

*Tallinna Vesi*



**AS Tallinna Vesi**  
**Interim report for 3<sup>rd</sup> quarter and first nine months of 2006**

Currency	Thousand kroons
Start of reporting period	1 January 2006
End of reporting period	30 September 2006
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Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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## AS TALLINNA VESI

### MANAGEMENT REPORT

### RESULTS OF OPERATIONS IN 3<sup>rd</sup> QUARTER 2006

(million kroons)

#### Overview

Strong growth in sales of water and wastewater treatment in the 3<sup>rd</sup> quarter of 2006 enabled the company to continue to deliver growth in profitability, operating profit margin increasing from 50.5% to 52.5% and profit before taxes margin from 40.2% to 45.2%. In this quarter sales to residential customers increased by 13% year on year, sales to commercial customers within the service area increased by 10.8% year on year, and outside the service area sales reached 437 000 m<sup>3</sup>, up from 308 000 m<sup>3</sup> in Q3 2005. To continue to improve the quality of product and service, environmental issues and meet this increased demand the Company has invested 135.7 mln EEK in first nine months of the year.

#### Key performance indicators

<i>Million EEK</i>	<b>3rd Q 2006</b>	<b>3rd Q 2005</b>	<b>Change</b>	<b>9 months 2006</b>	<b>9 months 2005</b>	<b>Change</b>
Sales	149,2	137,4	8,5%	485,7	440,8	10,2%
Main operating activities	144,6	133,0	8,7%	440,3	409,6	7,5%
Other operating activities	4,6	4,4	3,9%	45,4	31,1	45,9%
Gross profit	92,4	83,7	10,4%	282,2	264,9	6,5%
Gross profit margin %	61,9%	60,9%	1,7%	58,1%	60,1%	-3,3%
Operating profit	78,4	69,4	13,0%	263,5	208,9	26,1%
Operating profit margin %	52,5%	50,5%	4,1%	54,2%	47,4%	14,4%
Profit before taxes	67,5	55,2	22,2%	231,8	167,6	38,3%
Profit before taxes margin	45,2%	40,2%	12,6%	47,7%	38,0%	25,5%
Net profit	67,5	55,2	22,2%	184,9	132,2	39,9%
ROA %	2,8%	2,3%	20,3%	7,7%	5,6%	37,7%
Debt to total capital employed	54,9%	57,2%	-3,9%	54,9%	57,2%	-3,9%
ROE%	6,2%	5,4%	14,4%	17,0%	13,0%	30,9%
Current ratio	1,9	1,0	98,2%	1,9	1,0	98,2%

*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 3<sup>rd</sup> quarter of 2006 the Company's total sales increased, year on year, by 8.5% to 149.2 mln EEK. Sales from the Company's main operating activities were 144.6 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 134.4 mln EEK, which is a 12.8% increase compared to the third quarter of 2005. Strong growth in revenues was achieved in sales both to residential customers and commercial customers, both within and outside of the service area.

In quarter three sales to residential customers increased by 13% to 70.5 mln EEK. This resulted primarily from the 9.6% tariff increase from 1 January 2006 and a 3% increase in the volumes of water supplied and wastewater treated when compared to the third quarter of 2005.

Sales to commercial customers within the services area increased by 10.8% to 60.8 million EEK in 3<sup>rd</sup> quarter 2006, due to the 9.6% tariff increase and a 1.5% increase in volumes. Sales to commercial customers outside of the service area – primarily bulk volumes of wastewater treatment services provided to the surrounding municipalities - reached 437,000 m<sup>3</sup> or 3.1 mln EEK, which represents a 54% increase in sales value compared to the 3<sup>rd</sup> quarter of 2005.

The growth in volumes demonstrates, the improvement from in areas sales due to growth in customer numbers and average consumption and outside of the services area through the continuing success of the company's strategy in connecting new customers and municipalities. The increase in water and wastewater consumption can be partly explained by the strong economic growth, reflected in increased household disposable incomes and the active real estate development in Tallinn and surrounding areas.

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 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, year on year, by 3.9% to 4.6 mln EEK as a result of a slight increase in connections income from individual connectees.

