

**BALANCE SHEETS AT 31 DECEMBER 2006 AND 2005**

(thousand EUR)

<b>ASSETS</b>	<b>Note</b>	<b>2005</b>	<b>2005</b>
<b>CURRENT ASSETS</b>			
Cash at bank and in hand		15 940	13 234
Customer receivables		4 569	4 265
Accrued income and prepaid expenses		304	338
Inventories		201	202
Assets for sale		105	89
<b>TOTAL CURRENT ASSETS</b>		<b>21 120</b>	<b>18 128</b>
<b>NON-CURRENT ASSETS</b>			
Tangible assets		119 969	117 503
Intangible assets	2	3 361	2 811
Unfinished assets - non connections	2	5 859	6 058
Unfinished pipelines - new connections	2	7 488	6 979
Prepayments for fixed assets	2	179	222
<b>TOTAL NON-CURRENT ASSETS</b>	2	<b>136 856</b>	<b>133 573</b>
<b>TOTAL ASSETS</b>		<b>157 976</b>	<b>151 701</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Current portion of long-term borrowings		30	86
Trade and other payables, incl. dividends		5 448	3 420
Taxes payable		1 950	1 452
Short-term provisions		34	18
Deferred income		2 322	4 382
<b>TOTAL CURRENT LIABILITIES</b>		<b>9 784</b>	<b>9 359</b>
<b>NON-CURRENT LIABILITIES</b>			
Finance lease		0	27
Bank loans		74 527	74 471
Other payables		6	6
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>74 534</b>	<b>74 504</b>
<b>TOTAL LIABILITIES</b>		<b>84 318</b>	<b>83 863</b>
<b>EQUITY CAPITAL</b>			
Share capital		12 782	12 782
Share premium		24 734	24 734
Statutory legal reserve		1 278	1 278
Accumulated profit		19 010	17 901
Net profit for the period		15 853	11 143
<b>TOTAL EQUITY CAPITAL</b>		<b>73 658</b>	<b>67 839</b>
<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>		<b>157 976</b>	<b>151 701</b>

AS TALLINNA VESI

INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005

(thousand EUR)

	Note	Quarter 4		Year ended 31 December	
		2006	2005	2006	2005
Sales from main operating activities	3	9 517	8 967	37 655	35 146
Revenues from other operating activities	3	3 746	701	6 650	2 691
<b>Net sales</b>		<b>13 263</b>	<b>9 668</b>	<b>44 305</b>	<b>37 838</b>
Costs of goods sold (main operating activities)	4, 5	-3 721	-3 417	-14 095	-12 914
Costs of goods sold (other operating activities)	5	-3 563	-678	-6 206	-2 450
<b>GROSS PROFIT</b>		<b>5 979</b>	<b>5 573</b>	<b>24 005</b>	<b>22 474</b>
Marketing expenses	4, 5	-158	-94	-612	-433
General administration expenses	4, 5	-968	-786	-3 280	-4 107
Other income/ expenses (-)	5	-95	13	1 485	125
<b>OPERATING PROFIT</b>		<b>4 758</b>	<b>4 707</b>	<b>21 597</b>	<b>18 059</b>
Financial income / expenses (-)	6	-725	-2 014	-2 747	-4 655
<b>PROFIT BEFORE TAXES</b>		<b>4 033</b>	<b>2 693</b>	<b>18 850</b>	<b>13 404</b>
Income tax on dividends	7	0	0	-2 997	-2 260
<b>NET PROFIT FOR THE PERIOD</b>		<b>4 033</b>	<b>2 693</b>	<b>15 853</b>	<b>11 143</b>
Attributable to:					
Equity holders of A-shares		4 033	2 692	15 852	11 143
B-share holder		0,64	0,64	0,64	0,64
<b>Earnings per share in euros</b>	8	<b>0,20</b>	<b>0,13</b>	<b>0,79</b>	<b>0,56</b>

AS TALLINNA VESI

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005

(thousand EUR)

