

## AS TALLINNA VESI

### RESULTS OF OPERATIONS IN 1<sup>ST</sup> QUARTER 2006

#### Key performance indicators

*Amounts in million EEK*

|                                | 3 months<br>2006 | 3 months<br>2005 | Change |
|--------------------------------|------------------|------------------|--------|
| Sales                          | 176.0            | 156.6            | 12.4%  |
| Main operating activities      | 147.2            | 139.4            | 5.6%   |
| Other operating activities     | 28.8             | 17.3             | 66.6%  |
| Gross profit                   | 94.9             | 91.9             | 3.2%   |
| Gross profit margin %          | 53.9%            | 58.7%            | -8.1%  |
| Operating profit               | 105.0            | 91.1             | 15.2%  |
| Operating profit margin %      | 59.7%            | 58.2%            | 2.6%   |
| Profit before taxes            | 95.1             | 78.1             | 21.7%  |
| Profit before taxes margin %   | 54.0%            | 49.9%            | 8.3%   |
| Net profit                     | 95.1             | 42.8             | 122.3% |
| ROA %                          | 3.9%             | 1.8%             | 111.9% |
| Debt to total capital employed | 52.4%            | 59.9%            | -12.4% |

*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*

#### Sales

In the 1<sup>st</sup> quarter of 2006 the Company's total sales increased, year on year, by 12.4% to 176 mln EEK.

Sales from the Company's main operating activities were 147.2 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 137.8 mln EEK, which is a 9.3% increase compared to the corresponding period of 2005.

Sales to residential customers increased by 7.5% to 73.8 mln EEK as a result of the tariff increase from 1 January 2006, offset by a sales over reading estimation that impacted the results in the 1<sup>st</sup> quarter of 2005. Sales to commercial customers increased by 11.4% to 64 mln, due to the tariff increase from 1 January 2006, and a 3% increase in the volumes of water supplied and wastewater treated when compared to the first quarter of 2005. Included within the sales to commercial customers are volumes of wastewater treatment services provided to the surrounding municipalities that are situated outside of the services area. In 1st quarter of 2006 sales gained outside reached

340,000 m<sup>3</sup>, an increase of 40% on the corresponding period in 2005, reflecting the continuing expansion of the Company's market.

Sales from the operation and maintenance of the stormwater system decreased by 35% 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 66.6% to 28.8 mln EEK resulting from an increase in connections income from individual connectees and revenues received from the City of Tallinn for stormwater constructions.

### **Expenses and profitability**

Profits from other operating activities, which include water, sewerage and storm water connection construction income were 2.5 mln EEK, an 0.7 mln EEK increase from 2005 levels.

The Cost of goods sold for the main operating activity was 54.8 mln EEK in the 1<sup>st</sup> quarter of 2006, an increase of 5.6 mln EEK or 11.3% from the equivalent period in 2005. This increase was largely driven by increased chemical costs 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 is targeting achievement of this key environmental objective by June 2006. To date the Company is confident that the necessary reduction will be achieved, which will enable a provision of approximately 12-13 mln EEK to be released in the 2<sup>nd</sup> half of 2006.

Lower capitalisation of costs in the 1<sup>st</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 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 1<sup>st</sup> quarter of 2006 was 94.9 mln EEK, which represents an increase of 3 mln EEK, or 3.2%, compared to the gross profit of 91.9 mln EEK for the 1<sup>st</sup> quarter of 2005.

Marketing expenses increased by 0.9 mln EEK to 2.6 mln EEK year on year. This increase was entirely due to additional depreciation charges relating to the implementation of KLIF, the new customer management system

General administration expenses increased by 1.3 mln EEK from 11.3 mln EEK in the 1<sup>st</sup> quarter of 2005 up to 12.6 mln EEK in 2006. This was attributable to the increase in salary costs and timing differences in the recording of administration expenses

Other net income was 25.3 mln EEK in 1<sup>st</sup> quarter 2006 due to the recognition of profits subsequent to concluding the sale of excess land in Paljassaare. In the 1<sup>st</sup> quarter of 2005 the principal component included in other income was the sale of excess land at Lake Ülemiste.