### **Expenses and profitability**

Profits from other operating activities, which include water, sewerage and storm water connection construction income were 0.7 mln EEK, a 0.1 mln EEK increase from 2005 levels.

The cost of goods sold for the main operating activity was 52.9 mln EEK in the 3<sup>rd</sup> quarter of 2006, an increase of 3 mln EEK or 6% from the equivalent period in 2005. This increase was largely driven by increased chemical costs and environmental taxes.

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 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 4<sup>th</sup> quarter of 2006 and as a result will be able to release a provision worth 13.9 mln EEK for taxes foregone that would have had to be paid had the project been unsuccessful. It is possible that the cost of chemicals may rise in the future, as the continued achievement of this key objective requires chemical quantities similar to those used in 2006 in an environment of increasing commodity prices.

Environmental 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 the Parliament for

the period from 2006 to 2009. Tax on special use of water increased to 2.5 mln EEK compared to the 3<sup>rd</sup> quarter of 2005 due to increase in volumes of treated and pumped groundwater.

The Company's gross profit for the 3<sup>rd</sup> quarter of 2006 was 92.4 mln EEK, which represents an increase of 8.7 mln EEK, or 10.4%, compared to the gross profit of 83.7 mln EEK for the 3<sup>rd</sup> quarter of 2005. Gross profit margin was 61.9 % compared to 60.9% in the 3<sup>rd</sup> quarter of 2005.

Marketing expenses increased by 0.7 mln EEK to 2.3 mln EEK during the 3<sup>rd</sup> quarter of 2006. This increase was mainly due to additional depreciation charges relating to the implementation of KLIF, the new customer management system

General administration expenses decreased by 0.2 mln EEK from 11.3 mln EEK in the 3<sup>rd</sup> quarter of 2005 down to 11.1 mln EEK in 2006 as a consequence of a decrease in depreciation and other general administration expenses. In the first nine months of 2005 general administration expenses were extraordinarily high due to 17.5 mln EEK of one-off IPO costs.

Personnel expenses were 15 mln EEK in the 3<sup>rd</sup> quarter of 2006, a 3.7% decrease compared to the same period in 2005. This was mainly due to the decreased number of employees, as the average number of employees fell from 341 to 319 quarter on quarter. This sharp decrease in number of employees is caused by the high demand for skilled workers in the construction sector not by a change in the Company's structure.

Other expenses reduced to 0.6 mln EEK in 3<sup>rd</sup> quarter 2006 compared to 1.5 mln EEK in 3<sup>rd</sup> quarter of 2005, primarily due to improved debt management.

The Company's operating profit for the 3<sup>rd</sup> quarter of 2006 was 78.4 mln EEK, an increase of 9.0 mln EEK, or 13%, above the operating profit of 69.4 mln EEK achieved in the 3<sup>rd</sup> quarter of 2005. Operating profit margin increased from 50.5% up to 52.5% for the relevant periods.

Net Financial expenses were 10.9 mln EEK in the 3<sup>rd</sup> quarter of 2006, which is a decrease of 3.3 mln EEK compared to the 3<sup>rd</sup> quarter of 2005. The restructuring of the Company's long-term debt in November 2005 lowered the Company's interest expenses by 2.5 mln EEK compared to the 3<sup>rd</sup> quarter of 2005.

The Company's profit before taxes for the 3<sup>rd</sup> quarter of 2006 was 67.5 mln EEK, which represents an increase of 12.3 mln EEK, or 22.2%, compared to the profit before taxes of 55.2 mln EEK for the 3<sup>rd</sup> quarter of 2005.

## **Balance sheet**

The Company's total assets were 2,417 mln EEK as at 30 September 2006, representing an increase of 43.4 mln EEK compared to 31 December 2005. Current assets increased by 23.8 mln EEK, 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 2,106.6 mln EEK at 30 September 2006, an increase of 20.1 mln EEK of the fixed asset base during the first nine months of the year. During the first nine months of the year the Company has invested 135.7 million EEK in the following areas: 88.5 mln EEK networks extension and rehabilitation, 26.6 mln EEK Paljassaare wastewater treatment plant and wastewater treatment, 6.6 mln EEK water quality (Ülemiste water treatment plant and raw water) and 14 mln EEK other investments (IT, capital maintenance, meters, etc).