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating profit	21 597	18 059
Adjustment for depreciation	5 180	5 032
Adjustment for income and expenses from constructions	-444	-241
Other financial income and expenses	-100	-1 279
Profit from sale of fixed assets	-1 592	-759
Expensed fixed assets	71	25
Capitalization of operating expenses	-1 337	-1 488
Movement in current assets involved in operating activities	-265	3 691
Movement in liabilities involved in operating activities	439	410
Interest paid	-3 061	-3 825
<b>Total cash flow from operating activities</b>	<b>20 487</b>	<b>19 626</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of fixed assets (incl pipelines construction)	-12 274	-12 774
Proceeds from pipelines financed by construction income	7 200	3 355
Proceeds from sale of and prepayments received for fixed assets	-83	3 026
Proceeds from sale of assets and real estate investments	71	748
Interest received	418	324
<b>Total cash flow from investing activities</b>	<b>-4 667</b>	<b>-5 322</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Received long-term loans	0	44 503
Repayment of long-term loans	0	-42 500
Finance lease payments	-82	-109
Dividends paid	-10 034	-7 158
Income tax on dividends	-2 997	-2 260
<b>Total cash flow from financing activities</b>	<b>-13 113</b>	<b>-7 525</b>
<b>Change in cash and bank accounts</b>	<b>2 706</b>	<b>6 779</b>
<b>CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>13 234</b>	<b>6 455</b>
<b>CASH AND EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>15 940</b>	<b>13 234</b>

AS TALLINNA VESI

STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005

(thousand EUR)

	Share capital	Share premium	Statutory legal reserve	Accumulated profit	Net profit	Total equity
<b>31 December 2004</b>	<b>12 782</b>	<b>24 734</b>	<b>5 969</b>	<b>9 314</b>	<b>11 054</b>	<b>63 853</b>
Transfer of financial year profit to the accumulated profit	0	0	0	11 054	-11 054	0
Transfer of statutory legal reserve to the accumulated profit	0	0	-4 691	4 691	0	0
Dividends	0	0	0	-7 158	0	-7 158
Net profit of the financial year	0	0	0	0	11 143	11 143
<b>31 December 2005</b>	<b>12 782</b>	<b>24 734</b>	<b>1 278</b>	<b>17 901</b>	<b>11 143</b>	<b>67 839</b>
Transfer of financial year profit to the accumulated profit	0	0	0	11 143	-11 143	0
Dividends	0	0	0	-10 034	0	-10 034
Net profit of the financial period	0	0	0	0	15 853	15 853
<b>31 December 2006</b>	<b>12 782</b>	<b>24 734</b>	<b>1 278</b>	<b>19 010</b>	<b>15 853</b>	<b>73 658</b>

## **AS TALLINNA VESI**

### **NOTES TO THE INTERIM ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 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.

The interim report in euros is converted using the exchange rate 15.6466 EEK per EUR from the interim report prepared in thousands kroons for the same period.

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005

(thousand EUR)

