

AS TALLINNA VESI

RESULTS OF OPERATIONS IN 2nd QUARTER 2006

Key performance indicators

<i>Amounts in million EEK</i>	2nd Q 2006	2nd Q 2005	Change	6 months 2006	6 months 2005	Change
Sales	160,5	146,7	9,4%	336,5	303,3	10,9%
Main operating activities	148,5	137,2	8,2%	295,7	276,6	6,9%
Other operating activities	12,1	9,5	27,7%	40,9	26,7	52,8%
Gross profit	95,0	89,3	6,4%	189,8	181,2	4,8%
Gross profit margin %	59,1%	60,9%	-2,8%	56,4%	59,7%	-5,6%
Operating profit	80,1	48,4	65,4%	185,1	139,5	32,7%
Operating profit margin %	49,9%	33,0%	51,2%	55,0%	46,0%	19,6%
Profit before taxes	69,3	34,3	102,3%	164,4	112,4	46,3%
Profit before taxes margin	43,2%	23,4%	84,9%	48,8%	37,1%	31,8%
Net profit	22,4	34,3	-34,6%	117,5	77,0	52,5%
ROA %	1,0%	1,5%	-35,9%	5,0%	3,3%	49,4%
Debt to total capital employed	56,6%	58,2%	-2,7%	56,6%	58,2%	-2,7%
ROE%	2,2%	3,6%	-38,3%	11,5%	8,0%	43,9%
Current ratio	1,7	0,9	99,9%	1,7	0,9	99,9%

Gross profit margin – Gross profit / Net sales

Operating profit margin – Operating profit / Net sales

Profit before taxes margin – Profit before taxes / Net sales

ROA – Net profit / Total Assets

Debt to Total capital employed – Total Liabilities / Total capital employed

ROE - Net profit / Total Equity

Current ratio – Current assets / Current Liabilities

Sales

In the 2nd quarter of 2006 the Company's total sales increased, year on year, by 9.4% to 160.5 mln EEK. Sales from the Company's main operating activities were 148.5 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 138.2 mln EEK, which is an 11.9% increase compared to the second quarter of 2005.

In quarter two sales to residential customers increased by 9.9% to 71.4 mln EEK primarily as a result of the tariff increase from 1 January 2006. Sales to commercial customers within the services area increased 11.2% to 62.9 million EEK, due to the tariff increase from 1 January 2006, and a 1.3% increase in the volumes of water supplied and wastewater treated when compared to the second quarter of 2005. Sales to commercial customers outside of the service area – primarily bulk volumes of wastewater treatment services provided to the surrounding municipalities - reached

504,000 m³ or 3.8 mln EEK in the 2nd quarter of 2006, an increase of over 100% on the corresponding quarter in 2005.

These factors demonstrate, the improvement within in areas sales resulting from the implementation of the new billing system, which improved the regularity of billing, and the continuing success of the company's strategy in connecting new customers and municipalities from outside the services area.

Sales from the operation and maintenance of the stormwater system decreased by 35.5% to 7.5 mln EEK. This reduction reflects the terms and conditions of the latest contract agreed between the Company and the City of Tallinn which secured this revenue stream through to 2015.

Sales revenues from other operating activities (mainly connections and stormwater construction) increased, year on year, by 27.7% to 12.1 mln EEK as a result of an increase in connections income from individual connectees. In the 1st quarter of 2006 this revenue stream was higher due to the compensation received from the City of Tallinn for stormwater constructions. This is compensated once per year in March and relates to the constructions completed in the previous financial year.

Expenses and profitability

Profits from other operating activities, which include water, sewerage and storm water connection construction income were 0.9 mln EEK, a 0.1 mln EEK decrease from 2005 levels.

The Cost of goods sold for the main operating activity was 54.4 mln EEK in the 2nd quarter of 2006, an increase of 5.4 mln EEK or 11.1% from the equivalent period in 2005. This increase was largely driven by increased chemical costs, pollution taxes, electricity and lower cost capitalizations.

The increase in chemical costs was due to increased usage of methanol required to reduce the concentration of nitrogen discharged into the Baltic Sea. Working in partnership with the Ministry of Environment the Company had targeted the achievement of this key environmental objective by 30 June 2006. Based upon the measurements taken by the Company this target has been achieved. The Company will now send a full report to the Ministry of Environment for their verification and approval. During this project the Company had taken a prudent view of success and had accounted for potential failure, creating a provision of 13.4 million EEK for taxes foregone. However, on receiving final approval, the Company will be able to release this provision into the income statement in the 2nd half of 2006.

Pollution tax costs increased as a result of a 100% rise in tariffs paid on treated wastewater discharged to the sea. Tariffs are set in the Law on Environmental Fees imposed by Parliament for the period from 2006 to 2009.

Electricity costs increased as a result of increased consumption due to higher volumes treated, additional power needs for the nitrogen projects and a rise in electricity tariffs starting from 1st March 2006.

Lower capitalisation of costs in the 2nd quarter of 2006 arose as a result of the different profile and timing of the capital investment programme – in the early part of 2005 significant investments were made in the development of the new customer management and asset management systems. This timing difference of cost capitalisations is expected to unwind throughout 2006 as the Company

remains on course to deliver an investment programme of approximately 240 mln EEK, an almost 10% increase year on year which will be the highest in the Company's history.

The Company's gross profit for the 2nd quarter of 2006 was 95 mln EEK, which represents an increase of 5.7 mln EEK, or 6.4%, compared to the gross profit of 89.3 mln EEK for the 2nd quarter of 2005.

Marketing expenses increased by 0.6 mln EEK to 2.2 mln EEK during the 2nd quarter 2006. This increase was entirely due to additional depreciation charges relating to the implementation of KLIF, the new customer management system

General administration expenses decreased by 17.8 mln EEK from 30.3 mln EEK in the 2nd quarter of 2005 down to 12.4 mln EEK in 2006. This was due to the fact that in the 2nd quarter of 2005 general administration expenses included 17.5 mln EEK of IPO costs.

Other net income was -0.2 mln EEK in 2nd quarter 2006 compared to -8.9 mln EEK in 2nd quarter 2005. In the 2nd quarter of 2005 other income included 8.5 mln EEK of IPO service costs.

The Company's operating profit for the 2nd quarter of 2006 was 80.1 mln EEK, an increase of 31.7 mln EEK, or 65.4%, above the operating profit of 48.4 mln EEK achieved in the 2nd quarter of 2005. Operating profit margin increased from 33% up to 49.9% for the relevant periods.

Net Financial expenses were 10.8 mln EEK in the 2nd quarter of 2006, which is a decrease of 3.4 mln EEK compared to the 2nd quarter of 2005. This is due to the restructuring of the loans in November 2005, which lowered the Company's interest risk margins. This positive effect was reduced by an increase in the 6 month Euribor rate, which rose from 2.097% as of end June 2005 up to 3.245% as of end June 2006.

The Company's profit before taxes for the 2nd quarter of 2006 was 69.3 mln EEK, which represents an increase of 35.1 mln EEK, or 102%, compared to the profit before taxes of 34.3 mln EEK for the 2nd quarter of 2005.

Balance sheet

The Company's total assets were 2,355.9 mln EEK as at 30 June 2006, representing a decrease of 17.7 mln EEK compared to 31 December 2005. Current assets increased by 7.3 mln EEK, which was largely attributable to an increase in accounts receivable reflecting increased sales of water and wastewater treatment services.

Tangible, intangible and unfinished assets were 1973.4 mln EEK at 30 June 2006, a decrease of 3.9 mln EEK of the fixed asset base during the first six month of the year. This was largely attributable to sale of assets and compensations received from the City of Tallinn for stormwater constructions. During the first six months of the year the company invested 67 mln EEK and is still targeting to complete its approximately 240 mln EEK investment program during the 2nd half of the year.

Current liabilities increased by 21.7 mln EEK to 168.1 mln EEK in the first six months of the year. This was mainly due to the tax liabilities related to dividends recorded – this is a timing issue and will unwind in 3rd quarter.

Long-term liabilities stood at 1,165.9 mln EEK at the end of June 2006, consisting almost entirely of the outstanding balance of the bank loans.

Cash flow

During the first 6 months of 2006, the Company generated 163.1 mln EEK of cash flows from operating activities, an increase of 52.4 mln EEK, or 47.3% compared to corresponding period in 2005. The key factors affecting the operating cash flow were the increase in profits (as described above) and positive movements in working capital.

Cash flows from investing activities were –6 mln EEK, a 12.9 mln EEK worsening of the position when compared to the first 6 months of 2005. This was largely due to the prepayments for the sale of assets received that were received in the first half of 2005

Cash flows from financing activities were -157.7 mln EEK during first six months of the year reflecting the dividend payout in June 2006. In first six months of 2005 cash flows from financing activities were –82.4 mln EEK, 75.3 mln EEK lower. This significant reduction was mainly due to the final drawdown of the original EBRD loan facilities which partially offset the effect of the dividend payout and taxes, and the loan principal repayment.

Total cash outflow in the first six months of 2006 was –0.6 mln EEK compared to a cash inflow of 35.2 mln EEK in the first six months of 2005. Cash and cash equivalents stood at 206.4 mln EEK as at 30 June 2006.

Employees

As of 30 June 2006 the Company employed 326 people consisting of 238 people in the Operations division and 88 people in Commercial and Corporate Services. The number of employees has decreased by 8 people since the beginning of the year.

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 30 June 2006 AS Tallinna Vesi shareholders, with a holding over 5%, were:

United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%
Nordea Bank Finland Plc clients account trading	8.57%
Morgan Stanley + Co International Equity client account	6.58%

At the end of the reporting period, 30 June 2006, the closing price of the AS Tallinna Vesi share was 207.8 EEK (13.28 EUR).

Additional information:

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AS TALLINNA VESI

Six months report for the quarter ended 30 June 2006

Currency	Thousand kroons
Start of reporting period	1 January 2006
End of reporting period	30 June 2006
Address	Tallinn, Ädala 10
Chairman of the Management Board	Roch Jean Guy Antoine Cheroux
Commercial register number	10 257 326
Telephone	+372 62 62 202
Telefax	+372 62 62 300
E-mail	tvesi@tvesi.ee
Web page	www.tallinnavesi.ee
Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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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 30 June 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 30 June 2006, and of income and expenses during the reporting period. These estimates are based on current information about AS Tallinna Vesi and consider all plans and risks as at 30 June 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 14 July 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

14 July 2006

AS TALLINNA VESI

BALANCE SHEETS

AT 30 JUNE 2006 AND 2005, AND AT 31 DECEMBER 2005

(thousand EEK)

ASSETS	Note	2006	30 June 2005	31 December 2005
CURRENT ASSETS				
Cash at bank and in hand		206 433	136 193	207 067
Customer receivables		72 047	57 492	66 737
Accrued income and prepaid expenses		7 477	8 129	5 286
Inventories		3 364	3 550	3 156
Assets for sale		1 643	1 562	1 390
TOTAL CURRENT ASSETS		290 964	206 926	283 636
NON-CURRENT ASSETS				
Long-term deposit		0	78 193	0
Tangible assets		1 814 159	1 822 843	1 838 528
Intangible assets	2	40 701	28 106	43 981
Unfinished assets - non connections	2	118 530	92 107	94 793
Unfinished pipelines - new connections	2	88 342	75 595	109 190
Prepayments for fixed assets	2	3 192	3 648	3 479
TOTAL NON-CURRENT ASSETS	2	2 064 924	2 100 492	2 089 971
TOTAL ASSETS		2 355 888	2 307 418	2 373 607
LIABILITIES				
CURRENT LIABILITIES				
Current portion of long-term borrowings		946	91 288	1 340
Trade and other payables, incl. dividends		47 158	62 834	53 507
Taxes payable including dividends income tax		83 981	22 660	22 724
Short-term provisions		414	88	289
Deferred income		35 608	62 130	68 569
TOTAL CURRENT LIABILITIES		168 107	239 000	146 429
NON-CURRENT LIABILITIES				
Finance lease		114	1 000	415
Bank loans		1 165 659	1 103 217	1 165 219
Other payables		100	100	100
TOTAL NON-CURRENT LIABILITIES		1 165 873	1 104 317	1 165 734
TOTAL LIABILITIES		1 333 980	1 343 317	1 312 163
EQUITY CAPITAL				
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		297 443	280 089	280 089
Net profit for the period		117 464	77 011	174 354
TOTAL EQUITY CAPITAL		1 021 908	964 101	1 061 444
TOTAL LIABILITIES AND EQUITY CAPITAL		2 355 888	2 307 418	2 373 607