The Company's operating profit for the 1<sup>st</sup> quarter of 2006 was 105 mln EEK, an increase of 13.9 mln EEK, or 15.2%, above the operating profit of 91.1 mln EEK achieved in the 1<sup>st</sup> quarter of 2005. Operating profit margin increased from 58.2% up to 59.7% for the relevant periods.

Net Financial expenses were 9.9 mln EEK in 1<sup>st</sup> quarter of 2006, which is a decrease of 3 mln EEK compared to 1<sup>st</sup> quarter of 2005. This is due to the restructuring of the loans in November 2005, which lowered the Company's interest risk margins.

The Company's profit before taxes for the 1<sup>st</sup> quarter of 2006 was 95.1 mln EEK, which represents an increase of 16.9 mln EEK, or 21.7%, compared to the profit before taxes of 78.1 mln EEK for the 1<sup>st</sup> quarter of 2005.

### **Balance sheet**

The Company's total assets were 2,430.8 mln EEK as at 31 March 2006, representing an increase of 113.9 mln EEK compared to 31 March 2005. Current assets increased by 134.7 mln EEK, which was largely attributable to an increase in cash from operations and release of 77.7 mln EEK debt service reserve (previously recorded under financial investments).

Tangible, intangible and unfinished assets were 1,962.6 mln EEK at 31 March 2006, an increase of 57.1 mln EEK of the fixed asset base year-on-year, which once again clearly demonstrates the Company's attitude to improving its infrastructure by investing well above levels of depreciation.

Current liabilities decreased by 237.5 mln EEK year-on-year to 108.6 mln EEK due to two main factors. Firstly, as of 31 March 2005 the company had already declared and paid of a proportion of dividends, as such dividends due and associated taxes were recorded in current liabilities – worth 120 mln EEK. Secondly, as a result of the re-financing that was carried out in November 2005 principal repayments on the long term debt have been deferred until 2008 and therefore are not a current liability – worth 88.7 mln EEK.

Long-term liabilities stood at 1,165.6 mln EEK at the end of March 2006, consisting almost entirely of the outstanding balance of the bank loans.

### **Cash flow**

During the 1<sup>st</sup> quarter of 2006, the Company generated 85.7 mln EEK of cash flow from operating activities, an increase of 20.6 mln EEK, or 31.5% compared to corresponding period in 2005. The key factors affecting the operating cash flow were positive movements in working capital.

Cash flow from investing activities was –10.7 mln EEK, a 21 mln EEK worsening of the position when compared to 1<sup>st</sup> quarter of 2005. This was largely due to the prepayments for the sale of assets received in 2005

Total cash inflow in the 1<sup>st</sup> quarter of 2006 was 74.6 mln EEK compared to a cash inflow of 47.2 mln EEK in the 1<sup>st</sup> quarter of 2005. Cash and cash equivalents stood at 281.7 mln EEK as at 31 March 2006.

## **Employees**

As of 31 March 2006 the Company employed 335 people consisting of 281 people in the Operations division and 54 people in Commercial and Corporate Services. The number of employees has decreased by 11 people year-on-year. In late 2005 the Company completed a company wide review of salaries against those paid in the market. As a result of this review salaries in certain key positions were increased above current levels of inflation.

## **Dividends and share performance**

Based on the results of the 2005 financial year, the Management Board of AS Tallinna Vesi proposed a dividend payout of 157 mln EEK (net) - 7.85 EEK (net) dividend per share. This is subject to approval by the Company's Annual General Meeting of the Shareholders, which will be held in May 2006.