Current liabilities increased by 15.2 mln EEK to 161.6 mln EEK in the first nine 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 55% as at 30 September 2006. Long-term liabilities stood at 1,165.9 mln EEK at the end of September 2006, consisting almost entirely of the outstanding balance of the bank loans.

### **Cash flow**

During the first nine months of 2006, the Company generated 242.9 mln EEK of cash flows from operating activities, an increase of 61.1 mln EEK, or 33.6% compared to the corresponding period in 2005. The key factor affecting this improvement was a 54.6 mln EEK increase in operating profit. The improvement in operating cash flows has also been assisted by the direct debit payment option offered with 17% of the Company's customers having signed to date.

Net cash outflows from investing activities were 21.4 mln EEK, 4.7 mln EEK less than the first nine months of 2005. This was largely due to higher proceeds received from pipelines financed by construction income.

Cash outflows from financing activities were 204.9 mln EEK during first nine months of the year, which is 122.1 mln EEK more than the outflows in the corresponding period in 2005. This significant reduction was mainly due to the inflow from the final drawdown of the original EBRD loan facilities sum of 109.6 mln EEK in April 2005.

As a result of all of the above factors, the total cash inflow in the first nine months of 2006 was 16.5 mln EEK compared to a cash inflow of 72.8 mln EEK in the first nine months of 2005. Cash and cash equivalents stood at 223.6 mln EEK as at 30 September 2006.

### **Employees**

As of 30 September 2006 the Company employed 318 people consisting of 231 people in the Operations division and 87 people in Commercial and Corporate Services. The number of employees has decreased 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.

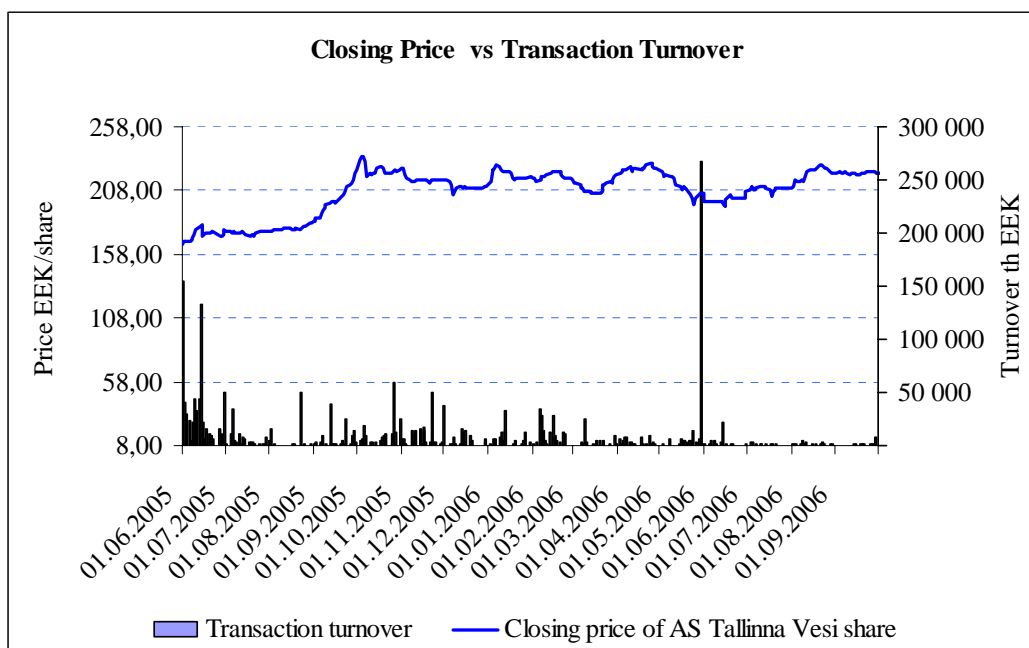
### **Dividends and share performance**

Based on the results of the 2005 financial year, the Management Board of AS Tallinna Vesi paid 157 mln EEK dividends in June 2006.

