AS TALLINNA VESI

Preliminary results of operations in 2005, unaudited

Key performance indicators

Amounts in million EEK	**2005**	**2004**	**Change**
Sales	592,0	548,5	7,9%
Main operating activities	549,9	478,8	14,9%
Other operating activities	42,1	69,7	-39,6%
Gross profit	351,6	286,9	22,6%
Gross profit margin %	59,4%	52,3%	13,6%
Operating profit	282,6	254,9	10,8%
Operating profit margin %	47,7%	46,5%	2,7%
Profit before taxes	209,7	199,2	5,3%
Profit before taxes margin	35,4%	36,3%	-2,5%
Net profit	174,4	173,0	0,8%
ROA %	7,3%	7,8%	-5,5%
Debt to total capital employed	55,3%	55,1%	0,3%

ROA – Net profit /Total Assets
Debt to Total capital employed – Total Liabilities / Total capital employed

Sales

In the 4th quarter 2005 total sales from the Company's main operating activities were 140.3 mln EEK, which is a 14.6% increase compared to the corresponding period of 2004. Sales from water and wastewater increased by 16.3% compared to the 4th quarter in 2004.

For the whole year of 2005 total sales from the Company's main operating activities were 549.9 mln EEK, up 14.9% year-on-year. Sales from water and wastewater increased by 16.5%, which was in accordance with expectations and is largely attributable to the 15.75% increase in water and sewerage tariffs in 2005 for the Company's residential and commercial customers.

Sales to residential customers increased by 17% as a result of the tariff increase and a 0.8% increase in the total volume of water supplied and wastewater treated compared to 2004.

Sales to commercial customers increased by 16%, due to the tariff increase and a 1.1% increase in the total volume of water supplied and wastewater treated when compared to 2004. Included within these figures are sales volumes of wastewater treatment services provided to surrounding municipalities outside of the services area, which reached almost 1.2 mln m^3 during 2005, an increase of 19% on the corresponding period in 2004.

Sales from stormwater treatment and disposal, fire-fighting water, maintenance of fire hydrants and other work and services increased to 54.4 mln EEK, or by 1.4% compared to 2004.

Expenses and profitability

Profits from other operating activities in 2005, primarily the provision of new connections, were 3.8 mln EEK, a 1.5 mln EEK decrease from 2004 levels.

The Cost of goods sold for the main operating activity was 202 mln EEK in 2005, an increase of 4.8 mln EEK or 2.4% from the equivalent period in 2004. This increase was driven by increased chemical costs (increased usage of methanol in order to reduce the level of nitrogen in the wastewater) and lower capitalization of expenditures.

The Company's gross profit for 2005 was 351.6 mln EEK, which represents an increase of 64.8 mln EEK, or 22.6%, compared to the gross profit of 286.9 mln EEK for 2004.

As a result of the above factors the Company achieved an improved gross profit margin of 59.4% for 2005 compared to 52.3% for 2004. This indicates the Company's ability to control operating costs and to convert the sales growth in main operating activities into improved profit margins.

General administration expenses increased by 23.5 mln EEK from 40.7 mln EEK in 2004 up to 64.3 mln EEK in 2005. This was attributable to the one-off IPO costs, Tallinn Stock Exchange listing costs and lower capitalization of operating expenses.

Other net income was 1.96 mln EEK in 2005, representing a decrease of 13 mln EEK compared to 2004. In 2005, income gained from land sales has been offset by IPO costs of 8.5 mln EEK, whereas in 2004, recognition of the sale of fixed assets and provisions released to the profit and loss account resulted in a significantly higher positive revenue stream.

In total, the results for the period ended 31 December 2005 include non-recurring IPO costs of 26 mln EEK, being made up of 19.9 mln EEK for professional services and taxes, and 6.1 mln EEK for staff bonus costs.

The Company's operating profit for 2005 was 282.6 mln EEK, an increase of 27,6 mln EEK, or 10.8%, over the operating profit of 254.9 mln EEK for 2004.

Net Financial expenses were 72.8 mln EEK in 2005, which is an increase of 17.2 mln EEK compared to 2004. The one-off increase in financial expenses of 18.2 mln EEK was due to non-recurring costs incurred resulting from the partial repayment and restructuring of EBRD loan in November 2005.

Income taxes increased by 9.1 mln EEK, from 26.3 mln EEK in 2004 up to 35.4 mln EEK in 2005 as a result of the higher dividend paid.

The Company's net profit for 2005, including the impact of one-off IPO and loan restructuring costs, was 174.4 mln EEK, an increase of 1.4 mln EEK compared to 2004.

Loan restructuring

In November 2005 the Company signed amendments to its existing loan agreement with the EBRD and a new loan agreement with Nordea Bank Finland Plc Estonian branch for a 37.5 mln EUR 10-year loan facility.

The Company prepaid 36.837 mln EUR of its existing EBRD loan, leaving the outstanding balance at 37.5 mln EUR, which as a result of the amendments made has a fixed base rate of 4.19%, a risk margin of 48 bps and a 3 years grace period.

The Nordea loan agreement for 37.5 mln EUR has a base rate EURIBOR, a risk margin of 24 bps, a maturity date of November 2015 and a 5 years grace period.

Partial early prepayment of the EBRD loan, plus additional administration and legal costs relating to the amendments and prepayment accounted for 10.9 mln EEK. In addition the company had to expense to the profit and loss account 7.3 mln EEK of amortised costs from the original 80 mln EUR EBRD loan. These costs related to the front-end fee and other legal expenses and were capitalized over the lifetime of the original loan.

Due to loan restructuring the Company achieved a significant reduction in its weighted average cost of interest and annual interest costs. Before restructuring the company's weighted average cost of debt was approximately 4.9% per annum, after the restructuring it has been reduced to around 3.6% per annum, giving a saving in interest costs of approximately 15 mln EEK per annum when compared to 2005 interest costs.

The extensions of the grace periods for a further three and five years enables the company to maintain its leverage close to the current levels which are optimum for the company, as well as release 79.5 mln EEK of cash that previously was required to be held in a debt service reserve account until the maturity of the loan in 2015.

Balance sheet

The Company’s total assets were 2,373.6 mln EEK as at 31 December 2005, an increase of 148.9 mln EEK year-on-year. Current assets increased by 122.2 mln EEK, largely attributable to an increase in cash from operations and release of the debt service reserve (previously accounted under financial investments).

Tangible and intangible fixed assets and asset constructions in progress were 1,977.3 mln EEK at 31 December 2005, an increase of 76.3 mln EEK of the fixed asset base in the year, representing the Company’s investment in assets in order to continuously upgrade services to customers.

Current liabilities decreased by 39 mln EEK, reflecting a decrease in the current portion of long-term borrowings from 88.9 mln EEK as of 31 December 2004 to 0.46 mln EEK as of 31 December 2005. This resulted from the extension of the grace period of the loans partially offset by an increase in deferred income (45.6 mln EEK prepayment for the sale of fixed assets). Long-term liabilities increased by 125.6 mln EEK up to 1,166.6 mln EEK at the end of December 2005, consisting almost entirely of the outstanding balance of the bank loans.

Cash flow

In 2005, the Company’s cash flow from operating activities was 307.1 mln EEK, a 139.2 mln EEK, or 83%, increase compared to 2004. This reflects the increased operating profit in the period as well as movement in current assets involved in operating activities (79.5 mln EEK released from debt service reserve in December 2005).

Total cash inflow in 2005 was 106.1 mln EEK compared to a cash inflow of 16.8 mln EEK in 2004. Cash and cash equivalents stood at 207.1 mln EEK as at 31 December 2005, as of 31 December 2004 cash and cash equivalents stood at 101 mln EEK.

Investments

In 2005 the Company invested 223 mln EEK in non-current assets.

- Investments to the water network and water plant guarantee continuous improvement of water quality. These investments enabled the Company to achieve compliance with EU requirements twelve months ahead of target and also helped to reduce the level of water losses in the network from 21.4% in 2004 down to 17.95% in 2005, which is 8% ahead the contractual target.
- Investments to the wastewater treatment plant improved treated effluent quality. The ongoing nitrogen removal programme remains on target to deliver, and the Company continues its environmentally friendly sludge management policy, with 100% of Paljassaare sludge recycled.
- The implementation of the new Customer Billing and Service system will further improve the customer service.
- Extensions of the network, with over 600 new sewerage connections and 10.8 kilometers of new storm water network constructed.

Employees

As of 31 December 2005 the Company employed 334 people consisting of 285 people in the Operations division and 49 people in Commercial and Corporate Services. As of end December 2004 the company employed 351 people with 297 people in the Operations division and 54 people in the other divisions.

Dividends and share performance

In 2005, the Company paid out a dividend of 112 mln EEK based on the operational results of 2004. Based on the preliminary results of the 2005 financial year, the Management Board of AS Tallinna Vesi reported to the Supervisory Council that it anticipated that the Company would be able to pay out 157 mln EEK (10.04 mln EUR) of dividends. This is subject to approval by the Company's auditors (AS Deloitte Audit Eesti), Supervisory Council and the Annual General Meeting of the Shareholders, which will be held in May 2006, and if approved will lead to a 7.85 EEK (0.5 EUR) dividend per share.

Starting from 1 June 2005, AS Tallinna Vesi shares have been listed on the main list of the Tallinn Stock Exchange. AS Tallinna Vesi shareholders, with a holding over 5% as of 31 December 2005, were:

United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%
Nordea Bank Finland Plc clients account trading	11.56%

At the end of the reporting period, 31 December 2005, the closing price of the AS Tallinna Vesi share was 210.92 EEK (13.48 EUR), which is a 45.8% premium on the initial public offering settlement price of 144.73 EEK (9.25 EUR).

Outlook for 2006

Projects:

- The Company plans to further improve the customer service quality through the implementation of a Guaranteed Standards Scheme (1st in Baltics) as well as offer direct debit and web-based services.
- The Paljassaare Nitrogen project will be completed.

Investments:

- The 2006 investments programme is concentrated mainly on the water, sewer and stormwater network. The investments in network rehabilitation will continue to increase and secure the improvements in water quality already achieved, whilst the extensions to the network will expand the water and wastewater services to more customers. Significant investments are also being made in the upgrade of the sludge processing plant and composting fields at Paljassaare, which will enable the Company to maintain and improve on its environmentally friendly wastewater treatment and disposal processes.

- In 2006 the total investments plan is 246 mln EEK,
    - 151.7 mln EEK – networks extension and rehabilitation
    - 15.2 mln EEK – water quality (Ülemiste water treatment plant and raw water)
    - 51.5 mln EEK – Paljassaare wastewater treatment plant and wastewater treatment
    - 27.5 mln EEK – other investments (IT, water meters, etc)

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