As of 31 March 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         | 9.20% |
| Morgan Stanley + Co International Equity client account | 6.04% |

At the end of the reporting period, 31 March 2006, the closing price of the AS Tallinna Vesi share was 220.14 EEK (14.07 EUR), which is a 52.1% premium on the initial public offering settlement price of 144.73 EEK (9.25 EUR).

Additional information:

Eteri Harring

Head of Treasury and Investor Relations

Ph: + 372 6262 225

eteri.harring@tvesi.ee

# AS TALLINNA VESI

## *Three months report for the quarter ended 31 March 2006*

|                                  |   |
|----------------------------------|---|
| Currency                         | Thousand kroons   |
| Start of reporting period        | 1 January 2006  |
| End of reporting period          | 31 March 2006   |
| Address                          | Tallinn, Ädala 10   |
| Chairman of the Management Board | Robert John Gallienne   |
| Commercial register number       | 10 257 326  |
| Telephone                        | +372 62 62 202  |
| Telefax                          | +372 62 62 300  |
| E-mail                           | <a href="mailto:tvesi@tvesi.ee">tvesi@tvesi.ee</a>  |
| Web page                         | <a href="http://www.tallinnavesi.ee">www.tallinnavesi.ee</a>                                    |
| Field of activity                | Production, treatment and distribution of water;<br>storm and wastewater disposal and treatment |

## CONTENTS

|  | Page |
|--|------|
| MANAGEMENT CONFIRMATION                            | 1    |
| BALANCE SHEETS                                     | 2    |
| INCOME STATEMENTS                                  | 3    |
| CASH FLOW STATEMENTS                               | 4    |
| STATEMENTS OF CHANGES IN EQUITY                    | 5    |
| NOTES TO THE ACCOUNTS                              |      |
| NOTE 1. ACCOUNTING PRINCIPLES                      | 6    |
| NOTE 2. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS | 7    |
| NOTE 3. NET SALES                                  | 8    |
| NOTE 4. PERSONNEL EXPENSES                         | 8    |
| NOTE 5. COSTS AND EXPENSES                         | 9    |
| NOTE 6. FINANCIAL INCOME AND EXPENSES              | 10   |
| NOTE 7. DIVIDENDS                                  | 10   |
| NOTE 8. EARNINGS AND DIVIDENDS PER SHARE           | 10   |
| NOTE 9. RELATED PARTIES                            | 11   |
| NOTE 10. FINANCIAL INDICATORS                      | 12   |

**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 31 March 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 31 March 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 31 March 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 April 2006 have been assessed as part of this review.

The company is carrying on its activities as a going concern.



**Robert John Gallienne**  
Chairman of the Management Board



**Roch Jean Guy Antoine Cheroux**  
Member of the Management Board



**Ian John Alexander Plenderleith**  
Member of the Management Board

13 April 2006

## AS TALLINNA VESI

## BALANCE SHEETS

AT 31 MARCH 2006 AND 2005, AND AT 31 DECEMBER 2005

(thousand EEK)

| ASSETS                                      | Note | 31 March         |                  | 31 December      |
|---|------|------------------|------------------|------------------|
|   |      | 2006             | 2005             | 2005             |
| <b>CURRENT ASSETS</b>                       |      |                  |                  |                  |
| Cash at bank and in hand                    |      | 281 709          | 148 196          | 207 067          |
| Customer receivables                        |      | 75 084           | 74 970           | 66 737           |
| Accrued income and prepaid expenses         |      | 11 817           | 10 106           | 5 286            |
| Inventories                                 |      | 3 071            | 3 594            | 3 156            |
| Assets for sale                             |      | 1 504            | 1 620            | 1 390            |
| <b>TOTAL CURRENT ASSETS</b>                 |      | <b>373 185</b>   | <b>238 486</b>   | <b>283 636</b>   |
| <b>NON-CURRENT ASSETS</b>                   |      |                  |                  |                  |
| Long-term deposit                           |      | 0                | 77 796           | 0                |
| Tangible assets                             |      | 1 822 312        | 1 774 234        | 1 838 528        |
| Intangible assets                           | 2    | 42 870           | 21 196           | 43 981           |
| Unfinished assets - non connections         | 2    | 97 375           | 110 061          | 94 793           |
| Unfinished pipelines - new connections      | 2    | 91 631           | 71 668           | 109 190          |
| Prepayments for fixed assets                | 2    | 3 379            | 23 452           | 3 479            |
| <b>TOTAL NON-CURRENT ASSETS</b>             | 2    | <b>2 057 567</b> | <b>2 078 407</b> | <b>2 089 971</b> |
| <b>TOTAL ASSETS</b>                         |      | <b>2 430 752</b> | <b>2 316 893</b> | <b>2 373 607</b> |
| <b>LIABILITIES</b>                          |      |                  |                  |                  |
| <b>CURRENT LIABILITIES</b>                  |      |                  |                  |                  |
| Current portion of long-term borrowings     |      | 1 260            | 88 741           | 1 340            |
| Trade and other payables, incl. dividends   |      | 42 689           | 136 577          | 53 507           |
| Taxes payable                               |      | 35 465           | 60 256           | 22 724           |
| Short-term provisions                       |      | 352              | 130              | 289              |
| Deferred income                             |      | 28 835           | 60 355           | 68 569           |
| <b>TOTAL CURRENT LIABILITIES</b>            |      | <b>108 601</b>   | <b>346 059</b>   | <b>146 429</b>   |
| <b>NON-CURRENT LIABILITIES</b>              |      |                  |                  |                  |
| Finance lease                               |      | 114              | 1 313            | 415              |
| Bank loans                                  |      | 1 165 439        | 1 039 573        | 1 165 219        |
| Other payables                              |      | 100              | 100              | 100              |
| <b>TOTAL NON-CURRENT LIABILITIES</b>        |      | <b>1 165 653</b> | <b>1 040 986</b> | <b>1 165 734</b> |
| <b>TOTAL LIABILITIES</b>                    |      | <b>1 274 254</b> | <b>1 387 045</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                          |      | 454 443          | 280 089          | 280 089          |
| Net profit for the period                   |      | 95 054           | 42 758           | 174 354          |
| <b>TOTAL EQUITY CAPITAL</b>                 |      | <b>1 156 498</b> | <b>929 848</b>   | <b>1 061 444</b> |
| <b>TOTAL LIABILITIES AND EQUITY CAPITAL</b> |      | <b>2 430 752</b> | <b>2 316 893</b> | <b>2 373 607</b> |

AS TALLINNA VESI

INCOME STATEMENTS

FOR THE 3 MONTH PERIODS ENDED 31 MARCH 2006 AND 2005

(thousand EEK)

|  |      | 3 months       |                | Year ended 31<br>December |
|--|------|----------------|----------------|---------------------------|
|  | Note | 2006           | 2005           | 2005                      |
| Sales from main operating activities             | 3    | 147 206        | 139 350        | 549 918                   |
| Revenues from other operating activities         | 3    | 28 776         | 17 277         | 42 111                    |
| <b>Net sales</b>                                 |      | <b>175 982</b> | <b>156 627</b> | <b>592 029</b>            |
| Costs of goods sold (main operating activities)  | 4, 5 | -54 837        | -49 250        | -202 055                  |
| Costs of goods sold (other operating activities) | 5    | -26 251        | -15 449        | -38 338                   |
| <b>GROSS PROFIT</b>                              |      | <b>94 894</b>  | <b>91 928</b>  | <b>351 636</b>            |
| Marketing expenses                               | 4, 5 | -2 554         | -1 666         | -6 778                    |
| General administration expenses                  | 4, 5 | -12 612        | -11 335        | -64 257                   |
| Other income/ expenses (-)                       | 5    | 25 267         | 12 184         | 1 959                     |
| <b>OPERATING PROFIT</b>                          |      | <b>104 995</b> | <b>91 111</b>  | <b>282 560</b>            |
| Financial income / expenses (-)                  | 6    | -9 941         | -12 985        | -72 838                   |
| <b>PROFIT BEFORE TAXES</b>                       |      | <b>95 054</b>  | <b>78 126</b>  | <b>209 722</b>            |
| Income tax on dividends                          | 7    | 0              | -35 368        | -35 368                   |
| <b>NET PROFIT FOR THE PERIOD</b>                 |      | <b>95 054</b>  | <b>42 758</b>  | <b>174 354</b>            |
| Attributable to:                                 |      |                |                |                           |
| Equity holders of A-shares                       |      | 95 044         | 42 748         | 174 344                   |
| B-share holder                                   |      | 10             | 10             | 10                        |
| <b>Earnings per share in kroons</b>              | 8    | <b>4,75</b>    | <b>2,14</b>    | <b>8,72</b>               |

AS TALLINNA VESI

CASH FLOW STATEMENTS

FOR THE 3 MONTH PERIODS ENDED 31 MARCH 2006 AND 2005

(thousand EEK)

|   | 3 months       |                | Year ended      |
|---|----------------|----------------|-----------------|
|   | 2006           | 2005           | 31 December     |
|   |                |                | 2005            |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                |                |                 |
| Operating profit  | 104 995        | 91 111         | 282 560         |
| Adjustment for depreciation                                     | 20 311         | 19 520         | 78 741          |
| Adjustment for income and expenses from constructions           | -2 525         | -1 829         | -3 773          |
| Other financial income and expenses                             | -388           | -577           | -20 012         |
| Profit from sale of fixed assets                                | -24 648        | -1 496         | -11 870         |
| Expensed fixed assets   | 428            | 1 428          | 394             |
| Capitalization of operating expenses                            | -5 193         | -6 433         | -23 280         |
| Movement in current assets involved in operating activities     | -13 470        | -30 034        | 57 754          |
| Movement in liabilities involved in operating activities        | 6 230          | -6 609         | 6 414           |
| Interest paid   | -30            | 76             | -59 854         |
| <b>Total cash flow from operating activities</b>                | <b>85 710</b>  | <b>65 157</b>  | <b>307 074</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                |                |                 |
| Acquisition of fixed assets (incl pipelines construction)       | -38 521        | -52 340        | -199 875        |
| Proceeds from pipelines financed by construction income         | 28 843         | 16 431         | 52 494          |
| Proceeds from sale of and prepayments received for fixed assets | -3 197         | 45 300         | 47 345          |
| Proceeds from sale of assets and real estate investments        | 1 107          | 0              | 11 700          |
| Interest received   | 1 082          | 901            | 5 067           |
| <b>Total cash flow from investing activities</b>                | <b>-10 686</b> | <b>10 292</b>  | <b>-83 269</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                     |                |                |                 |
| Received long-term loans  | 0              | 0              | 696 318         |
| Repayment of long-term loans                                    | 0              | 0              | -664 981        |
| Finance lease payments  | -382           | -494           | -1 707          |
| Dividends paid  | 0              | -27 759        | -112 000        |
| Income tax on dividends   | 0              | 0              | -35 368         |
| <b>Total cash flow from financing activities</b>                | <b>-382</b>    | <b>-28 253</b> | <b>-117 738</b> |
| <b>Change in cash and bank accounts</b>                         | <b>74 642</b>  | <b>47 196</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>281 709</b> | <b>148 196</b> | <b>207 067</b>  |



Chairman of the Management Board:

**AS TALLINNA VESI**

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE 3 MONTH PERIODS ENDED 31 MARCH 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>   |
| 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                  | 42 758         | 42 758           |
| <b>31 March 2005</b>  | <b>200 001</b> | <b>387 000</b> | <b>20 000</b>           | <b>280 089</b>     | <b>42 758</b>  | <b>929 848</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                |
| Net profit of the financial period                            | 0              | 0              | 0                       | 0                  | 95 054         | 95 054           |
| <b>31 March 2006</b>  | <b>200 001</b> | <b>387 000</b> | <b>20 000</b>           | <b>454 443</b>     | <b>95 054</b>  | <b>1 156 498</b> |



Chairman of the Management Board:

**AS TALLINNA VESI**

**NOTES TO THE INTERIM ACCOUNTS  
FOR THE 3 MONTH PERIODS ENDED 31 MARCH 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.



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE 3 MONTH PERIODS ENDED 31 MARCH 2006 AND 2005

NOTE 2. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS

(thousand EEK)

| Acquisition cost at                                   | 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>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                  | -38 339                             | -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             | 0   | 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                  | 18 529                              | 10 253                                 | 0                           | 0                 | 0   | 28 782   |
| Sale of fixed assets                                  | -7 875                 | -8 965           | -1 485                  | 0                  | 0                                   | 0                                      | 0                           | 0                 | 0   | -18 325  |
| Write-off of fixed assets                             | 0                      | -65              | -511                    | -179               | 0                                   | 0                                      | 0                           | 0                 | 0   | -755   |
| Reclassification within balance sheet                 | 0                      | 0                | 0                       | 0                  | -43                                 | 0                                      | 0                           | 0                 | 0   | -43  |
| Reclassification to expenses                          | 0                      | 0                | 0                       | 0                  | -326                                | 0                                      | -100                        | 0                 | 0   | -426   |
| Expensed pipelines                                    | 0                      | 0                | 0                       | 0                  | -26 251                             | -26 251                                | 0                           | 0                 | 0   | -26 251  |
| Reclassification from assets in progress              | 259                    | 9 737            | 5 245                   | 119                | -15 578                             | -1 561                                 | 0                           | 1 779             | 0   | 0  |
| <b>31.03.2006</b>                                     | <b>342 325</b>         | <b>1 946 828</b> | <b>506 837</b>          | <b>19 083</b>      | <b>97 375</b>                       | <b>91 631</b>                          | <b>3 379</b>                | <b>15 620</b>     | <b>56 100</b>                                 | <b>3 079 178</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  | 966                    | 7 888            | 8 234                   | 333                | 0                                   | 0                                      | 0                           | 933               | 1 957   | 20 311   |
| Depreciation of fixed assets sold and written-off (-) | -70                    | -2 838           | -1 840                  | -177               | 0                                   | 0                                      | 0                           | 0                 | 0   | -4 925   |
| <b>31.03.2006</b>                                     | <b>56 577</b>          | <b>618 368</b>   | <b>306 126</b>          | <b>11 690</b>      | <b>0</b>                            | <b>0</b>                               | <b>0</b>                    | <b>10 363</b>     | <b>18 487</b>                                 | <b>1 021 611</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>31.03.2006</b>                                     | <b>285 748</b>         | <b>1 328 460</b> | <b>200 711</b>          | <b>7 393</b>       | <b>97 375</b>                       | <b>91 631</b>                          | <b>3 379</b>                | <b>5 257</b>      | <b>37 613</b>                                 | <b>2 057 567</b>                                 |

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 31 March the net balance sheet value of finance leases was 3 459 thousand kroons for 2006 and 4 283 thousand kroons for 2005.

Interest capitalised to fixed assets was 1 075 thousand kroons in 2006.

Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE 3 MONTH PERIODS ENDED 31 MARCH 2006 AND 2005

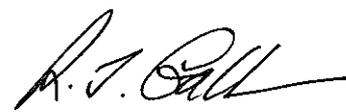
(thousand EEK)

| NOTE 3. NET SALES   | 3 months       |                | Year ended 31  |
|---|----------------|----------------|----------------|
|   | 2006           | 2005           | December 2005  |
| <b>Revenues from main operating activities</b>                  |                |                |                |
| Water supply service  | 72 672         | 68 488         | 262 693        |
| Waste water disposal service                                    | 65 088         | 57 579         | 232 852        |
| Stormwater treatment and disposal service                       | 7 513          | 11 643         | 46 574         |
| Fire hydrants service   | 758            | 510            | 2 040          |
| Other works and services  | 1 175          | 1 130          | 5 759          |
| <b>Total revenues from main operating activities</b>            | <b>147 206</b> | <b>139 350</b> | <b>549 918</b> |
| <b>Revenues from other operating activities</b>                 |                |                |                |
| Water, sewerage and storm water connections construction income | 28 776         | 17 277         | 42 111         |
| <b>TOTAL NET SALES</b>  | <b>175 982</b> | <b>156 627</b> | <b>592 029</b> |

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

NOTE 4. PERSONNEL EXPENSES

|  | 2006           | 2005           | 2005           |
|--|----------------|----------------|----------------|
| Salaries and wages   | -12 925        | -11 517        | -52 949        |
| Social security taxation                                       | -4 304         | -3 861         | -17 739        |
| <b>Staff costs total</b>                                       | <b>-17 229</b> | <b>-15 378</b> | <b>-70 688</b> |
| <b>Average number of employees during the reporting period</b> | <b>331</b>     | <b>341</b>     | <b>337</b>     |



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE 3 MONTH PERIODS ENDED 31 MARCH 2006 AND 2005

(thousand EEK)

NOTE 5. COSTS AND EXPENSES

| Cost of goods sold (main operating activities)                | 3 months       |                | Year ended 31<br>December |
|---|----------------|----------------|---------------------------|
|   | 2006           | 2005           | 2005                      |
| Tax on special use of water                                   | -2 561         | -2 337         | -9 049                    |
| Chemicals   | -4 824         | -2 597         | -13 477                   |
| Electricity   | -6 515         | -7 098         | -23 628                   |
| Pollution tax   | -2 690         | -2 062         | -6 905                    |
| Staff costs   | -11 901        | -10 504        | -45 692                   |
| Research and development                                      | 0              | -23            | -186                      |
| Depreciation and amortization                                 | -18 269        | -18 315        | -73 582                   |
| Other costs of goods sold                                     | -8 077         | -6 314         | -29 536                   |
| <b>Total cost of goods sold (main operating activities)</b>   | <b>-54 837</b> | <b>-49 250</b> | <b>-202 055</b>           |
| <b>Cost of goods sold (other operating activities)</b>        |                |                |                           |
| Water, sewerage and storm water connections construction cost | -26 251        | -15 449        | -38 338                   |
| <b>Marketing Expenses</b>                                     |                |                |                           |
| Staff costs   | -1 097         | -1 167         | -4 777                    |
| Depreciation and amortization                                 | -980           | -24            | -192                      |
| Other marketing expenses                                      | -477           | -475           | -1 809                    |
| <b>Total cost of marketing expenses</b>                       | <b>-2 554</b>  | <b>-1 666</b>  | <b>-6 778</b>             |
| <b>General Administration Expenses</b>                        |                |                |                           |
| Staff costs   | -4 231         | -3 707         | -20 219                   |
| Depreciation and amortization                                 | -1 062         | -1 181         | -4 967                    |
| Other general administration expenses                         | -7 319         | -6 447         | -39 071                   |
| <b>Total cost of general administration expenses</b>          | <b>-12 612</b> | <b>-11 335</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.



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE 3 MONTH PERIODS ENDED 31 MARCH 2006 AND 2005

(thousand EEK)

| NOTE 6. FINANCIAL INCOME AND EXPENSES    | 3 months      |                | Year ended 31  |
|--|---------------|----------------|----------------|
|  | 2006          | 2005           | December 2005  |
| Interest income                          | 1 354         | 726            | 4 966          |
| Interest expense                         | -10 907       | -13 467        | -57 791        |
| Loans restructuring costs                | 0             | 0              | -19 497        |
| Other financial income / expenses (-)    | -386          | -238           | -811           |
| Foreign exchange gain/loss (-)           | -2            | -6             | 295            |
| <b>Total financial income / expenses</b> | <b>-9 941</b> | <b>-12 985</b> | <b>-72 838</b> |

| NOTE 7. DIVIDENDS                    | 3 months |                | Year ended 31  |
|--------------------------------------|----------|----------------|----------------|
|                                      | 2006     | 2005           | December 2005  |
| Dividends declared during the period | 0        | 112 000        | 112 000        |
| Dividends paid during the period     | 0        | 27 759         | 112 000        |
| Income tax on dividends declared     | 0        | -35 368        | -35 368        |
| <b>Income tax accounted</b>          | <b>0</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

|   | 3 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) | 95 044     | 42 748     | 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  | 4,75       | 2,14       | 8,72          |
| Dividends per A-share in kroons   | 0          | 5,6        | 5,6           |
| Dividends per B-share in kroons   | 0          | 10 000,00  | 10 000,00     |

Diluted earnings per share for the periods ended 31 March 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 3 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 31.03.2005 and 31.03.2006 are recorded as follows:

|  | <b>Tallinn City<br/>Government and<br/>related boards</b> | <b>The companies<br/>belonging to the<br/>same group with the<br/>United Utilities<br/>(Tallinn) B.V.</b> |
|--|---|---|
| <b>2005 for 3 months</b>   |   |   |
| <b>Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi</b> |   |   |
| Accrued income and prepaid expenses  | 0   | 7 212   |
| Accounts payable - short-term trade and other payables, incl. dividends                  | 27 759  | 58 376  |
| <b>Transactions recorded to the Income Statement of AS Tallinna Vesi</b>                 |   |   |
| Net sales  | 13 559  | 0   |
| General administration expenses  | 0   | 3 699   |
| <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   | 4 010   |
| <b>2006 for 3 months</b>   |   |   |
| <b>Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi</b> |   |   |
| Customer receivables   | 2 633   | 0   |
| Accrued income and prepaid expenses  | 0   | 7 217   |
| Deferred income  | 1 473   | 0   |
| Accounts payable - short-term trade and other payables, incl. dividends                  | 0   | 3 265   |
| <b>Transactions recorded to the Income Statement of AS Tallinna Vesi</b>                 |   |   |
| Net sales  | 33 401  | 0   |
| General administration expenses  | 0   | 4 920   |
| Other income (-)/ expenses   | 0   | 0   |
| <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   | 3 498   |

|  | <b>3 months</b> |             | <b>Year ended 31<br/>December</b> |
|--|-----------------|-------------|-----------------------------------|
|  | <b>2006</b>     | <b>2005</b> | <b>2005</b>                       |
| <b>Management Board fees excluding social tax</b>  | 560             | 530         | 2 121                             |
| <b>Supervisory Board fees excluding social tax</b> | 125             | 6           | 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 compensations 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 3 MONTH PERIODS ENDED 31 MARCH 2006 AND 2005

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### NOTE 10. FINANCIAL INDICATORS

|                                     | 3 months |       | Year ended 31<br>December |
|-------------------------------------|----------|-------|---------------------------|
|                                     | 2006     | 2005  | 2005                      |
| Operating Margin <sup>(1)</sup>     | 59,7%    | 58,2% | 47,7%                     |
| Net profit margin <sup>(2)</sup>    | 54,0%    | 27,3% | 29,5%                     |
| Return on equity <sup>(3)</sup>     | 2,1%     | 2,0%  | 16,9%                     |
| Return on assets <sup>(4)</sup>     | 1,0%     | 0,5%  | 7,6%                      |
| Debt to equity ratio <sup>(5)</sup> | 1,1      | 1,5   | 1,2                       |
| Current ratio <sup>(6)</sup>        | 3,4      | 0,7   | 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