As of 30 September 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	8.66%
Morgan Stanley + Co International Equity client account	6.83%

At the end of the reporting period, 30 September 2006, the closing price of the AS Tallinna Vesi share was 221.40 EEK (14.15 EUR).



## Operational achievements

- The City approved a 10.8% increase in tariffs starting from 1 January 2007.
- 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 more than 25% over the base year. Total investment into this project that has lasted over three years was over 30 mln EEK. 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 40 mln EEK and it is expected to be completed in the first half of 2007.
- Quarter 3 was an unusually dry quarter in Tallinn. Certain areas of the City experienced significant increased demand due to residents watering their gardens during the dry summer. The company was able to meet all of these demands and the water supplied into the distribution network continued to be of a very high quality.

### 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 September 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 30 September 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 September 2006. The actual results of these business transactions recorded may differ from such estimates.

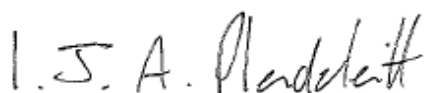
The interim accounts give a true and fair view of the financial position, economic performance and cash flows of the company.

All material subsequent events that occurred by the interim accounts preparation date of 13 October 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

13 October 2006



## AS TALLINNA VESI

## BALANCE SHEETS

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

(thousand EEK)

ASSETS	Note	30 September 2006	2005	31 December 2005
<b>CURRENT ASSETS</b>				
Cash at bank and in hand		223 590	173 836	207 067
Customer receivables		73 090	59 138	66 737
Accrued income and prepaid expenses		5 919	8 458	5 286
Inventories		3 270	3 114	3 156
Assets for sale		1 531	1 396	1 390
<b>TOTAL CURRENT ASSETS</b>		<b>307 400</b>	<b>245 942</b>	<b>283 636</b>
<b>NON-CURRENT ASSETS</b>				
Long-term deposit		0	78 590	0
Tangible assets		1 846 720	1 814 133	1 838 528
Intangible assets	2	39 600	26 370	43 981
Unfinished assets - non connections	2	111 849	112 773	94 793
Unfinished pipelines - new connections	2	108 426	98 591	109 190
Prepayments for fixed assets	2	2 998	3 648	3 479
<b>TOTAL NON-CURRENT ASSETS</b>	2	<b>2 109 593</b>	<b>2 134 105</b>	<b>2 089 971</b>
<b>TOTAL ASSETS</b>		<b>2 416 993</b>	<b>2 380 047</b>	<b>2 373 607</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Current portion of long-term borrowings		743	91 199	1 340
Trade and other payables, incl. dividends		83 212	77 378	53 507
Taxes payable		25 395	18 275	22 724
Short-term provisions		476	228	289
Deferred income		51 808	69 272	68 569
<b>TOTAL CURRENT LIABILITIES</b>		<b>161 634</b>	<b>256 352</b>	<b>146 429</b>
<b>NON-CURRENT LIABILITIES</b>				
Finance lease		0	687	415
Bank loans		1 165 879	1 103 598	1 165 219
Other payables		100	100	100
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1 165 979</b>	<b>1 104 385</b>	<b>1 165 734</b>
<b>TOTAL LIABILITIES</b>		<b>1 327 613</b>	<b>1 360 737</b>	<b>1 312 163</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		297 443	280 089	280 089
Net profit for the period		184 936	132 220	174 354
<b>TOTAL EQUITY CAPITAL</b>		<b>1 089 380</b>	<b>1 019 310</b>	<b>1 061 444</b>
<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>		<b>2 416 993</b>	<b>2 380 047</b>	<b>2 373 607</b>

## AS TALLINNA VESI

## INCOME STATEMENTS

FOR THE 9 MONTH PERIODS ENDED 30 SEPTEMBER 2006 AND 2005

(thousand EEK)

