	4.9%	5.0%	-1.7%
Debt to total capital employed	55.8%	56.6%	-1.5%	55.8%	56.6%	-1.5%

*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*

**Profit and Loss Statement**

2<sup>nd</sup> quarter 2007

*Sales*

In the 2<sup>nd</sup> quarter of 2007 the Company's total sales increased, year on year, by 9.9% to 176.4 mln EEK. Sales from the Company's main operating activities were 164.4 mln EEK. 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 152.9 mln EEK, a 10.7% increase compared to the second quarter of 2006, resulting from the 10.8% increase in tariffs from 1 January 2007 for the Company's residential and commercial customers.

Included within this amount were the following increases by sector: Sales to residential customers increased by 11.7% to 79.8 mln EEK. Sales to commercial customers within the service area increased by 9.2% to 65.5 mln EEK. Sales to commercial customers outside of the service area – primarily bulk volumes of wastewater treatment services provided to the surrounding municipalities - reached 524 000 m<sup>3</sup> or 3.9 mln EEK. Overpollution fees received were 0.7 mln EEK higher than in the 2<sup>nd</sup> quarter of 2006.

In the 2<sup>nd</sup> quarter of 2007 sales from the operation and maintenance of the stormwater and firehydrant system increased by 10.4% to 9.1 mln EEK compared to the same period in 2006. This is in accordance with the terms and conditions of the contract whereby the stormwater and firehydrant costs are invoiced based on actual volumes treated. This is contractually agreed up to 2015.

Sales revenues from other operating activities, at 12 mln EEK (mainly connections and stormwater construction) remained at a similar level to the 2<sup>nd</sup> quarter of 2006.

#### *Cost of Goods Sold and Gross Margin*

The cost of goods sold for the main operating activity was 57.1 mln EEK in the 2<sup>nd</sup> quarter of 2007, an increase of 2.7 mln EEK or 5% from the equivalent period in 2006.

In the 2<sup>nd</sup> quarter of 2007 the Company has for the second successive quarter recorded zero failures in all pollution measures taken, and as a result the amount of pollution tax payable reduced by 2.2. mln EEK.

The Company continues to face increasing pressure on chemical prices especially coagulant. However these price increases have been partially offset by lower polymer dosages used, which resulted in a total quarterly charge of 5.3 mln EEK for chemical costs, which represents an 8.8% increase compared to the corresponding period in 2006.

Salaries increased by 0.9 mln EEK or 7.7%. As a consequence of the highly competitive labour market and rapidly growing salaries. In late 2006 all salaries were reviewed and increased to ensure competitiveness in the market and retain key personnel. However, the figure also reflects the efficiencies made from improvements in working practices that have led to a decrease in the headcount. In the 2<sup>nd</sup> quarter of 2007, the average number of people working for the Company was 305 people, compared to 326 people in the 2<sup>nd</sup> quarter of 2006.

Other cost of goods sold in the main operating activity increased by 3 mln EEK, or 37% year on year. In the 2<sup>nd</sup> quarter of 2007 the company made a provision of 1.3 mln EEK for the possible payment of servitude fees for the tolerance of technological structure on the private land. According to the new law that came in force in March 2007, the owners of the land can apply for the payment of a tolerance fee, if technological structures are established on their land. In addition, other costs increased due to a one-off increase in gas expenditures and increased costs on a number of support services contracts, such as transport, and security services reflecting the significant increase in labour costs in Tallinn.

As a result of all of the above the Company's gross profit for the 2<sup>nd</sup> quarter of 2007 was 108.8 mln EEK, which represents an increase of 13.8 mln EEK, or 14.5%, compared to the gross profit of 95.0 mln EEK for the 2<sup>nd</sup> quarter of 2006.

#### *Operating Costs and Operating Margin*

Marketing expenses increased by 1.1 mln EEK to 3.3 mln EEK during the 2<sup>nd</sup> quarter of 2007 compared to the corresponding period in 2006. At the beginning of the 2<sup>nd</sup> quarter, the company formed a new business unit focusing on new business development. The related costs, including the preparation works for launching the new Veemees trademark (Waterman), have been accounted under marketing costs. The increase in depreciation charges accounted within marketing expenses is due to the inclusion of the depreciation related to the completion of the last stage of implementation of the Customer Information and Billing system (KLIF).