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>19 907</b>	<b>121 401</b>	<b>30 990</b>	<b>1 044</b>	<b>6 560</b>	<b>5 092</b>	<b>233</b>	<b>613</b>	<b>1 748</b>	<b>187 589</b>
Acquisition	0	0	0	0	8 243	4 753	1 266	0	0	14 262
Sale of fixed assets	-5	-8	-191	0	0	0	0	0	0	-205
Write-off of fixed assets	-65	-205	-1 019	-12	0	0	0	0	-12	-1 312
Reclassification within balance sheet	0	15	0	0	0	0	0	0	0	15
Reclassification to expenses	0	0	0	0	-4	0	-11	0	0	-15
Expensed pipelines	0	0	0	0	0	-2 450	0	0	0	-2 450
Reclassification from assets in progress	2 529	3 177	2 405	191	-8 741	-416	-1 266	271	1 849	0
<b>31.12.2005</b>	<b>22 365</b>	<b>124 380</b>	<b>32 185</b>	<b>1 223</b>	<b>6 058</b>	<b>6 979</b>	<b>222</b>	<b>885</b>	<b>3 585</b>	<b>197 883</b>
Acquisition	0	0	0	0	8 926	6 826	0	0	0	15 753
Sale of fixed assets	-503	-573	-325	0	0	0	0	0	0	-1 402
Write-off of fixed assets	0	-62	-315	-159	0	0	0	0	-448	-983
Reclassification within balance sheet	0	0	0	0	-3	-2	0	0	0	-5
Reclassification to expenses	0	0	0	0	-39	0	-31	0	0	-71
Expensed pipelines	0	0	0	0	0	-6 206	0	0	0	-6 206
Reclassification from assets in progress	192	5 161	2 624	56	-9 083	-109	-12	237	935	0
<b>31.12.2006</b>	<b>22 054</b>	<b>128 906</b>	<b>34 169</b>	<b>1 120</b>	<b>5 859</b>	<b>7 488</b>	<b>179</b>	<b>1 121</b>	<b>4 073</b>	<b>204 969</b>
<b>Accumulated depreciation</b>										
<b>31.12.2004</b>	<b>3 380</b>	<b>37 500</b>	<b>18 044</b>	<b>662</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>450</b>	<b>732</b>	<b>60 768</b>
Depreciation	248	1 911	2 297	87	0	0	0	153	336	5 032
Depreciation of fixed assets sold and written-off (-)	-70	-213	-1 184	-12	0	0	0	0	-12	-1 491
<b>31.12.2005</b>	<b>3 559</b>	<b>39 198</b>	<b>19 156</b>	<b>737</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>603</b>	<b>1 056</b>	<b>64 309</b>
Depreciation	247	2 011	2 182	118	0	0	0	126	495	5 180
Depreciation of fixed assets sold and written-off (-)	-4	-239	-526	-159	0	0	0	0	-448	-1 376
<b>31.12.2006</b>	<b>3 801</b>	<b>40 970</b>	<b>20 812</b>	<b>696</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>729</b>	<b>1 104</b>	<b>68 113</b>
<b>Net book value</b>										
<b>31.12.2004</b>	<b>16 526</b>	<b>83 901</b>	<b>12 946</b>	<b>382</b>	<b>6 560</b>	<b>5 092</b>	<b>233</b>	<b>163</b>	<b>1 016</b>	<b>126 821</b>
<b>31.12.2005</b>	<b>18 807</b>	<b>85 182</b>	<b>13 029</b>	<b>486</b>	<b>6 058</b>	<b>6 979</b>	<b>222</b>	<b>282</b>	<b>2 529</b>	<b>133 573</b>
<b>31.12.2006</b>	<b>18 253</b>	<b>87 935</b>	<b>13 356</b>	<b>424</b>	<b>5 859</b>	<b>7 488</b>	<b>179</b>	<b>392</b>	<b>2 969</b>	<b>136 856</b>

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

For the year ended 31 December the net balance sheet value of finance leases was 156 thousand euros for 2006 and 288 thousand euros for 2005.

Interest capitalised to fixed assets was 69 thousand euros in 2005.

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005

(thousand EUR)

NOTE 3. NET SALES	Quarter 4		Year ended 31 December	
	2006	2005	2006	2005
<b>Revenues from main operating activities</b>				
Water supply service	4 647	4 233	18 486	16 789
Waste water disposal service	4 215	3 877	16 600	14 882
Stormwater treatment and disposal service	480	744	1 921	2 977
Fire hydrants service	53	33	192	130
Other works and services	121	80	456	368
<b>Total revenues from main operating activities</b>	<b>9 517</b>	<b>8 967</b>	<b>37 655</b>	<b>35 146</b>
<b>Revenues from other operating activities</b>				
Water, sewerage and storm water connections construction income	3 746	701	6 650	2 691
<b>TOTAL NET SALES</b>	<b>13 263</b>	<b>9 668</b>	<b>44 305</b>	<b>37 838</b>

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

NOTE 4. PERSONNEL EXPENSES

	Quarter 4		Year ended 31 December	
	2006	2005	2006	2005
Salaries and wages	-870	-862	-3 230	-3 384
Social security taxation	-290	-287	-1 076	-1 134
<b>Staff costs total</b>	<b>-1 160</b>	<b>-1 150</b>	<b>-4 305</b>	<b>-4 518</b>
<b>Average number of employees during the reporting period</b>	<b>311</b>	<b>340</b>	<b>322</b>	<b>337</b>

**NOTES TO THE INTERIM ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005**

(thousand EUR)

**NOTE 5. COSTS AND EXPENSES**

Cost of goods sold (main operating activities)	Quarter 4		Year ended 31 December	
	2006	2005	2006	2005
Tax on special use of water	-162	-149	-642	-578
Chemicals	-386	-285	-1 319	-861
Electricity	-401	-365	-1 572	-1 510
Pollution tax	-165	-95	-766	-441
Staff costs	-792	-809	-2 973	-2 920
Research and development	-6	-6	-8	-12
Depreciation and amortization	-1 207	-1 220	-4 683	-4 703
Other costs of goods sold	-602	-488	-2 131	-1 888
<b>Total cost of goods sold (main operating activities)</b>	<b>-3 721</b>	<b>-3 417</b>	<b>-14 095</b>	<b>-12 914</b>
<b>Cost of goods sold (other operating activities)</b>				
Water, sewerage and storm water connections construction cost	-3 563	-678	-6 206	-2 450
<b>Marketing Expenses</b>				
Staff costs	-80	-60	-301	-305
Depreciation and amortization	-26	-6	-157	-12
Other marketing expenses	-52	-27	-154	-116
<b>Total cost of marketing expenses</b>	<b>-158</b>	<b>-94</b>	<b>-612</b>	<b>-433</b>
<b>General Administration Expenses</b>				
Staff costs	-288	-281	-1 031	-1 292
Depreciation and amortization	-134	-93	-340	-317
Other general administration expenses	-546	-412	-1 909	-2 497
<b>Total cost of general administration expenses</b>	<b>-968</b>	<b>-786</b>	<b>-3 280</b>	<b>-4 107</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 1 662 thousand euros, being made up of 1 274 thousand euros for services and 388 thousand euros for staff bonus costs. Of the total costs for services 543 thousand euros are included in other income/expenses with the balance posted against the category where the cost was incurred.



## AS TALLINNA VESI

### NOTES TO THE INTERIM ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005

(thousand EUR)

#### NOTE 6. FINANCIAL INCOME AND EXPENSES

	2006	2005
Interest income	449	317
Interest expense	-3 096	-3 694
Loans restructuring costs	-66	-1 246
Other financial income / expenses (-)	-34	-33
<b>Total financial income / expenses</b>	<b>-2 747</b>	<b>-4 655</b>

#### NOTE 7. DIVIDENDS

	2006	2005
Dividends declared during the period	10 034	7 158
Dividends paid during the period	10 034	7 158
Income tax on dividends declared	-2 997	-2 260
<b>Income tax accounted</b>	<b>-2 997</b>	<b>-2 260</b>

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

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

	2006	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)	15 852	11 143
Weighted average number of ordinary shares for the purposes of basic earnings per share	20 000 000	20 000 000
Earnings per share in euros	0,79	0,56
Dividends per A-share in euros	0,50	0,36
Dividends per B-share in euros	639	639

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

**NOTES TO THE INTERIM ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005**

(thousand EUR)

**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 transactions with the shareholder having significant influence. 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 31.12.2005 and 31.12.2006 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</b>		
<b>Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi</b>		
Deferred income	5	0
Accounts payable - short-term trade and other payables, incl. dividends	0	155
<b>Transactions recorded to the Income Statement of AS Tallinna Vesi</b>		
Net sales	4 951	0
General administration expenses	0	830
Other income (-) / expenses	0	32
<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	0
<b>2006</b>		
<b>Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi</b>		
Accounts payable - short-term trade and other payables, incl. dividends	0	139
<b>Transactions recorded to the Income Statement of AS Tallinna Vesi</b>		
Net sales	4 172	0
General administration expenses	0	941
Other income (-)/ expenses	0	1
<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	741

	<b>Year ended 31 December</b>	
	<b>2006</b>	<b>2005</b>
<b>Management Board fees excluding social tax</b>	134	136
<b>Supervisory Board fees excluding social tax</b>	32	4

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 YEAR ENDED 31 DECEMBER 2006 AND 2005

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#### NOTE 10. FINANCIAL INDICATORS

	2006	2005
Operating Margin <sup>(1)</sup>	48,7%	47,7%
Net profit margin <sup>(2)</sup>	35,8%	29,5%
Return on equity <sup>(3)</sup>	22,4%	16,9%
Return on assets <sup>(4)</sup>	10,2%	7,6%
Debt to equity ratio <sup>(5)</sup>	1,1	1,2
Current ratio <sup>(6)</sup>	2,2	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  
Kevin Starling  
Henry Emanuel Russell  
David John Kilgour  
Elmar Sepp  
Helo Meigas  
Rein Ratas  
Toivo Tootsen  
Valdur Laid