	Note	Quarter 3		9 months		Year ended 31
		2006	2005	2006	2005	December
		2006	2005	2006	2005	2005
Sales from main operating activities	3	144 611	133 037	440 267	409 609	549 918
Revenues from other operating activities	3	4 582	4 409	45 436	31 141	42 111
<b>Net sales</b>		<b>149 193</b>	<b>137 446</b>	<b>485 703</b>	<b>440 750</b>	<b>592 029</b>
Costs of goods sold (main operating activities)	4, 5	-52 872	-49 883	-162 114	-148 107	-202 055
Costs of goods sold (other operating activities)	5	-3 921	-3 837	-41 345	-27 725	-38 338
<b>GROSS PROFIT</b>		<b>92 400</b>	<b>83 726</b>	<b>282 244</b>	<b>264 918</b>	<b>351 636</b>
Marketing expenses	4, 5	-2 308	-1 575	-7 111	-4 904	-6 778
General administration expenses	4, 5	-11 110	-11 254	-36 171	-52 856	-64 257
Other income/ expenses (-)	5	-596	-1 513	24 513	1 750	1 959
<b>OPERATING PROFIT</b>		<b>78 386</b>	<b>69 384</b>	<b>263 475</b>	<b>208 908</b>	<b>282 560</b>
Financial income / expenses (-)	6	-10 914	-14 175	-31 643	-41 320	-72 838
<b>PROFIT BEFORE TAXES</b>		<b>67 472</b>	<b>55 209</b>	<b>231 832</b>	<b>167 588</b>	<b>209 722</b>
Income tax on dividends	7	0	0	-46 896	-35 368	-35 368
<b>NET PROFIT FOR THE PERIOD</b>		<b>67 472</b>	<b>55 209</b>	<b>184 936</b>	<b>132 220</b>	<b>174 354</b>
Attributable to:						
Equity holders of A-shares		67 462	55 199	184 926	132 210	174 344
B-share holder		10	10	10	10	10
<b>Earnings per share in kroons</b>	8	<b>3,37</b>	<b>2,76</b>	<b>9,25</b>	<b>6,61</b>	<b>8,72</b>

AS TALLINNA VESI

CASH FLOW STATEMENTS

FOR THE 9 MONTH PERIODS ENDED 30 SEPTEMBER 2006 AND 2005

(thousand EEK)

	9 months		Year ended 31 December
	2006	2005	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating profit	263 475	208 908	282 560
Adjustment for depreciation	59 656	58 106	78 741
Adjustment for income and expenses from constructions	-4 091	-3 416	-3 773
Other financial income and expenses	-1 183	-1 868	-20 012
Profit from sale of fixed assets	-24 917	-12 043	-11 870
Expensed fixed assets	650	221	394
Capitalization of operating expenses	-15 878	-16 643	-23 280
Movement in current assets involved in operating activities	-8 642	-14 108	57 754
Movement in liabilities involved in operating activities	-3 030	-7 973	6 414
Interest paid	-23 175	-29 412	-59 854
<b>Total cash flow from operating activities</b>	<b>242 865</b>	<b>181 772</b>	<b>307 074</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of fixed assets (incl pipelines construction)	-95 155	-129 125	-199 875
Proceeds from pipelines financed by construction income	70 748	40 409	52 494
Proceeds from sale of and prepayments received for fixed assets	-2 778	47 274	47 345
Proceeds from sale of assets and real estate investments	1 107	11 700	11 700
Interest received	4 644	3 574	5 067
<b>Total cash flow from investing activities</b>	<b>-21 434</b>	<b>-26 168</b>	<b>-83 269</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Received long-term loans	0	109 571	696 318
Repayment of long-term loans	0	-43 650	-664 981
Finance lease payments	-1 012	-1 321	-1 707
Dividends paid	-157 000	-112 000	-112 000
Income tax on dividends	-46 896	-35 368	-35 368
<b>Total cash flow from financing activities</b>	<b>-204 908</b>	<b>-82 768</b>	<b>-117 738</b>
<b>Change in cash and bank accounts</b>	<b>16 523</b>	<b>72 836</b>	<b>106 067</b>
<b>CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>207 067</b>	<b>101 000</b>	<b>101 000</b>
<b>CASH AND EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>223 590</b>	<b>173 836</b>	<b>207 067</b>