General administration expenses increased by 2.8 mln EEK to 15.3 mln EEK in the 2<sup>nd</sup> quarter of 2007 as a consequence of an increase in salaries and other general administration expenses. Approximately 0.8 mln EEK accounted for switching from owning the computers into the lease contracts as well as outsource the maintenance of software development – a corresponding reduction can be found in the depreciation charge. In addition a lower proportion of administrative salaries were capitalised due to the completion of the final stage of the Customer Information and Billing system (KLIF).

Included within the above cost categories are staff costs. These totaled 19.1 mln EEK in the 2<sup>nd</sup> quarter of 2007, which is a 2.2 mln EEK or 12.7% increase compared to the same period in 2006, which as mentioned earlier was due to of the company wide revision of salaries.

Other net income/expenses totaled a cost of 0.4 mln EEK in the 2<sup>nd</sup> quarter of 2007 compared to a cost of 0.2 mln EEK in the 2<sup>nd</sup> quarter of 2006.

As a result of all of the above the Company's operating profit for the 2<sup>nd</sup> quarter of 2007 was 89.7 mln EEK, an increase of 9.6 mln EEK compared to an operating profit of 80.1 mln EEK achieved in the 2<sup>nd</sup> quarter of 2006.

#### *Financial expenses*

Net Financial expenses were 10.6 mln EEK in the 2<sup>nd</sup> quarter of 2007, which is a decrease of 0.2 mln EEK or 1.8% compared to the 2<sup>nd</sup> quarter of 2006. The Company's interest costs have increased by 18% compared to the 2<sup>nd</sup> quarter of 2006. This is due to the fact that half of the Company's loans are connected to the 6 month Euribor rate, which has increased from 2.643% at the beginning of 2006 up to 4.315% at the end of the 2<sup>nd</sup> quarter of 2007. The increase in interest expenses is offset by an increase in financial income earned during the 2<sup>nd</sup> quarter of 2007, as a result of improved cash management which led to more a favourable cash position, and increasing interest rates.

With current rising interest rates the Company's loans have quite favourable terms, with 37.5 mln EUR (586.7 mln EEK) fixed at 4.19% plus risk margin (48 bps), 37.5 mln EUR (586.7 mln EEK) has a floating rate at six months Euribor plus risk margin (24 bps), from which 20.4 mln EUR (319.2 mln EEK) is hedged with a collar interest rate swap, where the Company pays 4% if the six months Euribor rate is between 4-5%.

### *Profit Before Tax*

The Company's profit before taxes for the 2<sup>nd</sup> quarter of 2007 was 79.2 mln EEK, which is 9.8 mln EEK higher than the profit before taxes of 69.3 mln EEK for the 2<sup>nd</sup> quarter of 2006.

### Results for the first six months of 2007

During the first six months of 2007 the Company's total sales increased, year on year, by 13.4% to 381.8 mln EEK. Sales from the Company's main operating activities were 325.5 mln EEK. Sales of water and wastewater treatment were 303.2 mln EEK, a 10.7% increase compared to the first half of 2006.

The Company's profit before taxes for the first six months of 2007 was 174.5 mln EEK, which is 10.1 mln EEK higher than the profit before taxes of 164.4 mln EEK in the relevant period in 2006. The results for the first half of 2007 were impacted by the fact that the Ministry of Environment gave final approval to the success of the nitrogen project, which resulted in the release of a provision worth 13.3 mln EEK for environmental taxes. The results for the first half of 2006 were impacted by the sale of excess land in Paljassaare worth 24.1 mln EEK. When eliminating these one-offs, the underlying profit before tax has increased by 21 mln EEK to 161 mln EEK i.e. 15% year-on-year.

### **Balance sheet**

During the six months of 2007 the Company invested 88.3 mln EEK into fixed assets. Tangible, intangible and unfinished assets were 2,134.2 mln EEK at 30 June 2007. Current assets decreased by 36.3 mln EEK in the first six months of the year, which was largely attributable to a decrease in cash reflecting the dividend payout.

Current liabilities increased by 36.1 mln EEK to 189.2 mln EEK in the first six months of the year. This was mainly due to increased investment payables.

The company continues to maintain its leverage level within its target range of 50-60% with total liabilities to total capital employed of 56% as at 30 June 2007. Long-term liabilities stood at 1,166.6 mln EEK at the end of June 2007, consisting almost entirely of the outstanding balance on the two long-term bank loans.

### **Cash flow**

During the first six months of 2007, the Company generated 173.2 mln EEK of cash flows from operating activities, an increase of 10.1 mln EEK compared to the corresponding period in 2006. Operating profit continues to be main driver for growth.