Chairman of the Management Board:

AS TALLINNA VESI

INCOME STATEMENTS
FOR THE 6 MONTH PERIODS ENDED 30 JUNE 2006 AND 2005

(thousand EEK)

		Quarter 2		6 months		Year ended 31 December
	Note	2006	2005	2006	2005	2005
Sales from main operating activities	3	148 450	137 222	295 656	276 572	549 918
Revenues from other operating activities	3	12 078	9 455	40 854	26 732	42 111
Net sales		160 528	146 677	336 510	303 304	592 029
Costs of goods sold (main operating activities)	4, 5	-54 405	-48 974	-109 242	-98 224	-202 055
Costs of goods sold (other operating activities)	5	-11 173	-8 439	-37 424	-23 888	-38 338
GROSS PROFIT		94 950	89 264	189 844	181 192	351 636
Marketing expenses	4, 5	-2 249	-1 663	-4 803	-3 329	-6 778
General administration expenses	4, 5	-12 449	-30 267	-25 061	-41 602	-64 257
Other income/ expenses (-)	5	-158	-8 921	25 109	3 263	1 959
OPERATING PROFIT		80 094	48 413	185 089	139 524	282 560
Financial income / expenses (-)	6	-10 788	-14 160	-20 729	-27 145	-72 838
PROFIT BEFORE TAXES		69 306	34 253	164 360	112 379	209 722
Income tax on dividends	7	-46 896	0	-46 896	-35 368	-35 368
NET PROFIT FOR THE PERIOD		22 410	34 253	117 464	77 011	174 354
Attributable to:						
Equity holders of A-shares		22 400	34 243	117 454	77 001	174 344
B-share holder		10	10	10	10	10
Earnings per share in kroons	8	1,12	1,71	5,87	3,85	8,72



Chairman of the Management Board:

AS TALLINNA VESI

CASH FLOW STATEMENTS

FOR THE 6 MONTH PERIODS ENDED 30 JUNE 2006 AND 2005

(thousand EEK)

	6 months		Year ended
	2006	2005	31 December
			2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit	185 089	139 524	282 560
Adjustment for depreciation	39 859	38 684	78 741
Adjustment for income and expenses from constructions	-3 429	-2 844	-3 773
Other financial income and expenses	-794	-1 307	-20 012
Profit from sale of fixed assets	-24 680	-11 873	-11 870
Expensed fixed assets	631	178	394
Capitalization of operating expenses	-10 418	-11 750	-23 280
Movement in current assets involved in operating activities	-7 542	-12 625	57 754
Movement in liabilities involved in operating activities	7 495	2 065	6 414
Interest paid	-23 159	-29 371	-59 854
Total cash flow from operating activities	163 052	110 681	307 074
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of fixed assets (incl pipelines construction)	-55 592	-83 616	-199 875
Proceeds from pipelines financed by construction income	48 311	29 326	52 494
Proceeds from sale of and prepayments received for fixed assets	-3 137	47 100	47 345
Proceeds from sale of assets and real estate investments	1 108	11 700	11 700
Interest received	3 319	2 367	5 067
Total cash flow from investing activities	-5 991	6 877	-83 269
CASH FLOWS FROM FINANCING ACTIVITIES			
Received long-term loans	0	109 571	696 318
Repayment of long-term loans	0	-43 650	-664 981
Finance lease payments	-695	-918	-1 707
Dividends paid	-157 000	-112 000	-112 000
Income tax on dividends	0	-35 368	-35 368
Total cash flow from financing activities	-157 695	-82 365	-117 738
Change in cash and bank accounts	-634	35 193	106 067
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD	207 067	101 000	101 000
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	206 433	136 193	207 067



Chairman of the Management Board:

AS TALLINNA VESI

STATEMENTS OF CHANGES IN EQUITY

FOR THE 6 MONTH PERIODS ENDED 30 JUNE 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
31 December 2004	200 001	387 000	93 394	145 734	172 961	999 090
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 period	0	0	0	0	77 011	77 011
30 June 2005	200 001	387 000	20 000	280 089	77 011	964 101
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	117 464	117 464
30 June 2006	200 001	387 000	20 000	297 443	117 464	1 021 908



Chairman of the Management Board:

AS TALLINNA VESI

**NOTES TO THE INTERIM ACCOUNTS
FOR THE 6 MONTH PERIODS ENDED 31 MARCH 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.



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS
FOR THE 6 MONTH PERIODS ENDED 31 MARCH 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	49 343	17 755	0	0	0	67 098
Sale of fixed assets	-7 875	-8 965	-1 577	-2	0	0	0	0	0	-18 419
Write-off of fixed assets	0	-158	-1 891	-795	0	0	0	0	0	-2 844
Reclassification within balance sheet	0	0	0	0	-43	0	0	0	0	-43
Reclassification to expenses	0	0	0	0	-342	0	-287	0	0	-629
Expensed pipelines	0	0	0	0	0	-37 425	0	0	0	-37 425
Reclassification from assets in progress	516	16 413	7 463	228	-25 221	-1 178	0	1 779	0	0
30.06.2006	342 582	1 953 411	507 583	18 574	118 530	88 342	3 192	15 620	56 100	3 103 934
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	1 932	15 666	16 550	652	0	0	0	1 573	3 486	39 859
Depreciation of fixed assets sold and written-off (-)	-70	-2 931	-3 280	-793	0	0	0	0	0	-7 074
30.06.2006	57 543	626 053	313 002	11 393	0	0	0	11 003	20 016	1 039 010
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
30.06.2006	285 039	1 327 358	194 581	7 181	118 530	88 342	3 192	4 617	36 084	2 064 924

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

For the three month period ended 30 June the net balance sheet value of finance leases was 3 276 thousand kroons for 2006 and 4 283 thousand kroons for 2005. Interest capitalised to fixed assets was 1 075 thousand kroons in 2005.

Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS
FOR THE 6 MONTH PERIODS ENDED 31 MARCH 2006 AND 2005

(thousand EEK)

NOTE 3. NET SALES	Quarter 2		6 months		Year ended 31
	2006	2005	2006	2005	December 2005
Revenues from main operating activities					
Water supply service	72 425	65 156	145 097	133 644	262 693
Waste water disposal service	65 728	58 258	130 816	115 837	232 852
Stormwater treatment and disposal service	7 513	11 644	15 026	23 287	46 574
Fire hydrants service	692	510	1 450	1 020	2 040
Other works and services	2 092	1 654	3 267	2 784	5 759
Total revenues from main operating activities	148 450	137 222	295 656	276 572	549 918
Revenues from other operating activities					
Water, sewerage and storm water connections construction income	12 078	9 455	40 854	26 732	42 111
TOTAL NET SALES	160 528	146 677	336 510	303 304	592 029

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

NOTE 4. PERSONNEL EXPENSES

	2006	2005	2006	2005	2005
Salaries and wages	-12 687	-16 819	-25 612	-28 336	-52 949
Social security taxation	-4 283	-5 632	-8 587	-9 493	-17 739
Staff costs total	-16 970	-22 451	-34 199	-37 829	-70 688
Average number of employees during the reporting period	326	341	329	340	337



Chairman of the Management Board:

**NOTES TO THE INTERIM ACCOUNTS
FOR THE 6 MONTH PERIODS ENDED 31 MARCH 2006 AND 2005**

(thousand EEK)

NOTE 5. COSTS AND EXPENSES

Cost of goods sold (main operating activities)	Quarter 2		6 months		Year ended 31 December
	2006	2005	2006	2005	2005
Tax on special use of water	-2 478	-2 518	-5 039	-4 855	-9 049
Chemicals	-4 843	-2 600	-9 667	-5 197	-13 477
Electricity	-6 198	-5 367	-12 713	-12 465	-23 628
Pollution tax	-3 123	-1 825	-5 813	-3 887	-6 905
Staff costs	-11 830	-10 894	-23 731	-21 398	-45 692
Research and development	-1	-28	-1	-51	-186
Depreciation and amortization	-17 939	-17 948	-36 208	-36 263	-73 582
Other costs of goods sold	-7 993	-7 794	-16 070	-14 108	-29 536
Total cost of goods sold (main operating activities)	-54 405	-48 974	-109 242	-98 224	-202 055
Cost of goods sold (other operating activities)					
Water, sewerage and storm water connections construction cost	-11 173	-8 439	-37 424	-23 888	-38 338
Marketing Expenses					
Staff costs	-1 193	-1 151	-2 290	-2 318	-4 777
Depreciation and amortization	-535	-30	-1 515	-54	-192
Other marketing expenses	-521	-482	-998	-957	-1 809
Total cost of marketing expenses	-2 249	-1 663	-4 803	-3 329	-6 778
General Administration Expenses					
Staff costs	-3 947	-10 406	-8 178	-14 113	-20 219
Depreciation and amortization	-1 074	-1 186	-2 136	-2 367	-4 967
Other general administration expenses	-7 428	-18 675	-14 747	-25 122	-39 071
Total cost of general administration expenses	-12 449	-30 267	-25 061	-41 602	-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.



Chairman of the Management Board:

AS TALLINNA VESI

**NOTES TO THE INTERIM ACCOUNTS
FOR THE 6 MONTH PERIODS ENDED 31 MARCH 2006 AND 2005**

(thousand EEK)

NOTE 6. FINANCIAL INCOME AND EXPENSES	6 months		Year ended 31
	2006	2005	December 2005
Interest income	3 271	2 540	4 966
Interest expense	-23 205	-28 377	-57 791
Loans restructuring costs	-518	-1 023	-19 497
Other financial income / expenses (-)	-271	-529	-811
Foreign exchange gain/loss (-)	-6	244	295
Total financial income / expenses	-20 729	-27 145	-72 838

NOTE 7. DIVIDENDS	6 months		Year ended 31
	2006	2005	December 2005
Dividends declared during the period	157 000	112 000	112 000
Dividends paid during the period	157 000	112 000	112 000
Income tax on dividends declared	-46 896	-35 368	-35 368
Income tax accounted	-46 896	-35 368	-35 368

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

NOTE 8. EARNINGS AND DIVIDENDS PER SHARE

	6 months		Year ended 31
	2006	2005	December 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)	117 454	77 001	174 344
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	5,87	3,85	8,72
Dividends per A-share in kroons	7,85	5,60	5,60
Dividends per B-share in kroons	10 000,00	10 000,00	10 000,00

Diluted earnings per share for the periods ended 30 June 2005 and 2006 and 31 December 2005 are equal to the earnings per share figures stated above.



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS
FOR THE 6 MONTH PERIODS ENDED 31 MARCH 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 30.06.2005 and 30.06.2006 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 for 6 months		
Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi		
Accrued income and prepaid expenses	0	4 708
Accounts payable - short-term trade and other payables, incl. dividends	0	2 636
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	32 789	0
General administration expenses	0	5 079
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	7 046
2006 for 6 months		
Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi		
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
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	45 933	0
General administration expenses	0	9 336
Other income (-)/ expenses	0	0
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	6 376

	6 months		Year ended 31 December
	2006	2005	2005
Management Board fees excluding social tax	1 120	1 061	2 121
Supervisory Board fees excluding social tax	250	11	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.



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS FOR THE 6 MONTH PERIODS ENDED 31 MARCH 2006 AND 2005

NOTE 10. FINANCIAL INDICATORS

	6 months		Year ended 31 December
	2006	2005	2005
Operating Margin ⁽¹⁾	55,0%	46,0%	47,7%
Net profit margin ⁽²⁾	34,9%	25,4%	29,5%
Return on equity ⁽³⁾	11,3%	7,8%	16,9%
Return on assets ⁽⁴⁾	5,0%	3,4%	7,6%
Debt to equity ratio ⁽⁵⁾	1,3	1,4	1,2
Current ratio ⁽⁶⁾	1,7	0,9	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