AS TALLINNA VESI

STATEMENTS OF CHANGES IN EQUITY

FOR THE 9 MONTH PERIODS ENDED 30 SEPTEMBER 2006 AND 2005

(thousand EEK)

	Share capital	Share premium	Statutory legal reserve	Accumulated profit	Net profit	Total equity
<b>31 December 2004</b>	<b>200 001</b>	<b>387 000</b>	<b>93 394</b>	<b>145 734</b>	<b>172 961</b>	<b>999 090</b>
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
<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>
<b>31 December 2004</b>	<b>200 001</b>	<b>387 000</b>	<b>93 394</b>	<b>145 734</b>	<b>172 961</b>	<b>999 090</b>
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	132 220	132 220
<b>30 September 2005</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>280 089</b>	<b>132 220</b>	<b>1 019 310</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	184 936	184 936
<b>30 September 2006</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>297 443</b>	<b>184 936</b>	<b>1 089 380</b>

## **AS TALLINNA VESI**

### **NOTES TO THE INTERIM ACCOUNTS FOR THE 9 MONTH PERIODS ENDED 30 SEPTEMBER 2006 AND 2005**

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#### **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.

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE 9 MONTH PERIODS ENDED 30 SEPTEMBER 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	
<b>Acquisition cost at</b>										
<b>31.12.2004</b>	<b>311 470</b>	<b>1 899 519</b>	<b>484 895</b>	<b>16 335</b>	<b>102 634</b>	<b>79 675</b>	<b>3 648</b>	<b>9 598</b>	<b>27 357</b>	<b>2 935 131</b>
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
<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	93 860	41 793	0	0	0	135 653
Sale of fixed assets	-7 875	-8 965	-2 339	-7	0	0	0	0	0	-19 186
Write-off of fixed assets	0	-441	-2 445	-822	0	0	0	0	0	-3 708
Reclassification within balance sheet	0	0	0	0	-43	-33	0	0	0	-76
Reclassification to expenses	0	-1	0	0	-360	-1	-288	0	0	-650
Expensed pipelines	0	0	0	0	0	-41 345	0	0	0	-41 345
Reclassification from assets in progress	1 465	45 354	27 395	705	-76 401	-1 178	-193	2 632	221	0
<b>30.09.2006</b>	<b>343 531</b>	<b>1 982 068</b>	<b>526 199</b>	<b>19 019</b>	<b>111 849</b>	<b>108 426</b>	<b>2 998</b>	<b>16 473</b>	<b>56 321</b>	<b>3 166 884</b>
<b>Accumulated depreciation</b>										
<b>31.12.2004</b>	<b>52 889</b>	<b>586 747</b>	<b>282 329</b>	<b>10 357</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7 041</b>	<b>11 454</b>	<b>950 817</b>
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
<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	2 898	23 563	24 995	966	0	0	0	1 463	5 771	59 656
Depreciation of fixed assets sold and written-off (-)	-70	-3 214	-4 482	-824	0	0	0	0	0	-8 590
<b>30.09.2006</b>	<b>58 509</b>	<b>633 667</b>	<b>320 245</b>	<b>11 676</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10 893</b>	<b>22 301</b>	<b>1 057 291</b>
<b>Net book value</b>										
<b>31.12.2004</b>	<b>258 581</b>	<b>1 312 772</b>	<b>202 566</b>	<b>5 978</b>	<b>102 634</b>	<b>79 675</b>	<b>3 648</b>	<b>2 557</b>	<b>15 903</b>	<b>1 984 314</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>30.09.2006</b>	<b>285 022</b>	<b>1 348 401</b>	<b>205 954</b>	<b>7 343</b>	<b>111 849</b>	<b>108 426</b>	<b>2 998</b>	<b>5 580</b>	<b>34 020</b>	<b>2 109 593</b>

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

For the nine month period ended 30 September the net balance sheet value of finance leases was 2 926 thousand kroons for 2006 and 4 514 thousand kroons for 2005.

Interest capitalised to fixed assets was 1 075 thousand kroons in 2005.

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE 9 MONTH PERIODS ENDED 30 SEPTEMBER 2006 AND 2005

(thousand EEK)

NOTE 3. NET SALES	Quarter 3		9 months		Year ended 31
	2006	2005	2006	2005	December 2005
<b>Revenues from main operating activities</b>					
Water supply service	71 443	62 818	216 540	196 462	262 693
Waste water disposal service	62 957	56 346	193 773	172 183	232 852
Stormwater treatment and disposal service	7 513	11 643	22 539	34 930	46 574
Fire hydrants service	725	510	2 175	1 530	2 040
Other works and services	1 973	1 720	5 240	4 504	5 759
<b>Total revenues from main operating activities</b>	<b>144 611</b>	<b>133 037</b>	<b>440 267</b>	<b>409 609</b>	<b>549 918</b>
<b>Revenues from other operating activities</b>					
Water, sewerage and storm water connections construction income	4 582	4 409	45 436	31 141	42 111
<b>TOTAL NET SALES</b>	<b>149 193</b>	<b>137 446</b>	<b>485 703</b>	<b>440 750</b>	<b>592 029</b>

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

NOTE 4. PERSONNEL EXPENSES

	Quarter 3		9 months		Year ended 31
	2006	2005	2006	2005	December 2005
Salaries and wages	-11 311	-11 687	-36 923	-40 023	-52 949
Social security taxation	-3 709	-3 915	-12 296	-13 408	-17 739
<b>Staff costs total</b>	<b>-15 020</b>	<b>-15 602</b>	<b>-49 219</b>	<b>-53 431</b>	<b>-70 688</b>
<b>Average number of employees during the reporting period</b>	<b>319</b>	<b>341</b>	<b>326</b>	<b>340</b>	<b>337</b>

NOTES TO THE INTERIM ACCOUNTS  
FOR THE 9 MONTH PERIODS ENDED 30 SEPTEMBER 2006 AND 2005

(thousand EEK)

## NOTE 5. COSTS AND EXPENSES

Cost of goods sold (main operating activities)	Quarter 3		9 months		Year ended 31 December
	2006	2005	2006	2005	2005
Tax on special use of water	-2 482	-1 861	-7 521	-6 716	-9 049
Chemicals	-4 927	-3 819	-14 594	-9 016	-13 477
Electricity	-5 599	-5 455	-18 312	-17 920	-23 628
Pollution tax	-3 395	-1 538	-9 208	-5 425	-6 905
Staff costs	-10 401	-11 155	-34 132	-32 553	-45 692
Research and development	-30	-39	-31	-90	-186
Depreciation and amortization	-18 181	-18 231	-54 389	-54 494	-73 582
Other costs of goods sold	-7 857	-7 785	-23 927	-21 893	-29 536
<b>Total cost of goods sold (main operating activities)</b>	<b>-52 872</b>	<b>-49 883</b>	<b>-162 114</b>	<b>-148 107</b>	<b>-202 055</b>
<b>Cost of goods sold (other operating activities)</b>					
Water, sewerage and storm water connections construction cost	-3 921	-3 837	-41 345	-27 725	-38 338
<b>Marketing Expenses</b>					
Staff costs	-1 167	-1 140	-3 457	-3 458	-4 777
Depreciation and amortization	-534	-41	-2 049	-95	-192
Other marketing expenses	-607	-394	-1 605	-1 351	-1 809
<b>Total cost of marketing expenses</b>	<b>-2 308</b>	<b>-1 575</b>	<b>-7 111</b>	<b>-4 904</b>	<b>-6 778</b>
<b>General Administration Expenses</b>					
Staff costs	-3 452	-3 307	-11 630	-17 420	-20 219
Depreciation and amortization	-1 082	-1 150	-3 218	-3 517	-4 967
Other general administration expenses	-6 576	-6 797	-21 323	-31 919	-39 071
<b>Total cost of general administration expenses</b>	<b>-11 110</b>	<b>-11 254</b>	<b>-36 171</b>	<b>-52 856</b>	<b>-64 257</b>

**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.



**NOTES TO THE INTERIM ACCOUNTS  
FOR THE 9 MONTH PERIODS ENDED 30 SEPTEMBER 2006 AND 2005**

(thousand EEK)

