

## AS TALLINNA VESI

### RESULTS OF OPERATIONS IN 2<sup>nd</sup> QUARTER 2006

#### Key performance indicators

<i>Amounts in million EUR</i>	<b>2nd Q 2006</b>	<b>2nd Q 2005</b>	<b>Change</b>	<b>6 months 2006</b>	<b>6 months 2005</b>	<b>Change</b>
Sales	10,3	9,4	9,4%	21,5	19,4	10,9%
Main operating activities	9,5	8,8	8,2%	18,9	17,7	6,9%
Other operating activities	0,8	0,6	27,7%	2,6	1,7	52,8%
Gross profit	6,1	5,7	6,4%	12,1	11,6	4,8%
Gross profit margin %	59,1%	60,9%	-2,8%	56,4%	59,7%	-5,6%
Operating profit	5,1	3,1	65,4%	11,8	8,9	32,7%
Operating profit margin %	49,9%	33,0%	51,2%	55,0%	46,0%	19,6%
Profit before taxes	4,4	2,2	102,3%	10,5	7,2	46,3%
Profit before taxes margin	43,2%	23,4%	84,9%	48,8%	37,1%	31,8%
Net profit	1,4	2,2	-34,6%	7,5	4,9	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 2<sup>nd</sup> quarter of 2006 the Company's total sales increased, year on year, by 9.4% to 10.3 mln EUR. Sales from the Company's main operating activities were 9.5 mln EUR. 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 8.8 mln EUR, 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 4.6 mln EUR primarily as a result of the tariff increase from 1 January 2006. Sales to commercial customers within the services area increased 11.2% to 4.0 million EUR, 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 m<sup>3</sup> or

0.2 mln EUR in the 2<sup>nd</sup> 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 0.5 mln EUR. 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 0.8 mln EUR as a result of an increase in connections income from individual connectees. In the 1<sup>st</sup> 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 year.

### **Expenses and profitability**

Profits from other operating activities, which include water, sewerage and storm water connection construction income were 0.06 mln EUR, a 0.007 mln EUR decrease from 2005 levels.

The Cost of goods sold for the main operating activity was 3.5 mln EUR in the 2<sup>nd</sup> quarter of 2006, an increase of 0.3 mln EUR 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 0.9 mln EUR for taxes foregone. However, on receiving final approval, the Company will be able to release this provision into the income statement in the 2<sup>nd</sup> 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 1<sup>st</sup> March 2006.

Lower capitalisation of costs in the 2<sup>nd</sup> 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 15.3 mln EUR, an almost 10% increase year on year which will be the highest in the Company's history.

The Company's gross profit for the 2<sup>nd</sup> quarter of 2006 was 6.1 mln EUR, which represents an increase of 0.4 mln EUR, or 6.4%, compared to the gross profit of 5.7 mln EUR for the 2<sup>nd</sup> quarter of 2005.

Marketing expenses increased by 0.04 mln EUR to 0.1 mln EUR during the 2<sup>nd</sup> 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 1.1 mln EUR from 1.9 mln EUR in the 2<sup>nd</sup> quarter of 2005 down to 0.8 mln EUR in 2006. This was due to the fact that in the 2<sup>nd</sup> quarter of 2005 general administration expenses included 1.1 mln EUR of IPO costs.

Other net income was -0.01 mln EUR in 2<sup>nd</sup> quarter 2006 compared to -0.6 mln EUR in 2<sup>nd</sup> quarter 2005. In the 2<sup>nd</sup> quarter of 2005 other income included 0.5 mln EUR of IPO service costs.

The Company's operating profit for the 2<sup>nd</sup> quarter of 2006 was 5.1 mln EUR, an increase of 2.0 mln EUR, or 65.4%, above the operating profit of 3.1 mln EUR achieved in the 2<sup>nd</sup> quarter of 2005. Operating profit margin increased from 33% up to 49.9% for the relevant periods.

Net Financial expenses were 0.7 mln EUR in the 2<sup>nd</sup> quarter of 2006, which is a decrease of 0.2 mln EUR compared to the 2<sup>nd</sup> 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 2<sup>nd</sup> quarter of 2006 was 4.4 mln EUR, which represents an increase of 2.2 mln EUR, or 102%, compared to the profit before taxes of 2.2 mln EUR for the 2<sup>nd</sup> quarter of 2005.

## **Balance sheet**

The Company's total assets were 150.6 mln EUR as at 30 June 2006, representing a decrease of 1.1 mln EUR compared to 31 December 2005. Current assets increased by 0.5 mln EUR, 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 126.1 mln EUR at 30 June 2006, a decrease of 0.3 mln EUR 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 4.3 mln EUR and is still targeting to complete its approximately 15.3 mln EUR investment program during the 2<sup>nd</sup> half of the year.

Current liabilities increased by 1.4 mln EUR to 10.7 mln EUR 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 3<sup>rd</sup> quarter.

Long-term liabilities stood at 74.5 mln EUR 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 10.4 mln EUR of cash flows from operating activities, an increase of 3.3 mln EUR, 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 –0.4 mln EUR, a 0.8 mln EUR 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 –10.1 mln EUR 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 –5.3 mln EUR, 4.8 mln EUR 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 –0.04 mln EUR compared to a cash inflow of 2.2 mln EUR in the first six months of 2005. Cash and cash equivalents stood at 13.2 mln EUR 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 10 mln EUR 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 13.28 EUR.

#### Additional information:

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