

| ASSETS | Note | 2006 | 2005 |
|---|------|------------------|------------------|
| CURRENT ASSETS | | | |
| Cash at bank and in hand | | 249 413 | 207 067 |
| Customer receivables | | 71 490 | 66 737 |
| Accrued income and prepaid expenses | | 4 756 | 5 286 |
| Inventories | | 3 142 | 3 156 |
| Assets for sale | | 1 648 | 1 390 |
| TOTAL CURRENT ASSETS | | 330 449 | 283 636 |
| NON-CURRENT ASSETS | | | |
| Tangible assets | | 1 877 106 | 1 838 528 |
| Intangible assets | 2 | 52 595 | 43 981 |
| Unfinished assets - non connections | 2 | 91 676 | 94 793 |
| Unfinished pipelines - new connections | 2 | 117 162 | 109 190 |
| Prepayments for fixed assets | 2 | 2 794 | 3 479 |
| TOTAL NON-CURRENT ASSETS | 2 | 2 141 333 | 2 089 971 |
| TOTAL ASSETS | | 2 471 782 | 2 373 607 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Current portion of long-term borrowings | | 473 | 1 340 |
| Trade and other payables, incl. dividends | | 85 250 | 53 507 |
| Taxes payable | | 30 508 | 22 724 |
| Short-term provisions | | 538 | 289 |
| Deferred income | | 36 325 | 68 569 |
| TOTAL CURRENT LIABILITIES | | 153 094 | 146 429 |
| NON-CURRENT LIABILITIES | | | |
| Finance lease | | 0 | 415 |
| Bank loans | | 1 166 098 | 1 165 219 |
| Other payables | | 100 | 100 |
| TOTAL NON-CURRENT LIABILITIES | | 1 166 198 | 1 165 734 |
| TOTAL LIABILITIES | | 1 319 292 | 1 312 163 |
| EQUITY CAPITAL | | | |
| Share capital | | 200 001 | 200 001 |
| Share premium | | 387 000 | 387 000 |
| Statutory legal reserve | | 20 000 | 20 000 |
| Accumulated profit | | 297 443 | 280 089 |
| Net profit for the period | | 248 046 | 174 354 |
| TOTAL EQUITY CAPITAL | | 1 152 490 | 1 061 444 |
| TOTAL LIABILITIES AND EQUITY CAPITAL | | 2 471 782 | 2 373 607 |

AS TALLINNA VESI

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005

(thousand EEK)

| | Note | Quarter 4 | | Year ended 31 December | |
|--|------|----------------|----------------|------------------------|----------------|
| | | 2006 | 2005 | 2006 | 2005 |
| Sales from main operating activities | 3 | 148 909 | 140 309 | 589 176 | 549 918 |
| Revenues from other operating activities | 3 | 58 612 | 10 970 | 104 048 | 42 111 |
| Net sales | | 207 521 | 151 279 | 693 224 | 592 029 |
| Costs of goods sold (main operating activities) | 4, 5 | -58 219 | -53 460 | -220 537 | -202 055 |
| Costs of goods sold (other operating activities) | 5 | -55 752 | -10 613 | -97 096 | -38 338 |
| GROSS PROFIT | | 93 550 | 87 206 | 375 591 | 351 636 |
| Marketing expenses | 4, 5 | -2 467 | -1 469 | -9 578 | -6 778 |
| General administration expenses | 4, 5 | -15 148 | -12 294 | -51 319 | -64 257 |
| Other income/ expenses (-) | 5 | -1 487 | 208 | 23 229 | 1 959 |
| OPERATING PROFIT | | 74 448 | 73 651 | 337 923 | 282 560 |
| Financial income / expenses (-) | 6 | -11 338 | -31 517 | -42 981 | -72 838 |
| PROFIT BEFORE TAXES | | 63 110 | 42 134 | 294 942 | 209 722 |
| Income tax on dividends | 7 | 0 | 0 | -46 896 | -35 368 |
| NET PROFIT FOR THE PERIOD | | 63 110 | 42 134 | 248 046 | 174 354 |
| Attributable to: | | | | | |
| Equity holders of A-shares | | 63 100 | 42 124 | 248 036 | 174 344 |
| B-share holder | | 10 | 10 | 10 | 10 |
| Earnings per share in kroons | 8 | 3,16 | 2,11 | 12,40 | 8,72 |

AS TALLINNA VESI

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005

(thousand EEK)

| | 2006 | 2005 |
|---|-----------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Operating profit | 337 923 | 282 560 |
| Adjustment for depreciation | 81 047 | 78 741 |
| Adjustment for income and expenses from constructions | -6 952 | -3 773 |
| Other financial income and expenses | -1 571 | -20 012 |
| Profit from sale of fixed assets | -24 917 | -11 870 |
| Expensed fixed assets | 1 106 | 394 |
| Capitalization of operating expenses | -20 921 | -23 280 |
| Movement in current assets involved in operating activities | -4 143 | 57 754 |
| Movement in liabilities involved in operating activities | 6 873 | 6 414 |
| Interest paid | -47 894 | -59 854 |
| Total cash flow from operating activities | 320 551 | 307 074 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of fixed assets (incl pipelines construction) | -192 047 | -199 875 |
| Proceeds from pipelines financed by construction income | 112 662 | 52 494 |
| Proceeds from sale of and prepayments received for fixed assets | -1 293 | 47 345 |
| Proceeds from sale of assets and real estate investments | 1 106 | 11 700 |
| Interest received | 6 545 | 5 067 |
| Total cash flow from investing activities | -73 027 | -83 269 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Received long-term loans | 0 | 696 318 |
| Repayment of long-term loans | 0 | -664 981 |
| Finance lease payments | -1 282 | -1 707 |
| Dividends paid | -157 000 | -112 000 |
| Income tax on dividends | -46 896 | -35 368 |
| Total cash flow from financing activities | -205 178 | -117 738 |
| Change in cash and bank accounts | 42 346 | 106 067 |
| CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD | 207 067 | 101 000 |
| CASH AND EQUIVALENTS AT THE END OF THE PERIOD | 249 413 | 207 067 |

AS TALLINNA VESI

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006 AND 2005

(thousand EEK)

| | Share capital | Share premium | Statutory legal reserve | Accumulated profit | Net profit | Total equity |
|---|----------------|----------------|-------------------------|--------------------|----------------|------------------|
| 31 December 2004 | 200 001 | 387 000 | 93 394 | 145 734 | 172 961 | 999 090 |
| Transfer of financial year profit to the accumulated profit | 0 | 0 | 0 | 172 961 | -172 961 | 0 |
| Transfer of statutory legal reserve to the accumulated profit | 0 | 0 | -73 394 | 73 394 | 0 | 0 |
| Dividends | 0 | 0 | 0 | -112 000 | 0 | -112 000 |
| Net profit of the financial year | 0 | 0 | 0 | 0 | 174 354 | 174 354 |
| 31 December 2005 | 200 001 | 387 000 | 20 000 | 280 089 | 174 354 | 1 061 444 |
| 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 | 248 046 | 248 046 |
| 31 December 2006 | 200 001 | 387 000 | 20 000 | 297 443 | 248 046 | 1 152 490 |

AS TALLINNA VESI

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

NOTE 1. ACCOUNTING PRINCIPLES

The interim accounts have been prepared according to International Financial Reporting Standards as adopted by the EU, and give a true and fair view of the financial position, results of operations and cash flows of AS Tallinna Vesi. The same accounting policies are followed in the interim financial statements as in the most recent annual financial statements. The interim report is prepared in accordance with IAS 34 Interim Financial Reporting.