In the 2<sup>nd</sup> quarter of 2007 net cash outflows from investing activities were 25.7 mln EEK, which is 19.7 mln EEK more than in 2006. This was mainly due to increased investment levels. In first six months of the year, the company invested 88.3 mln EEK – 49.7 mln EEK networks extension and rehabilitation, 27.4 mln EEK Paljassaare wastewater treatment plant and wastewater treatment, 6 mln EEK water quality (Ülemiste water treatment plant and raw water) and 5.2 mln EEK other investments (IT, capital maintenance, meters, etc).

Cash outflows from financing activities were 196.5 mln EEK during the first six months of the year compared to cash outflow of 157.7 mln EEK during the first six months of 2006, reflecting increased dividend payments.

As a result of all of the above factors, the total cash outflow in the six months of 2007 was 48.9 mln EEK compared to a cash outflow of 0.1 mln EEK in the first six months of 2006. Cash and cash equivalents stood at 200.5 mln EEK as at 31 June 2007.

## Employees

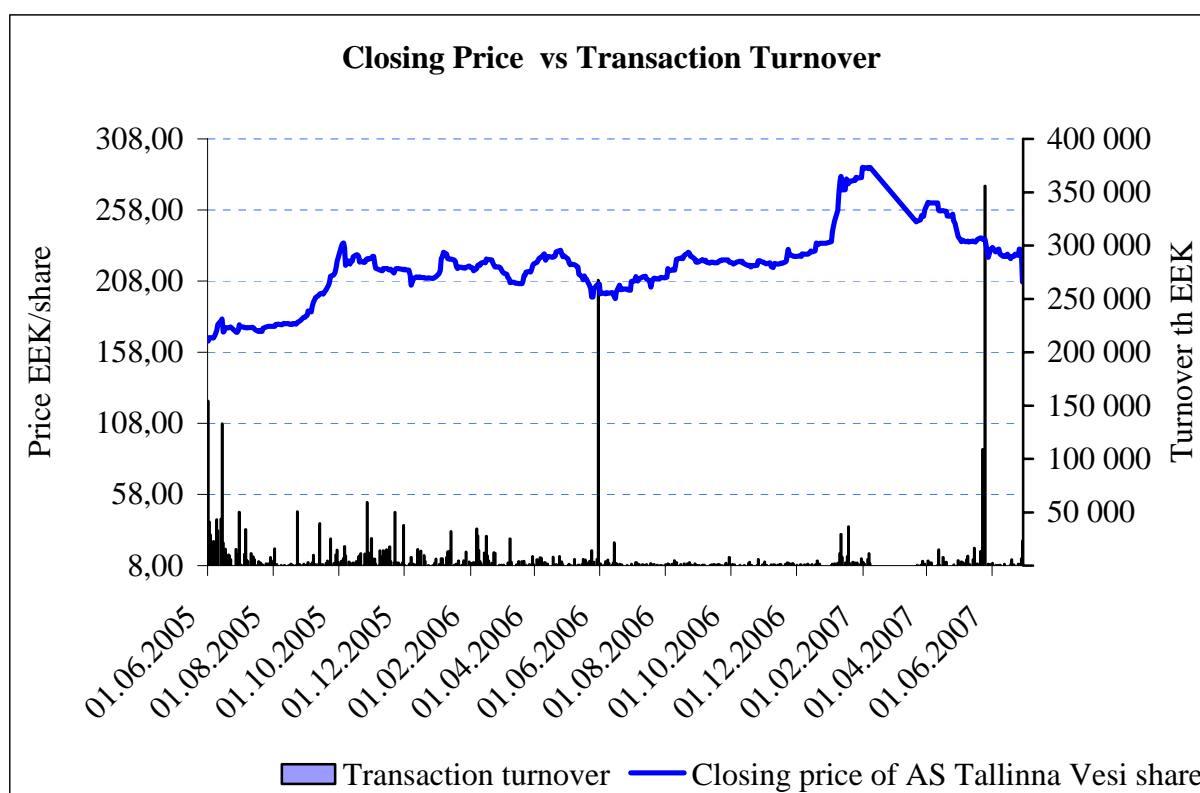
In the second quarter of 2007 the average number of employees was 305 people.

## Dividends and share performance

Based on the results of the 2006 financial year, the Annual General Meeting of shareholders of AS Tallinna Vesi voted to pay 196,010,000 EEK of dividends. Of this 10 000 EEK was paid to the owner of the B-share and 196 000 000 EEK, i.e. 9.8 EEK per share to the owners of the A-shares. Dividends were paid on 15 June 2007.

As of 30 June 2007 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	7.55%



At the end of the reporting period, 30 June 2007, the closing price of the AS Tallinna Vesi share was 207.32 EEK (13.25 EUR), which is a 12% decrease since the beginning of the year. This was

partially due to fact that the company paid out dividends on June 15<sup>th</sup> as well as on June 29<sup>th</sup> over 100 000 shares were block traded at 8% below the market price. On the following trading day July 2<sup>nd</sup>, the share price increased by 5.66% to 219.10 EEK (14.00 EUR)

### **Operational achievements in 2007**

- The work on the new Paljassaare sludge processing building continues and will be completed in the 3<sup>rd</sup> quarter of 2007. The project 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. The sludge composting fields are to be completed in July 2007. These projects 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.
- In the 2<sup>nd</sup> quarter, as in 1st quarter, all outfall effluent samples at all locations complied with requirements and as a consequence the environmental charges for the quarter attracted a 50% reduction.
- In the 2<sup>nd</sup> quarter, the company's ISO and EMAS procedures were audited by DNV and the continued accreditation is confirmed. At the same time the company applied for OHSAS accreditation, the outcome of this audit was positive and OHSAS accreditation is expected to be awarded in the 3<sup>rd</sup> quarter of 2007.
- The Company launched to the market a new trademark Veemees, under which maintenance, emergency and construction services related to water supply and sewerage services will be offered to owners of private houses, housing associations, apartment owners, real estate developers and construction companies.

#### Additional information:

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**AS TALLINNA VESI**

**MANAGEMENT CONFIRMATION**

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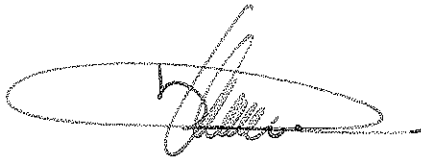
The Management Board of AS Tallinna Vesi (hereinafter the company) has prepared the interim accounts for the period ended 30 June 2007. The interim accounts are not reviewed by the auditors.

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 30 June 2007, and of income and expenses during the reporting period. These estimates are based on current information about AS Tallinna Vesi and consider all plans and risks as at 30 June 2007. 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 12 July 2007 have been assessed as part of this review.

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



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



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




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

12 July 2007

**BALANCE SHEETS AT 30 JUNE 2007 AND 2006, AND AT 31 DECEMBER 2006**

(thousand EEK)

ASSETS	Note	2007	30 June 2006	31 December 2006
<b>CURRENT ASSETS</b>				
Cash at bank and in hand	2	200 475	206 433	249 413
Customer receivables		85 559	72 047	71 490
Accrued income and prepaid expenses		3 293	7 477	4 756
Inventories		4 055	3 364	3 142
Assets for sale		783	1 643	1 648
<b>TOTAL CURRENT ASSETS</b>		<b>294 165</b>	<b>290 964</b>	<b>330 449</b>
<b>NON-CURRENT ASSETS</b>				
Tangible assets	3	1 922 686	1 814 159	1 877 105
Intangible assets	3	50 181	40 701	52 595
Unfinished assets - non connections	3	63 994	118 530	91 676
Unfinished pipelines - new connections	3	97 318	88 342	117 162
Prepayments for fixed assets	3	3 106	3 192	2 795
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2 137 285</b>	<b>2 064 924</b>	<b>2 141 333</b>
<b>TOTAL ASSETS</b>		<b>2 431 450</b>	<b>2 355 888</b>	<b>2 471 782</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Current portion of long-term borrowings		0	946	473
Trade and other payables, incl. dividends		68 156	47 158	85 250
Taxes payable, incl. dividends		77 286	83 981	30 508
Short-term provisions		2 231	414	538
Deferred income		41 491	35 608	36 325
<b>TOTAL CURRENT LIABILITIES</b>		<b>189 164</b>	<b>168 107</b>	<b>153 094</b>
<b>NON-CURRENT LIABILITIES</b>				
Finance lease		0	114	0
Bank loans		1 166 538	1 165 659	1 166 098
Other payables		100	100	100
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1 166 638</b>	<b>1 165 873</b>	<b>1 166 198</b>
<b>TOTAL LIABILITIES</b>		<b>1 355 802</b>	<b>1 333 980</b>	<b>1 319 292</b>
<b>EQUITY CAPITAL</b>				
Share capital		200 001	200 001	200 001
Share premium		387 000	387 000	387 000
Statutory legal reserve		20 000	20 000	20 000
Accumulated profit		349 479	297 443	297 443
Net profit for the period		119 168	117 464	248 046
<b>TOTAL EQUITY CAPITAL</b>		<b>1 075 648</b>	<b>1 021 908</b>	<b>1 152 490</b>
<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>		<b>2 431 450</b>	<b>2 355 888</b>	<b>2 471 782</b>