<b>NOTE 6. FINANCIAL INCOME AND EXPENSES</b>	<b>9 months</b>		<b>Year ended 31</b>
	<b>2006</b>	<b>2005</b>	<b>December 2005</b>
Interest income	4 615	3 755	4 966
Interest expense	-35 076	-43 207	-57 791
Loans restructuring costs	-776	-1 443	-19 497
Other financial income / expenses (-)	-398	-686	-811
Foreign exchange gain/loss (-)	-8	261	295
<b>Total financial income / expenses</b>	<b>-31 643</b>	<b>-41 320</b>	<b>-72 838</b>

<b>NOTE 7. DIVIDENDS</b>	<b>9 months</b>		<b>Year ended 31</b>
	<b>2006</b>	<b>2005</b>	<b>December 2005</b>
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
<b>Income tax accounted</b>	<b>-46 896</b>	<b>-35 368</b>	<b>-35 368</b>

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

**NOTE 8. EARNINGS AND DIVIDENDS PER SHARE**

	<b>9 months</b>		<b>Year ended 31</b>
	<b>2006</b>	<b>2005</b>	<b>December 2005</b>
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)	184 926	132 210	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	9,25	6,61	8,72
Dividends per A-share in kroons	7,85	5,60	5,60
Dividends per B-share in kroons	10 000	10 000	10 000

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

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE 9 MONTH PERIODS ENDED 30 SEPTEMBER 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 30.09.2005 and 30.09.2006 are recorded as follows:

	<b>Tallinn City Government and related boards</b>	<b>The companies belonging to the same group with the United Utilities (Tallinn) B.V.</b>
<b>2005 for 9 months</b>		
<b>Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi</b>		
Accrued income and prepaid expenses	0	2 354
Accounts payable - short-term trade and other payables, incl. dividends	0	1 968
<b>Transactions recorded to the Income Statement of AS Tallinna Vesi</b>		
Net sales	61 515	0
General administration expenses	0	12 651
<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	9 506
<b>2006 for 9 months</b>		
<b>Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi</b>		
Customer receivables	2 568	0
Accrued income and prepaid expenses	0	2 405
Deferred income	2 176	0
Accounts payable - short-term trade and other payables, incl. dividends	0	2 293
<b>Transactions recorded to the Income Statement of AS Tallinna Vesi</b>		
Net sales	53 515	0
General administration expenses	0	10 826
<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	9 403
	<b>9 months</b>	<b>Year ended 31 December</b>
	<b>2006</b>	<b>2005</b>
<b>Management Board fees excluding social tax</b>	1 609	1 591
<b>Supervisory Board fees excluding social tax</b>	375	14
		<b>2005</b>
		2 121
		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.

**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 9 MONTH PERIODS ENDED 30 SEPTEMBER 2006 AND 2005

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#### NOTE 10. FINANCIAL INDICATORS

	9 months		Year ended 31 December
	2006	2005	2005
Operating Margin <sup>(1)</sup>	54,2%	47,4%	47,7%
Net profit margin <sup>(2)</sup>	38,1%	30,0%	29,5%
Return on equity <sup>(3)</sup>	17,2%	13,1%	16,9%
Return on assets <sup>(4)</sup>	7,7%	5,7%	7,6%
Debt to equity ratio <sup>(5)</sup>	1,2	1,3	1,2
Current ratio <sup>(6)</sup>	1,9	1,0	1,9

Notes:

- <sup>(1)</sup> Operating profit as a percentage of net sales
- <sup>(2)</sup> Net profit as a percentage of net sales
- <sup>(3)</sup> Net profit as a percentage of average total equity capital
- <sup>(4)</sup> Net profit as a percentage of average total assets
- <sup>(5)</sup> Total liabilities divided by total equity capital
- <sup>(6)</sup> Total current assets divided by total current liabilities

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

Robert John Gallienne	Head of the Supervisory Board
Kevin Starling	Member of the Supervisory Board
Henry Emanuel Russell	Member of the Supervisory Board
David John Kilgour	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
Toivo Tootsen	Member of the Supervisory Board
Valdur Laid	Member of the Supervisory Board