AS TALLINNA VESI

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

(thousand EEK)

NOTE 2. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS

| | Tangible assets in use | | | | Assets in progress | | | Intangible assets | | Total tangible and intangible non-current assets |
|---|------------------------|------------------|-------------------------|-----------------|-------------------------------------|--|-----------------------------|-------------------|---|--|
| | Land and buildings | Facilities | Machinery and equipment | Other equipment | Unfinished assets - non connections | Unfinished pipelines - new connections | Prepayment for fixed assets | Development costs | Acquired licenses and other intangible assets | |
| Acquisition cost at | | | | | | | | | | |
| 31.12.2004 | 311 470 | 1 899 519 | 484 895 | 16 335 | 102 634 | 79 675 | 3 648 | 9 598 | 27 357 | 2 935 131 |
| Acquisition | 0 | 0 | 0 | 0 | 128 979 | 74 363 | 19 803 | 0 | 0 | 223 145 |
| Sale of fixed assets | -83 | -126 | -2 994 | -5 | 0 | 0 | 0 | 0 | 0 | -3 208 |
| Write-off of fixed assets | -1 011 | -3 212 | -15 943 | -181 | 0 | 0 | 0 | 0 | -184 | -20 531 |
| Reclassification within balance sheet | 0 | 229 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 229 |
| Reclassification to expenses | 0 | 0 | 0 | 0 | -59 | -3 | -169 | 0 | 0 | -231 |
| Expensed pipelines | 0 | 0 | 0 | 0 | 0 | -38 339 | 0 | 0 | 0 | -38 339 |
| Reclassification from assets in progress | 39 565 | 49 711 | 37 630 | 2 994 | -136 761 | -6 506 | -19 803 | 4 243 | 28 927 | 0 |
| 31.12.2005 | 349 941 | 1 946 121 | 503 588 | 19 143 | 94 793 | 109 190 | 3 479 | 13 841 | 56 100 | 3 096 196 |
| Acquisition | 0 | 0 | 0 | 0 | 139 665 | 106 811 | 0 | 0 | 0 | 246 476 |
| Sale of fixed assets | -7 876 | -8 965 | -5 088 | -7 | 0 | 0 | 0 | 0 | 0 | -21 936 |
| Write-off of fixed assets | 0 | -967 | -4 930 | -2 483 | 0 | 0 | 0 | 0 | -7 006 | -15 386 |
| Reclassification within balance sheet | 0 | 0 | 0 | 0 | -43 | -33 | 0 | 0 | 0 | -76 |
| Reclassification to expenses | 0 | -1 | 0 | 0 | -614 | 0 | -489 | 0 | 0 | -1 104 |
| Expensed pipelines | 0 | 0 | 0 | 0 | 0 | -97 096 | 0 | 0 | 0 | -97 096 |
| Reclassification from assets in progress | 3 009 | 80 746 | 41 057 | 879 | -142 125 | -1 710 | -195 | 3 702 | 14 637 | 0 |
| 31.12.2006 | 345 074 | 2 016 934 | 534 627 | 17 532 | 91 676 | 117 162 | 2 795 | 17 543 | 63 731 | 3 207 074 |
| Accumulated depreciation | | | | | | | | | | |
| 31.12.2004 | 52 889 | 586 747 | 282 329 | 10 357 | 0 | 0 | 0 | 7 041 | 11 454 | 950 817 |
| Depreciation | 3 886 | 29 905 | 35 934 | 1 359 | 0 | 0 | 0 | 2 389 | 5 261 | 78 734 |
| Depreciation of fixed assets sold and written-off (-) | -1 094 | -3 334 | -18 531 | -182 | 0 | 0 | 0 | 0 | -185 | -23 326 |
| 31.12.2005 | 55 681 | 613 318 | 299 732 | 11 534 | 0 | 0 | 0 | 9 430 | 16 530 | 1 006 225 |
| Depreciation | 3 864 | 31 471 | 34 143 | 1 844 | 0 | 0 | 0 | 1 978 | 7 747 | 81 047 |
| Depreciation of fixed assets sold and written-off (-) | -70 | -3 740 | -8 231 | -2 484 | 0 | 0 | 0 | 0 | -7 006 | -21 531 |
| 31.12.2006 | 59 475 | 641 049 | 325 644 | 10 894 | 0 | 0 | 0 | 11 408 | 17 271 | 1 065 741 |
| Net book value | | | | | | | | | | |
| 31.12.2004 | 258 581 | 1 312 772 | 202 566 | 5 978 | 102 634 | 79 675 | 3 648 | 2 557 | 15 903 | 1 984 314 |
| 31.12.2005 | 294 260 | 1 332 803 | 203 856 | 7 609 | 94 793 | 109 190 | 3 479 | 4 411 | 39 570 | 2 089 971 |
| 31.12.2006 | 285 599 | 1 375 885 | 208 983 | 6 638 | 91 676 | 117 162 | 2 795 | 6 135 | 46 460 | 2 141 333 |

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 2 448 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 YEAR ENDED 31 DECEMBER 2006 AND 2005

(thousand EEK)

| NOTE 3. NET SALES | Quarter 4 | | Year ended 31 December | |
|---|----------------|----------------|------------------------|----------------|
| | 2006 | 2005 | 2006 | 2005 |
| Revenues from main operating activities | | | | |
| Water supply service | 72 710 | 66 231 | 289 250 | 262 693 |
| Waste water disposal service | 65 954 | 60 669 | 259 727 | 232 852 |
| Stormwater treatment and disposal service | 7 513 | 11 644 | 30 052 | 46 574 |
| Fire hydrants service | 832 | 510 | 3 007 | 2 040 |
| Other works and services | 1 900 | 1 255 | 7 140 | 5 759 |
| Total revenues from main operating activities | 148 909 | 140 309 | 589 176 | 549 918 |
| Revenues from other operating activities | | | | |
| Water, sewerage and storm water connections construction income | 58 612 | 10 970 | 104 048 | 42 111 |
| TOTAL NET SALES | 207 521 | 151 279 | 693 224 | 592 029 |

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 | -13 610 | -13 495 | -50 532 | -52 949 |
| Social security taxation | -4 535 | -4 495 | -16 832 | -17 739 |
| Staff costs total | -18 145 | -17 990 | -67 364 | -70 688 |
| Average number of employees during the reporting period | 311 | 340 | 322 | 337 |

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

(thousand EEK)

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 | -2 529 | -2 333 | -10 050 | -9 049 |
| Chemicals | -6 044 | -4 461 | -20 638 | -13 477 |
| Electricity | -6 282 | -5 708 | -24 594 | -23 628 |
| Pollution tax | -2 575 | -1 480 | -11 988 | -6 905 |
| Staff costs | -12 389 | -12 651 | -46 521 | -45 692 |
| Research and development | -98 | -96 | -129 | -186 |
| Depreciation and amortization | -18 889 | -19 088 | -73 278 | -73 582 |
| Other costs of goods sold | -9 413 | -7 643 | -33 339 | -29 536 |
| Total cost of goods sold (main operating activities) | -58 219 | -53 460 | -220 537 | -202 055 |
| Cost of goods sold (other operating activities) | | | | |
| Water, sewerage and storm water connections construction cost | -55 752 | -10 613 | -97 096 | -38 338 |
| Marketing Expenses | | | | |
| Staff costs | -1 253 | -945 | -4 710 | -4 777 |
| Depreciation and amortization | -404 | -96 | -2 453 | -192 |
| Other marketing expenses | -810 | -428 | -2 415 | -1 809 |
| Total cost of marketing expenses | -2 467 | -1 469 | -9 578 | -6 778 |
| General Administration Expenses | | | | |
| Staff costs | -4 503 | -4 394 | -16 133 | -20 219 |
| Depreciation and amortization | -2 098 | -1 451 | -5 316 | -4 967 |
| Other general administration expenses | -8 547 | -6 449 | -29 870 | -39 071 |
| Total cost of general administration expenses | -15 148 | -12 294 | -51 319 | -64 257 |

Other income/expenses - In both 2005 and 2006 other income/expenses includes, the profits recognised on the sale of fixed assets during the period, the movement of the bad debt provision during the year and provisions recognised and released throughout the financial period. It also includes income and costs generated from a consultancy project in the Republic of Tajikistan.

In total, the costs for the period ended 31 December 2005 include IPO costs of 26 003 thousand kroons, being made up of 19 935 thousand kroons for services and 6 068 thousand kroons for staff bonus costs. Of the total costs for services 8 490 thousand kroons are included in other income/expenses with the balance posted against the relevant cost category.

AS TALLINNA VESI

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

(thousand EEK)

NOTE 6. FINANCIAL INCOME AND EXPENSES

| | 2006 | 2005 |
|--|----------------|----------------|
| Interest income | 7 033 | 4 966 |
| Interest expense | -48 444 | -57 791 |
| Loans restructuring costs | -1 035 | -19 497 |
| Other financial income / expenses (-) | -535 | -516 |
| Total financial income / expenses | -42 981 | -72 838 |

NOTE 7. DIVIDENDS

| | 2006 | 2005 |
|--------------------------------------|----------------|----------------|
| Dividends declared during the period | 157 000 | 112 000 |
| Dividends paid during the period | 157 000 | 112 000 |
| Income tax on dividends declared | -46 896 | -35 368 |
| Income tax accounted | -46 896 | -35 368 |

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

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) | 248 036 | 174 344 |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 20 000 000 | 20 000 000 |
| Earnings per share in kroons | 12,40 | 8,72 |
| Dividends per A-share in kroons | 7,85 | 5,60 |
| Dividends per B-share in kroons | 10 000 | 10 000 |

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 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 31.12.2005 and 31.12.2006 are recorded as follows:

| | Tallinn City Government and related boards | The companies belonging to the same group with the United Utilities (Tallinn) B.V. |
|--|---|---|
| 2005 | | |
| Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi | | |
| Deferred income | 71 | 0 |
| Accounts payable - short-term trade and other payables, incl. dividends | 0 | 2 423 |
| Transactions recorded to the Income Statement of AS Tallinna Vesi | | |
| Net sales | 77 465 | 0 |
| General administration expenses | 0 | 12 990 |
| Other income (-) / expenses | 0 | 504 |
| Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi | | |
| Non-current assets incl unfinished assets and new connections | 0 | 13 480 |
| 2006 | | |
| Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi | | |
| Accounts payable - short-term trade and other payables, incl. dividends | 0 | 2 176 |
| Transactions recorded to the Income Statement of AS Tallinna Vesi | | |
| Net sales | 65 275 | 0 |
| General administration expenses | 0 | 14 729 |
| Other income (-)/ expenses | 0 | 10 |
| Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi | | |
| Non-current assets incl unfinished assets and new connections | 0 | 11 593 |
| | Year ended 31 December | |
| | 2006 | 2005 |
| Management Board fees excluding social tax | 2 097 | 2 121 |
| Supervisory Board fees excluding social tax | 500 | 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 YEAR ENDED 31 DECEMBER 2006 AND 2005

NOTE 10. FINANCIAL INDICATORS

| | 2006 | 2005 |
|-------------------------------------|-------|-------|
| Operating Margin ⁽¹⁾ | 48,7% | 47,7% |
| Net profit margin ⁽²⁾ | 35,8% | 29,5% |
| Return on equity ⁽³⁾ | 22,4% | 16,9% |
| Return on assets ⁽⁴⁾ | 10,2% | 7,6% |
| Debt to equity ratio ⁽⁵⁾ | 1,1 | 1,2 |
| Current ratio ⁽⁶⁾ | 2,2 | 1,9 |

Notes:

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

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