Chairman of the Management Board:

## AS TALLINNA VESI

INCOME STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2007 AND 2006

(thousand EEK)

		II quarter		6 months		Year ended 31 December
	Note	2007	2006	2007	2006	2006
Sales from main operating activities	4	164 363	148 450	325 496	295 656	589 176
Revenues from other operating activities	4	12 016	12 078	56 257	40 854	104 048
<b>Net sales</b>		<b>176 379</b>	<b>160 528</b>	<b>381 753</b>	<b>336 510</b>	<b>693 224</b>
Costs of goods sold (main operating activities)	5,6	-57 120	-54 405	-102 005	-109 242	-220 537
Costs of goods sold (other operating activities)	6	-10 495	-11 173	-50 157	-37 424	-97 096
<b>GROSS PROFIT</b>		<b>108 764</b>	<b>94 950</b>	<b>229 591</b>	<b>189 844</b>	<b>375 591</b>
Marketing expenses	5,6	-3 330	-2 249	-6 493	-4 803	-9 578
General administration expenses	5,6	-15 264	-12 449	-29 543	-25 061	-51 319
Other income/ expenses (-)	6	-427	-158	1 971	25 109	23 229
<b>OPERATING PROFIT</b>		<b>89 743</b>	<b>80 094</b>	<b>195 526</b>	<b>185 089</b>	<b>337 923</b>
Financial income / expenses (-)	7	-10 593	-10 788	-21 073	-20 729	-42 981
<b>PROFIT BEFORE TAXES</b>		<b>79 150</b>	<b>69 306</b>	<b>174 453</b>	<b>164 360</b>	<b>294 942</b>
Income tax on dividends	8	-55 285	-46 896	-55 285	-46 896	-46 896
<b>NET PROFIT FOR THE PERIOD</b>		<b>23 865</b>	<b>22 410</b>	<b>119 168</b>	<b>117 464</b>	<b>248 046</b>
Attributable to:						
Equity holders of A-shares		23 855	22 400	119 158	117 454	248 036
B-share holder		10	10	10	10	10
<b>Earnings per share in kroons</b>	8	<b>1,19</b>	<b>1,12</b>	<b>5,96</b>	<b>5,87</b>	<b>12,40</b>



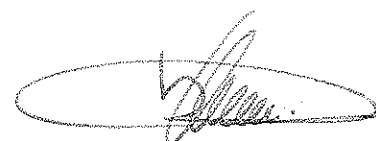
Chairman of the Management Board:

## CASH FLOW STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2007 AND 2006

(thousand EEK)

	2007	6 months 2006	Year ended 31 December 2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating profit	195 526	185 089	337 923
Adjustment for depreciation	39 735	39 859	81 047
Adjustment for income and expenses from constructions	-6 099	-3 429	-6 952
Other financial income and expenses	-366	-794	-536
Profit from sale of fixed assets	12	-24 680	-24 917
Expensed fixed assets	0	631	1 106
Capitalization of operating expenses	-9 082	-10 418	-20 921
Movement in current assets involved in operating activities	-9 890	-7 542	-4 142
Movement in liabilities involved in operating activities	-10 788	7 495	5 994
Interest paid	-25 849	-23 159	-48 051
<b>Total cash flow from operating activities</b>	<b>173 199</b>	<b>163 052</b>	<b>320 551</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of fixed assets (incl pipelines construction)	-92 104	-55 592	-192 048
Proceeds from pipelines financed by construction income	60 789	48 311	112 662
Proceeds from sale of and prepayments received for fixed assets	17	-3 137	-1 293
Proceeds from sale of assets and real estate investments	233	1 107	1 107
Interest received	5 411	3 320	6 545
<b>Total cash flow from investing activities</b>	<b>-25 654</b>	<b>-5 991</b>	<b>-73 027</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Finance lease payments	-473	-695	-1 282
Dividends paid	-196 010	-157 000	-157 000
Income tax on dividends	0	0	-46 896
<b>Total cash flow from financing activities</b>	<b>-196 483</b>	<b>-157 695</b>	<b>-205 178</b>
<b>Change in cash and bank accounts</b>	<b>-48 938</b>	<b>-634</b>	<b>42 346</b>
<b>CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>249 413</b>	<b>207 067</b>	<b>207 067</b>
<b>CASH AND EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>200 475</b>	<b>206 433</b>	<b>249 413</b>



Chairman of the Management Board:

AS TALLINNA VESI

STATEMENTS OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 30 JUNE 2007 AND 2006

(thousand EEK)

	Share capital	Share premium	Statutory legal reserve	Accumulated profit	Net profit	Total equity
<b>31 December 2005</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>280 089</b>	<b>174 354</b>	<b>1 061 444</b>
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 year	0	0	0	0	248 046	248 046
<b>31 December 2006</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>297 443</b>	<b>248 046</b>	<b>1 152 490</b>
<b>31 December 2005</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>280 089</b>	<b>174 354</b>	<b>1 061 444</b>
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	117 464	117 464
<b>30 June 2006</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>297 443</b>	<b>117 464</b>	<b>1 021 908</b>
<b>31 December 2006</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>297 443</b>	<b>248 046</b>	<b>1 152 490</b>
Transfer of financial year profit to the accumulated profit	0	0	0	248 046	-248 046	0
Dividends	0	0	0	-196 010	0	-196 010
Net profit of the financial period	0	0	0	0	119 168	119 168
<b>30 June 2007</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>349 479</b>	<b>119 168</b>	<b>1 075 648</b>



Chairman of the Management Board:

**NOTES TO THE INTERIM ACCOUNTS  
FOR THE PERIOD ENDED 30 JUNE 2007 AND 2006**

(thousand EEK)

**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.

**NOTE 2. CASH AND CASH EQUIVALENTS**

	<b>6 months</b>		<b>Year ended 31 December</b>
	<b>2 007</b>	<b>2 006</b>	<b>2006</b>
Cash at bank and in hand	48 788	14 341	17 227
Short term deposits	151 687	192 092	232 186
	<b>200 475</b>	<b>206 433</b>	<b>249 413</b>



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE PERIOD ENDED 30 JUNE 2007 AND 31 DECEMBER 2006

(thousand EEK)

NOTE 3. 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>31.12.2005</b>	<b>349 941</b>	<b>1 946 121</b>	<b>503 588</b>	<b>19 143</b>	<b>94 793</b>	<b>109 190</b>	<b>3 479</b>	<b>13 841</b>	<b>56 100</b>	<b>3 096 196</b>
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	0	18 339	0
<b>31.12.2006</b>	<b>345 074</b>	<b>2 016 934</b>	<b>534 627</b>	<b>17 532</b>	<b>91 676</b>	<b>117 162</b>	<b>2 795</b>	<b>13 841</b>	<b>67 433</b>	<b>3 207 074</b>
Acquisition	0	0	0	0	55 650	32 302	311	0	0	88 263
Sale of fixed assets	0	0	-184	0	0	0	0	0	0	-184
Write-off of fixed assets	-34	-866	-1 602	-39	0	0	0	0	0	-2 541
Reclassification within balance sheet	0	0	0	0	-399	-1 988	0	0	0	-2 387
Expensed pipelines	0	0	0	0	0	-50 158	0	0	0	-50 158
Reclassification from assets in progress	567	66 464	13 782	50	-82 933	0	0	474	1 596	0
<b>30.06.2007</b>	<b>345 607</b>	<b>2 082 532</b>	<b>546 623</b>	<b>17 543</b>	<b>63 994</b>	<b>97 318</b>	<b>3 106</b>	<b>14 315</b>	<b>69 029</b>	<b>3 240 067</b>
<b>Accumulated depreciation</b>										
<b>31.12.2005</b>	<b>55 681</b>	<b>613 318</b>	<b>299 732</b>	<b>11 534</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9 430</b>	<b>16 530</b>	<b>1 006 225</b>
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
<b>31.12.2006</b>	<b>59 475</b>	<b>641 049</b>	<b>325 644</b>	<b>10 894</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>11 408</b>	<b>17 271</b>	<b>1 065 741</b>
Depreciation	1 989	16 937	15 776	549	0	0	0	945	3 539	39 735
Depreciation of fixed assets sold and written-off (-)	-34	-866	-1 755	-39	0	0	0	0	0	-2 694
<b>30.06.2007</b>	<b>61 430</b>	<b>657 120</b>	<b>339 665</b>	<b>11 404</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>12 353</b>	<b>20 810</b>	<b>1 102 782</b>
<b>Net book value</b>										
<b>31.12.2005</b>	<b>294 260</b>	<b>1 332 803</b>	<b>203 856</b>	<b>7 609</b>	<b>94 793</b>	<b>109 190</b>	<b>3 479</b>	<b>4 411</b>	<b>39 570</b>	<b>2 089 971</b>
<b>31.12.2006</b>	<b>285 599</b>	<b>1 375 885</b>	<b>208 983</b>	<b>6 638</b>	<b>91 676</b>	<b>117 162</b>	<b>2 795</b>	<b>2 433</b>	<b>50 162</b>	<b>2 141 333</b>
<b>30.06.2007</b>	<b>284 177</b>	<b>1 425 412</b>	<b>206 958</b>	<b>6 139</b>	<b>63 994</b>	<b>97 318</b>	<b>3 106</b>	<b>1 962</b>	<b>48 219</b>	<b>2 137 285</b>

Fixed assets are written off if the condition of the asset does not enable further usage for production purposes.  
For the period ended 31 December 2006 the net balance sheet value of finance leases was 2 448 thousand kroons, as of 30 June 2007 there was no finance lease contract.



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE PERIOD ENDED 30 JUNE 2007 AND 2006

(thousand EEK)

NOTE 4. NET SALES	II quarter		6 months		Year ended 31
	2007	2006	2007	2006	December 2006
<b>Revenues from main operating activities</b>					
Water supply service	81 253	72 425	160 852	145 097	289 250
Waste water disposal service	71 648	65 728	142 385	130 816	259 727
Stormwater treatment and disposal service	8 508	7 513	17 016	15 026	30 052
Fire hydrants service	551	692	1 101	1 450	3 007
Other works and services	2 403	2 092	4 142	3 267	7 140
<b>Total revenues from main operating activities</b>	<b>164 363</b>	<b>148 450</b>	<b>325 496</b>	<b>295 656</b>	<b>589 176</b>
<b>Revenues from other operating activities</b>					
Water, sewerage and storm water connections construction income	12 016	12 078	56 257	40 854	104 048
<b>TOTAL NET SALES</b>	<b>176 379</b>	<b>160 528</b>	<b>381 753</b>	<b>336 510</b>	<b>693 224</b>

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

NOTE 5. PERSONNEL EXPENSES

	II quarter		6 months		Year ended 31
	2007	2006	2007	2006	December 2006
Salaries and wages	-14 347	-12 723	-28 351	-25 612	-50 532
Social security taxation	-4 784	-4 247	-9 450	-8 587	-16 832
<b>Staff costs total</b>	<b>-19 131</b>	<b>-16 970</b>	<b>-37 801</b>	<b>-34 199</b>	<b>-67 364</b>
<b>Average number of employees during the reporting period</b>	<b>305</b>	<b>326</b>	<b>306</b>	<b>329</b>	<b>322</b>



Chairman of the Management Board:




**NOTES TO THE INTERIM ACCOUNTS  
FOR THE PERIOD ENDED 30 JUNE 2007 AND 2006**

(thousand EEK)

**NOTE 6. COSTS AND EXPENSES**

Cost of goods sold (main operating activities)	II quarter		6 months		Year ended 31 December
	2007	2006	2007	2006	2006
Tax on special use of water	-2 594	-2 478	-5 259	-5 039	-10 050
Chemicals	-5 270	-4 843	-10 313	-9 667	-20 638
Electricity	-6 160	-6 198	-13 369	-12 713	-24 594
Pollution tax	-940	-3 123	9 608	-5 813	-11 988
Staff costs	-12 741	-11 830	-25 628	-23 731	-46 521
Research and development	-59	-1	-59	-1	-129
Depreciation and amortization	-18 409	-17 939	-36 513	-36 208	-73 278
Other costs of goods sold	-10 947	-7 993	-20 472	-16 070	-33 339
<b>Total cost of goods sold (main operating activities)</b>	<b>-57 120</b>	<b>-54 405</b>	<b>-102 005</b>	<b>-109 242</b>	<b>-220 537</b>
<b>Cost of goods sold (other operating activities)</b>					
Water, sewerage and storm water connections construction cost	-10 495	-11 173	-50 157	-37 424	-97 096
<b>Marketing Expenses</b>					
Staff costs	-1 598	-1 193	-2 915	-2 290	-4 710
Depreciation and amortization	-896	-535	-1 750	-1 515	-2 453
Other marketing expenses	-836	-521	-1 828	-998	-2 415
<b>Total cost of marketing expenses</b>	<b>-3 330</b>	<b>-2 249</b>	<b>-6 493</b>	<b>-4 803</b>	<b>-9 578</b>
<b>General Administration Expenses</b>					
Staff costs	-4 792	-3 947	-9 258	-8 178	-16 133
Depreciation and amortization	-736	-1 074	-1 472	-2 136	-5 316
Other general administration expenses	-9 736	-7 428	-18 813	-14 747	-29 870
<b>Total cost of general administration expenses</b>	<b>-15 264</b>	<b>-12 449</b>	<b>-29 543</b>	<b>-25 061</b>	<b>-51 319</b>

**Other income/expenses** - In both 2007 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.



Chairman of the Management Board:

**NOTES TO THE INTERIM ACCOUNTS  
FOR THE PERIOD ENDED 30 JUNE 2007 AND 2006**

(thousand EEK)

NOTE 7. FINANCIAL INCOME AND EXPENSES	2007	6 months		Year ended 31
		2006		December 2006
Interest income	5 339	3 271		6 598
Interest expense	-26 046	-23 205		-49 479
Other financial income / expenses (-)	-366	-795		-100
<b>Total financial income / expenses</b>	<b>-21 073</b>	<b>-20 729</b>		<b>-42 981</b>


NOTE 8. DIVIDENDS	2007	6 months		Year ended 31
		2006		December 2006
Dividends declared during the period	196 010	157 000		157 000
Dividends paid during the period	196 010	157 000		157 000
Income tax on dividends declared	-55 285	-46 896		-46 896
<b>Income tax accounted</b>	<b>-55 285</b>	<b>-46 896</b>		<b>-46 896</b>

The income tax rates were 22/78 and 23/77 respectively in 2007 and 2006.

**NOTE 9. EARNINGS AND DIVIDENDS PER SHARE**

	2007	6 months		Year ended 31
		2006		December 2006
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)	119 158	117 454		248 036
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 kroons	5,96	5,87		12,40
Dividends per A-share in kroons	9,80	7,85		7,85
Dividends per B-share in kroons	10 000	10 000		10 000

Diluted earnings per share for the periods ended 30 June 2007 and 2006 and 31 December 2006 are equal to the earnings per share figures stated above.



Chairman of the Management Board:

**NOTES TO THE INTERIM ACCOUNTS  
FOR THE PERIOD ENDED 30 JUNE 2007 AND 2006**

(thousand EEK)

**NOTE 10. 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 2006 and 2007 and respective balances as of 30.06.2006 and 30.06.2007 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>2006 for 6 months</b>		
<b>Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi</b>		
Customer receivables	1 739	0
Accrued income and prepaid expenses	0	4 811
Deferred income	1 473	0
Accounts payable - short-term trade and other payables, incl. dividends	0	3 056
<b>Transactions recorded to the Income Statement of AS Tallinna Vesi</b>		
Net sales	45 933	0
General administration expenses	0	9 336
<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	6 376
<b>2007 for 6 months</b>		
<b>Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi</b>		
Customer receivables	9 454	0
Accounts payable - short-term trade and other payables, incl. dividends	0	2 241
<b>Transactions recorded to the Income Statement of AS Tallinna Vesi</b>		
Net sales	55 549	0
General administration expenses	0	9 527
<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	2 931

	2007	6 months 2006	Year ended 31 December 2006
Management Board fees excluding social tax	976	1 120	2 097
Supervisory Board fees excluding social tax	300	250	500

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

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

As at report generation date Roch Jean Guy Antoine Cheroux owned 400 and Ian John Alexander Plenderleith 110 AS Tallinna Vesi shares.

  
Chairman of the Management Board:

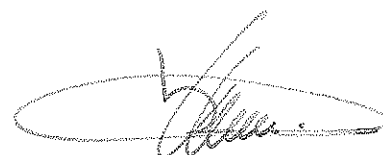
**AS TALLINNA VESI**

**NOTES TO THE INTERIM ACCOUNTS  
FOR THE PERIOD ENDED 30 JUNE 2007 AND 2006**

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

Robert John Gallienne	Chairman of the Supervisory Board
David John Kilgour	Member of the Supervisory Board
Henry Emanuel Russell	Member of the Supervisory Board
Joanne Bream	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
Valdur Laid	Member of the Supervisory Board



Chairman of the Management Board: