

*Tallinna Vesi*



AS Tallinna Vesi  
Results of operations – for the 2<sup>nd</sup> quarter and first 6 months  
of 2007

Currency	Thousand EUR
Start of reporting period	1 January 2007
End of reporting period	30 June 2007
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Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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**MANAGEMENT REPORT**  
**RESULTS OF OPERATIONS - FOR THE 2<sup>nd</sup> QUARTER 2007**

**Overview**

During the 2nd quarter of 2007 sales to residential customers increased by 11.7% year on year, sales to commercial customers within the service area increased by 9.2% year on year, and sales to commercial customers outside of the service area reached 524 000 m<sup>3</sup> or 0.25 mln EUR. The Company's quarterly operating profit was 5.7 mln EUR, which is a 0.6 mln EUR increase compared to the 2<sup>nd</sup> quarter of 2006. The Company launched to the market a new trademark Veemees, under which maintenance, emergency and construction services related to water supply and sewerage services will be offered to owners of private houses, housing associations, apartment owners, real estate developers and construction companies.

<i>EUR</i>	<b>II Q 2007</b>	<b>II Q 2006</b>	<b>Change</b>	<b>1H 2007</b>	<b>1H 2006</b>	<b>Change</b>
Sales	11,3	10,3	9,9%	24,4	21,5	13,4%
Main operating activities	10,5	9,5	10,7%	20,8	18,9	10,1%
Other operating activities	0,8	0,8	-0,5%	3,6	2,6	37,7%
Gross profit	7,0	6,1	14,5%	14,7	12,1	20,9%
Gross profit margin %	61,7%	59,1%	4,3%	60,1%	56,4%	6,6%
Operating profit	5,7	5,1	12,0%	12,5	11,8	5,6%
Operating profit margin %	50,9%	49,9%	2,0%	51,2%	55,0%	-6,9%
Profit before taxes	5,1	4,4	14,2%	11,1	10,5	6,1%
Profit before taxes margin	44,9%	43,2%	3,9%	45,7%	48,8%	-6,4%
Net profit	1,5	1,4	6,5%	7,6	7,5	1,5%
ROA %	1,0%	0,9%	6,5%	4,9%	5,0%	-1,7%
Debt to total capital employed	55,8%	56,6%	-1,5%	55,8%	56,6%	-1,5%

*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*

**Profit and Loss Statement**

2<sup>nd</sup> quarter 2007

*Sales*

In the 2<sup>nd</sup> quarter of 2007 the Company's total sales increased, year on year, by 9.9% to 11.3 mln EUR. Sales from the Company's main operating activities were 10.5 mln EUR. Sales in the main operating activity principally comprise of sales of water and treatment of wastewater to domestic

and commercial customers within and outside of the services area, and fees received from the City of Tallinn for operating and maintaining the stormwater system.

Sales of water and wastewater treatment were 9.8 mln EUR, a 10.7% increase compared to the second quarter of 2006, resulting from the 10.8% increase in tariffs from 1 January 2007 for the Company's residential and commercial customers.

Included within this amount were the following increases by sector: Sales to residential customers increased by 11.7% to 5.1 mln EUR. Sales to commercial customers within the service area increased by 9.2% to 4.2 mln EUR. Sales to commercial customers outside of the service area – primarily bulk volumes of wastewater treatment services provided to the surrounding municipalities - reached 524 000 m<sup>3</sup> or 0.25 mln EUR. Overpollution fees received were 0.04 mln EUR higher than in the 2<sup>nd</sup> quarter of 2006.

In the 2<sup>nd</sup> quarter of 2007 sales from the operation and maintenance of the stormwater and firehydrant system increased by 10.4% to 0.6 mln EUR compared to the same period in 2006. This is in accordance with the terms and conditions of the contract whereby the stormwater and firehydrant costs are invoiced based on actual volumes treated. This is contractually agreed up to 2015.

Sales revenues from other operating activities, at 0.8 mln EUR (mainly connections and stormwater construction) remained at a similar level to the 2<sup>nd</sup> quarter of 2006.

#### *Cost of Goods Sold and Gross Margin*

The cost of goods sold for the main operating activity was 3.7 mln EUR in the 2<sup>nd</sup> quarter of 2007, an increase of 0.2 mln EUR or 5% from the equivalent period in 2006.

In the 2<sup>nd</sup> quarter of 2007 the Company has for the second successive quarter recorded zero failures in all pollution measures taken, and as a result the amount of pollution tax payable reduced by 0.14 mln EUR.

The Company continues to face increasing pressure on chemical prices especially coagulant. However these price increases have been partially offset by lower polymer dosages used, which resulted in a total quarterly charge of 0.3 mln EUR for chemical costs, which represents an 8.8% increase compared to the corresponding period in 2006.

Salaries increased by 0.06 mln EUR or 7.7%. As a consequence of the highly competitive labour market and rapidly growing salaries. In late 2006 all salaries were reviewed and increased to ensure competitiveness in the market and retain key personnel. However, the figure also reflects the efficiencies made from improvements in working practices that have led to a decrease in the headcount. In the 2<sup>nd</sup> quarter of 2007, the average number of people working for the Company was 305 people, compared to 326 people in the 2<sup>nd</sup> quarter of 2006.

Other cost of goods sold in the main operating activity increased by 0.2 mln EUR, or 37% year on year. In the 2<sup>nd</sup> quarter of 2007 the company made a provision of 0.08 mln EUR for the possible payment of servitude fees for the tolerance of technological structure on the private land. According to the new law that came in force in March 2007, the owners of the land can apply for the payment of a tolerance fee, if technological structures are established on their land. In addition, other costs increased due to a one-off increase in gas expenditures and increased costs on a number of support

services contracts, such as transport, and security services reflecting the significant increase in labour costs in Tallinn.

As a result of all of the above the Company's gross profit for the 2<sup>nd</sup> quarter of 2007 was 7 mln EUR, which represents an increase of 0.9 mln EUR, or 14.5%, compared to the gross profit of 6.1 mln EUR for the 2<sup>nd</sup> quarter of 2006.

#### *Operating Costs and Operating Margin*

Marketing expenses increased by 0.07 mln EUR to 0.21 mln EUR during the 2<sup>nd</sup> quarter of 2007 compared to the corresponding period in 2006. At the beginning of the 2<sup>nd</sup> quarter, the company formed a new business unit focusing on new business development. The related costs, including the preparation works for launching the new Veemees trademark (Waterman), have been accounted under marketing costs. The increase in depreciation charges accounted within marketing expenses is due to the inclusion of the depreciation related to the completion of the last stage of implementation of the Customer Information and Billing system (KLIF).

General administration expenses increased by 0.2 mln EUR to 1 mln EUR in the 2<sup>nd</sup> quarter of 2007 as a consequence of an increase in salaries and other general administration expenses. Approximately 0.05 mln EUR accounted for switching from owning the computers into the lease contracts as well as outsource the maintenance of software development – a corresponding reduction can be found in the depreciation charge. In addition a lower proportion of administrative salaries were capitalised due to the completion of the final stage of the Customer Information and Billing system (KLIF).

Included within the above cost categories are staff costs. These totaled 1.2 mln EUR in the 2<sup>nd</sup> quarter of 2007, which is a 0.14 mln EUR or 12.7% increase compared to the same period in 2006, which as mentioned earlier was due to of the company wide revision of salaries.

Other net income/expenses totaled a cost of 0.03 mln EUR in the 2<sup>nd</sup> quarter of 2007 compared to a cost of 0.01 mln EUR in the 2<sup>nd</sup> quarter of 2006.

As a result of all of the above the Company's operating profit for the 2<sup>nd</sup> quarter of 2007 was 5.7 mln EUR, an increase of 0.6 mln EUR compared to an operating profit of 5.1 mln EUR achieved in the 2<sup>nd</sup> quarter of 2006.

#### *Financial expenses*

Net Financial expenses were 0.7 mln EUR in the 2<sup>nd</sup> quarter of 2007, which is a decrease of 0.01 mln EUR or 1.8% compared to the 2<sup>nd</sup> quarter of 2006. The Company's interest costs have increased by 18% compared to the 2<sup>nd</sup> quarter of 2006. This is due to the fact that half of the Company's loans are connected to the 6 month Euribor rate, which has increased from 2.643% at the beginning of 2006 up to 4.315% at the end of the 2<sup>nd</sup> quarter of 2007. The increase in interest expenses is offset by an increase in financial income earned during the 2<sup>nd</sup> quarter of 2007, as a result of improved cash management which led to more a favourable cash position, and increasing interest rates.

With current rising interest rates the Company's loans have quite favourable terms, with 37.5 mln EUR fixed at 4.19% plus risk margin (48 bps), 37.5 mln EUR has a floating rate at six months

Euribor plus risk margin (24 bps), from which 20.4 mln EUR is hedged with a collar interest rate swap, where the Company pays 4% if the six months Euribor rate is between 4-5%.

### *Profit Before Tax*

The Company's profit before taxes for the 2<sup>nd</sup> quarter of 2007 was 5.1 mln EUR, which is 0.6 mln EUR higher than the profit before taxes of 4.4 mln EUR for the 2<sup>nd</sup> quarter of 2006.

### Results for the first six months of 2007

During the first six months of 2007 the Company's total sales increased, year on year, by 13.4% to 24.4 mln EUR. Sales from the Company's main operating activities were 20.8 mln EUR. Sales of water and wastewater treatment were 19.4 mln EUR, a 10.7% increase compared to the first half of 2006.

The Company's profit before taxes for the first six months of 2007 was 11.1 mln EUR, which is 0.6 mln EUR higher than the profit before taxes of 10.5 mln EUR in the relevant period in 2006. The results for the first half of 2007 were impacted by the fact that the Ministry of Environment gave final approval to the success of the nitrogen project, which resulted in the release of a provision worth 0.85 mln EUR for environmental taxes. The results for the first half of 2006 were impacted by the sale of excess land in Paljassaare worth 1.5 mln EUR. When eliminating these one-offs, the underlying profit before tax has increased by 1.3 mln EUR to 10.3 mln EUR i.e. 15% year-on-year.

### **Balance sheet**

During the six months of 2007 the Company invested 5.6 mln EUR into fixed assets. Tangible, intangible and unfinished assets were 136.4 mln EUR at 30 June 2007. Current assets decreased by 2.3 mln EUR in the first six months of the year, which was largely attributable to a decrease in cash reflecting the dividend payout.

Current liabilities increased by 2.3 mln EUR to 12.1 mln EUR in the first six months of the year. This was mainly due to decreased investment payables.

The company continues to maintain its leverage level within its target range of 50-60% with total liabilities to total capital employed of 56% as at 30 June 2007. Long-term liabilities stood at 74.6 mln EUR at the end of June 2007, consisting almost entirely of the outstanding balance on the two long-term bank loans.

### **Cash flow**

During the first six months of 2007, the Company generated 11.1 mln EUR of cash flows from operating activities, an increase of 0.65 mln EUR compared to the corresponding period in 2006. Operating profit continues to be main driver for growth.

In the 2<sup>nd</sup> quarter of 2007 net cash outflows from investing activities were 1.6 mln EUR, which is 1.3 mln EUR more than in 2006. This was mainly due to increased investment levels. In first six months of the year, the company invested 5.6 mln EUR – 3.2 mln EUR networks extension and rehabilitation, 1.8 mln EUR Paljassaare wastewater treatment plant and wastewater treatment, 0.4

mln EUR water quality (Ülemiste water treatment plant and raw water) and 0.3 mln EUR other investments (IT, capital maintenance, meters, etc).

Cash outflows from financing activities were 12.6 mln EUR during the first six months of the year compared to cash outflow of 10.1 mln EUR during the first six months of 2006, reflecting increased dividend payments.

As a result of all of the above factors, the total cash outflow in the six months of 2007 was 3.1 mln EUR compared to a cash outflow of 0.01 mln EUR in the first six months of 2006. Cash and cash equivalents stood at 12.8 mln EUR as at 31 June 2007.

## Employees

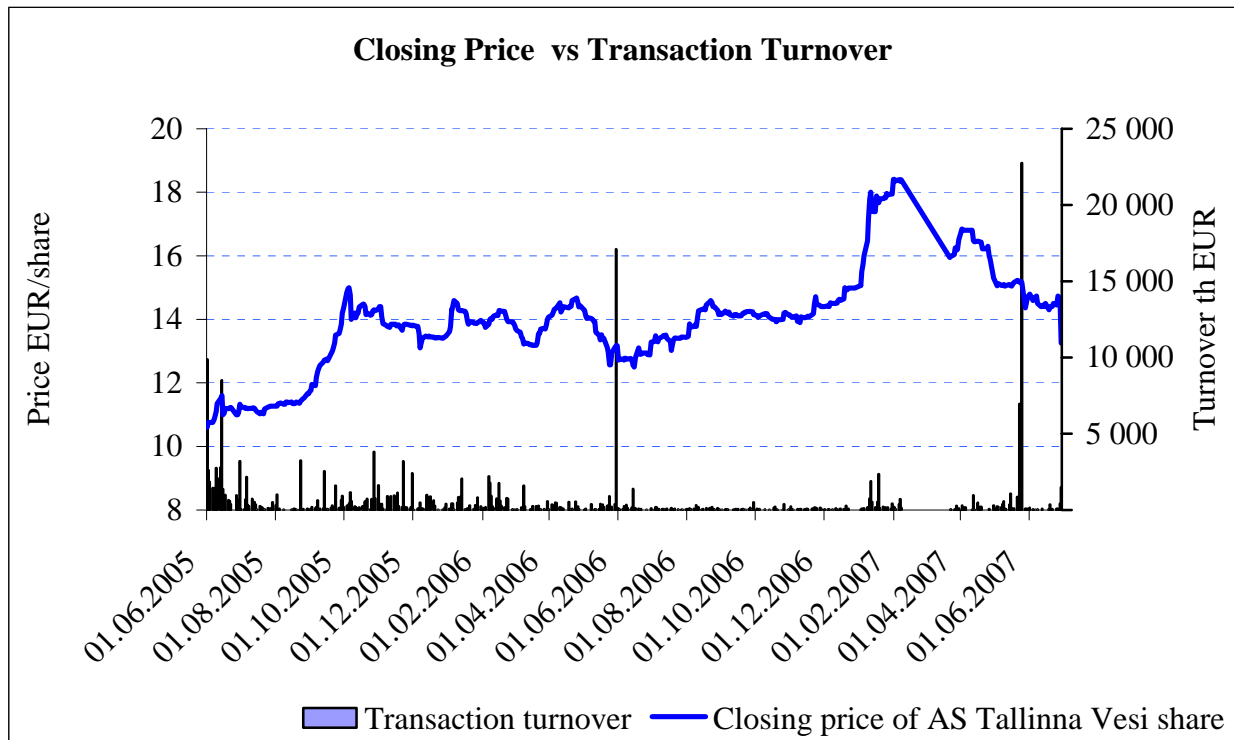
In the second quarter of 2007 the average number of employees was 305 people.

## Dividends and share performance

Based on the results of the 2006 financial year, the Annual General Meeting of shareholders of AS Tallinna Vesi voted to pay 12 527 322 EUR of dividends. Of this 639 EUR was paid to the owner of the B-share and 12 526 683 EUR, ie 0.63 EUR per share to the owners of the A-shares. Dividends were paid on 15 June 2007.

As of 30 June 2007 AS Tallinna Vesi shareholders, with a holding over 5%, were:

United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%
Morgan Stanley + Co International Equity client account	7.55%



At the end of the reporting period, 30 June 2007, the closing price of the AS Tallinna Vesi share was 13.25 EUR, which is a 12% decrease since the beginning of the year. This was partially due to fact that the company paid out dividends on June 15<sup>th</sup> as well as on June 29<sup>th</sup> over 100 000 shares were block traded at 8% below the market price. On the following trading day July 2<sup>nd</sup>, the share price increased by 5.66% to 14.00 EUR.

### **Operational achievements in 2007**

- The work on the new Paljassaare sludge processing building continues and will be completed in the 3<sup>rd</sup> quarter of 2007. The project 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. The sludge composting fields are to be completed in July 2007. These projects 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 2.6 mln EUR.
- In the 2<sup>nd</sup> quarter, as in 1st quarter, all outfall effluent samples at all locations complied with requirements and as a consequence the environmental charges for the quarter attracted a 50% reduction.
- In the 2<sup>nd</sup> quarter, the company's ISO and EMAS procedures were audited by DNV and the continued accreditation is confirmed. At the same time the company applied for OHSAS accreditation, the outcome of this audit was positive and OHSAS accreditation is expected to be awarded in the 3<sup>rd</sup> quarter of 2007.
- The Company launched to the market a new trademark Veemees, under which maintenance, emergency and construction services related to water supply and sewerage services will be offered to owners of private houses, housing associations, apartment owners, real estate developers and construction companies.

#### 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 June 2007. 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 June 2007, 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 June 2007. The actual results of these business transactions recorded may differ from such estimates.

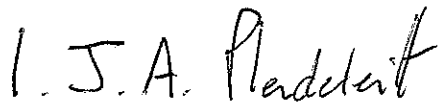
The interim accounts give a true and fair view of the financial position, economic performance and cash flows of the company.

All material subsequent events that occurred by the interim accounts preparation date of 12 July 2007 have been assessed as part of this review.

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



**Roch Jean Guy Antoine Chéroux**  
Chairman of the Management Board



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



**David Nigel Hetherington**  
Member of the Management Board

12 July 2007

## BALANCE SHEETS AT 30 JUNE 2007 AND 2006, AND AT 31 DECEMBER 2006

(thousand EUR)

ASSETS	Note	2007	30 June 2006	31 December 2006
<b>CURRENT ASSETS</b>				
Cash at bank and in hand	2	12 813	13 193	15 940
Customer receivables		5 468	4 605	4 569
Accrued income and prepaid expenses		210	478	304
Inventories		259	215	201
Assets for sale		50	105	105
<b>TOTAL CURRENT ASSETS</b>		<b>18 801</b>	<b>18 596</b>	<b>21 120</b>
<b>NON-CURRENT ASSETS</b>				
Tangible assets	3	122 882	115 946	119 969
Intangible assets	3	3 207	2 601	3 361
Unfinished assets - non connections	3	4 090	7 575	5 859
Unfinished pipelines - new connections	3	6 220	5 646	7 488
Prepayments for fixed assets	3	199	204	179
<b>TOTAL NON-CURRENT ASSETS</b>		<b>136 597</b>	<b>131 973</b>	<b>136 856</b>
<b>TOTAL ASSETS</b>		<b>155 398</b>	<b>150 569</b>	<b>157 976</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Current portion of long-term borrowings		0	60	30
Trade and other payables, incl. dividends		4 356	3 014	5 448
Taxes payable, incl. dividends		4 939	5 367	1 950
Short-term provisions		143	26	34
Deferred income		2 652	2 276	2 322
<b>TOTAL CURRENT LIABILITIES</b>		<b>12 090</b>	<b>10 744</b>	<b>9 784</b>
<b>NON-CURRENT LIABILITIES</b>				
Finance lease		0	7	0
Bank loans		74 555	74 499	74 527
Other payables		6	6	6
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>74 562</b>	<b>74 513</b>	<b>74 534</b>
<b>TOTAL LIABILITIES</b>		<b>86 652</b>	<b>85 257</b>	<b>84 318</b>
<b>EQUITY CAPITAL</b>				
Share capital		12 782	12 782	12 782
Share premium		24 734	24 734	24 734
Statutory legal reserve		1 278	1 278	1 278
Accumulated profit		22 336	19 010	19 010
Net profit for the period		7 616	7 507	15 853
<b>TOTAL EQUITY CAPITAL</b>		<b>68 746</b>	<b>65 312</b>	<b>73 658</b>
<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>		<b>155 398</b>	<b>150 569</b>	<b>157 976</b>



## AS TALLINNA VESI

INCOME STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2007 AND 2006

(thousand EUR)

	Note	II quarter		6 months		Year ended 31 December
		2007	2006	2007	2006	2006
Sales from main operating activities	4	10 505	9 488	20 803	18 896	37 655
Revenues from other operating activities	4	768	772	3 595	2 611	6 650
<b>Net sales</b>		<b>11 273</b>	<b>10 260</b>	<b>24 398</b>	<b>21 507</b>	<b>44 305</b>
Costs of goods sold (main operating activities)	5,6	-3 651	-3 477	-6 519	-6 982	-14 095
Costs of goods sold (other operating activities)	6	-671	-714	-3 206	-2 392	-6 206
<b>GROSS PROFIT</b>		<b>6 951</b>	<b>6 068</b>	<b>14 674</b>	<b>12 133</b>	<b>24 005</b>
Marketing expenses	5,6	-213	-144	-415	-307	-612
General administration expenses	5,6	-976	-796	-1 888	-1 602	-3 280
Other income/ expenses (-)	6	-27	-10	126	1 605	1 485
<b>OPERATING PROFIT</b>		<b>5 736</b>	<b>5 119</b>	<b>12 496</b>	<b>11 829</b>	<b>21 597</b>
Financial income / expenses (-)	7	-677	-689	-1 347	-1 325	-2 747
<b>PROFIT BEFORE TAXES</b>		<b>5 059</b>	<b>4 429</b>	<b>11 150</b>	<b>10 505</b>	<b>18 850</b>
Income tax on dividends	8	-3 533	-2 997	-3 533	-2 997	-2 997
<b>NET PROFIT FOR THE PERIOD</b>		<b>1 525</b>	<b>1 432</b>	<b>7 616</b>	<b>7 507</b>	<b>15 853</b>
Attributable to:						
Equity holders of A-shares		1 525	1 432	7 616	7 507	15 852
B-share holder		0,64	0,64	0,64	0,64	0,64
<b>Earnings per share in euros</b>	9	<b>0,08</b>	<b>0,07</b>	<b>0,38</b>	<b>0,38</b>	<b>0,79</b>




Chairman of the Management Board:

## CASH FLOW STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2007 AND 2006

(thousand EUR)

	6 months		Year ended 31
	2007	2006	December
			2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating profit	12 496	11 829	21 597
Adjustment for depreciation	2 540	2 547	5 180
Adjustment for income and expenses from constructions	-390	-219	-444
Other financial income and expenses	-23	-51	-34
Profit from sale of fixed assets	1	-1 577	-1 592
Expensed fixed assets	0	40	71
Capitalization of operating expenses	-580	-666	-1 337
Movement in current assets involved in operating activities	-632	-482	-265
Movement in liabilities involved in operating activities	-689	479	383
Interest paid	-1 652	-1 480	-3 071
<b>Total cash flow from operating activities</b>	<b>11 069</b>	<b>10 421</b>	<b>20 487</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of fixed assets (incl pipelines construction)	-5 887	-3 553	-12 274
Proceeds from pipelines financed by construction income	3 885	3 088	7 200
Proceeds from sale of and prepayments received for fixed assets	1	-200	-83
Proceeds from sale of assets and real estate investments	15	71	71
Interest received	346	212	418
<b>Total cash flow from investing activities</b>	<b>-1 640</b>	<b>-383</b>	<b>-4 667</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Finance lease payments	-30	-44	-82
Dividends paid	-12 527	-10 034	-10 034
Income tax on dividends	0	0	-2 997
<b>Total cash flow from financing activities</b>	<b>-12 558</b>	<b>-10 079</b>	<b>-13 113</b>
<b>Change in cash and bank accounts</b>	<b>-3 128</b>	<b>-41</b>	<b>2 706</b>
<b>CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>15 940</b>	<b>13 234</b>	<b>13 234</b>
<b>CASH AND EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>12 813</b>	<b>13 193</b>	<b>15 940</b>



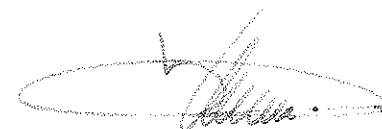
Chairman of the Management Board:

**AS TALLINNA VESI**

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 30 JUNE 2007 AND 2006**

(thousand EUR)

	Share capital	Share premium	Statutory legal reserve	Accumulated profit	Net profit	Total equity
<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 year	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>
<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	7 507	7 507
<b>30 June 2006</b>	<b>12 782</b>	<b>24 734</b>	<b>1 278</b>	<b>19 010</b>	<b>7 507</b>	<b>65 312</b>
<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>
Transfer of financial year profit to the accumulated profit	0	0	0	15 853	-15 853	0
Dividends	0	0	0	-12 527	0	-12 527
Net profit of the financial period	0	0	0	0	7 616	7 616
<b>30 June 2007</b>	<b>12 782</b>	<b>24 734</b>	<b>1 278</b>	<b>22 336</b>	<b>7 616</b>	<b>68 746</b>



Chairman of the Management Board:

**NOTES TO THE INTERIM ACCOUNTS  
FOR THE PERIOD ENDED 30 JUNE 2007 AND 2006**

(thousand EUR)

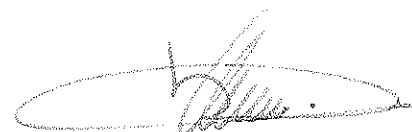
**NOTE 1. ACCOUNTING PRINCIPLES**

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.

**NOTE 2. CASH AND CASH EQUIVALENTS**

	<b>6 months</b>		<b>Year ended 31 December</b>
	<b>2007</b>	<b>2006</b>	<b>2006</b>
Cash at bank and in hand	3 118	917	1 101
Short term deposits	9 695	12 277	14 839
	<b>12 813</b>	<b>13 193</b>	<b>15 940</b>



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE PERIOD ENDED 30 JUNE 2007 AND 31 DECEMBER 2006

(thousand EUR)

NOTE 3. 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>31.12.2005</b>	22 365	124 380	32 185	1 223	6 058	6 979	222	885	3 585		197 883
Acquisition	0	0	0	0	8 926	6 826	0	0	0	0	15 753
Sale of fixed assets	-503	-573	-325	0	0	0	0	0	0	0	-1 402
Write-off of fixed assets	0	-62	-315	-159	0	0	0	0	-448	0	-983
Reclassification within balance sheet	0	0	0	0	-3	-2	0	0	0	0	-5
Reclassification to expenses	0	0	0	0	-39	0	-31	0	0	0	-71
Expensed pipelines	0	0	0	0	0	-6 206	0	0	0	0	-6 206
Reclassification from assets in progress	192	5 161	2 624	56	-9 083	-109	-12	0	1 172	0	0
<b>31.12.2006</b>	22 054	128 906	34 169	1 120	5 859	7 488	179	885	4 310		204 969
Acquisition	0	0	0	0	3 557	2 064	20	0	0	0	5 641
Sale of fixed assets	0	0	-12	0	0	0	0	0	0	0	-12
Write-off of fixed assets	-2	-55	-102	-2	0	0	0	0	0	0	-162
Reclassification within balance sheet	0	0	0	0	-26	-127	0	0	0	0	-153
Expensed pipelines	0	0	0	0	0	-3 206	0	0	0	0	-3 206
Reclassification from assets in progress	36	4 248	881	3	-5 300	0	0	30	102	0	0
<b>30.06.2007</b>	22 088	133 098	34 936	1 121	4 090	6 220	199	915	4 412		207 078
<b>Accumulated depreciation</b>											
<b>31.12.2005</b>	3 559	39 198	19 156	737	0	0	0	603	1 056		64 309
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>	3 801	40 970	20 812	696	0	0	0	729	1 104		68 113
Depreciation	127	1 082	1 008	35	0	0	0	60	226		2 540
Depreciation of fixed assets sold and written-off (-)	-2	-55	-112	-2	0	0	0	0	0		-172
<b>30.06.2007</b>	3 926	41 998	21 709	729	0	0	0	790	1 330		70 481
<b>Net book value</b>											
<b>31.12.2005</b>	18 807	85 182	13 029	486	6 058	6 979	222	282	2 529		133 573
<b>31.12.2006</b>	18 253	87 935	13 356	424	5 859	7 488	179	155	3 206		136 856
<b>30.06.2007</b>	18 162	91 100	13 227	392	4 090	6 220	199	125	3 082		136 597

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

For the period ended 31 December 2006 the net balance sheet value of finance leases was 156 thousand euros, as of 30 June 2007 there was no finance lease contract.

Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE PERIOD ENDED 30 JUNE 2007 AND 2006


(thousand EUR)

NOTE 4. NET SALES	II quarter		6 months		Year ended 31
	2007	2006	2007	2006	December 2006
<b>Revenues from main operating activities</b>					
Water supply service	5 193	4 629	10 280	9 273	18 486
Waste water disposal service	4 579	4 201	9 100	8 361	16 600
Stormwater treatment and disposal service	544	480	1 088	960	1 921
Fire hydrants service	35	44	70	93	192
Other works and services	154	134	265	209	456
<b>Total revenues from main operating activities</b>	<b>10 505</b>	<b>9 488</b>	<b>20 803</b>	<b>18 896</b>	<b>37 655</b>
<b>Revenues from other operating activities</b>					
Water, sewerage and storm water connections construction income	768	772	3 595	2 611	6 650
<b>TOTAL NET SALES</b>	<b>11 273</b>	<b>10 260</b>	<b>24 398</b>	<b>21 507</b>	<b>44 305</b>

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

NOTE 5. PERSONNEL EXPENSES

	II quarter		6 months		Year ended 31
	2007	2006	2007	2006	December 2006
Salaries and wages	-917	-813	-1 812	-1 637	-3 230
Social security taxation	-306	-271	-604	-549	-1 076
<b>Staff costs total</b>	<b>-1 223</b>	<b>-1 085</b>	<b>-2 416</b>	<b>-2 186</b>	<b>-4 305</b>
<b>Average number of employees during the reporting period</b>	<b>305</b>	<b>326</b>	<b>306</b>	<b>329</b>	<b>322</b>



Chairman of the Management Board:



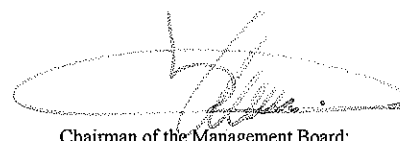
**NOTES TO THE INTERIM ACCOUNTS  
FOR THE PERIOD ENDED 30 JUNE 2007 AND 2006**

(thousand EUR)

**NOTE 6. COSTS AND EXPENSES**

Cost of goods sold (main operating activities)	II quarter		6 months		Year ended 31 December
	2007	2006	2007	2006	2006
Tax on special use of water	-166	-158	-336	-322	-642
Chemicals	-337	-310	-659	-618	-1 319
Electricity	-394	-396	-854	-813	-1 572
Pollution tax	-60	-200	614	-372	-766
Staff costs	-814	-756	-1 638	-1 517	-2 973
Research and development	-4	0	-4	0	-8
Depreciation and amortization	-1 177	-1 147	-2 334	-2 314	-4 683
Other costs of goods sold	-700	-511	-1 308	-1 027	-2 131
<b>Total cost of goods sold (main operating activities)</b>	<b>-3 651</b>	<b>-3 477</b>	<b>-6 519</b>	<b>-6 982</b>	<b>-14 095</b>
<b>Cost of goods sold (other operating activities)</b>					
Water, sewerage and storm water connections construction cost	-671	-714	-3 206	-2 392	-6 206
<b>Marketing Expenses</b>					
Staff costs	-102	-76	-186	-146	-301
Depreciation and amortization	-57	-34	-112	-97	-157
Other marketing expenses	-53	-33	-117	-64	-154
<b>Total cost of marketing expenses</b>	<b>-213</b>	<b>-144</b>	<b>-415</b>	<b>-307</b>	<b>-612</b>
<b>General Administration Expenses</b>					
Staff costs	-306	-252	-592	-523	-1 031
Depreciation and amortization	-47	-69	-94	-137	-340
Other general administration expenses	-622	-475	-1 202	-943	-1 909
<b>Total cost of general administration expenses</b>	<b>-976</b>	<b>-796</b>	<b>-1 888</b>	<b>-1 602</b>	<b>-3 280</b>

**Other income/expenses** - In both 2007 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.



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS  
FOR THE PERIOD ENDED 30 JUNE 2007 AND 2006

(thousand EUR)

NOTE 7. FINANCIAL INCOME AND EXPENSES	6 months		Year ended 31
	2007	2006	December 2006
Interest income	341	209	422
Interest expense	-1 665	-1 483	-3 162
Other financial income / expenses (-)	-23	-51	-6
<b>Total financial income / expenses</b>	<b>-1 347</b>	<b>-1 325</b>	<b>-2 747</b>


NOTE 8. DIVIDENDS	6 months		Year ended 31
	2007	2006	December 2006
Dividends declared during the period	12 527	10 034	10 034
Dividends paid during the period	12 527	10 034	10 034
Income tax on dividends declared	-3 533	-2 997	-2 997
<b>Income tax accounted</b>	<b>-3 533</b>	<b>-2 997</b>	<b>-2 997</b>

The income tax rates were 22/78 and 23/77 respectively in 2007 and 2006.

NOTE 9. EARNINGS AND DIVIDENDS PER SHARE

	6 months		Year ended 31
	2007	2006	December 2006
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)	7 616	7 507	15 852
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 euros	0,38	0,38	0,79
Dividends per A-share in euros	0,63	0,50	0,50
Dividends per B-share in euros	639	639	639

Diluted earnings per share for the periods ended 30 June 2007 and 2006 and 31 December 2006 are equal to the earnings per share figures stated above.

  
Chairman of the Management Board:

**NOTES TO THE INTERIM ACCOUNTS  
FOR THE PERIOD ENDED 30 JUNE 2007 AND 2006**

(thousand EUR)

**NOTE 10. 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 2006 and 2007 and respective balances as of 30.06.2006 and 30.06.2007 are recorded as follows:

	Tallinn City Government and related boards	The companies belonging to the same group with the United Utilities (Tallinn) B.V.
<b>2006 for 6 months</b>		
<b>Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi</b>		
Customer receivables	111	0
Accrued income and prepaid expenses	0	307
Deferred income	94	0
Accounts payable - short-term trade and other payables, incl. dividends	0	195
<b>Transactions recorded to the Income Statement of AS Tallinna Vesi</b>		
Net sales	2 936	0
General administration expenses	0	597
<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	408
<b>2007 for 6 months</b>		
<b>Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi</b>		
Customer receivables	604	0
Accounts payable - short-term trade and other payables, incl. dividends	0	143
<b>Transactions recorded to the Income Statement of AS Tallinna Vesi</b>		
Net sales	3 550	0
General administration expenses	0	609
<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	187

	6 months		Year ended 31 December
	2007	2006	2006
<b>Management Board fees excluding social tax</b>	62	72	134
<b>Supervisory Board fees excluding social tax</b>	19	16	32

The fees disclosed above are contractual payments made by the Company to the management board members. In addition to this the management board members have, as overseas secondees, received direct compensation from the companies belonging to the group of United Utilities (Tallinn) B.V.

**Company shares belonging to the Management Board members**

As at report generation date Roch Jean Guy Antoine Cheroux owned 400 and Ian John Alexander Plenderleith 110 AS Tallinna Vesi shares.



Chairman of the Management Board:

**AS TALLINNA VESI**

**NOTES TO THE INTERIM ACCOUNTS  
FOR THE PERIOD ENDED 30 JUNE 2007 AND 2006**

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

Robert John Gallienne	Chairman of the Supervisory Board
David John Kilgour	Member of the Supervisory Board
Henry Emanuel Russell	Member of the Supervisory Board
Joanne Bream	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
Valdur Laid	Member of the Supervisory Board



Chairman of the Management Board: