

*Tallinna Vesi*



AS Tallinna Vesi  
Results of operations – for the 3<sup>rd</sup> quarter and first 9 months  
of 2007

Currency	Thousand EEK
Start of reporting period	1 January 2007
End of reporting period	30 September 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 3<sup>rd</sup> QUARTER 2007**

**Overview**

During the 3<sup>rd</sup> quarter of 2007 the Company's total sales increased, year on year, by 13.1% to 168.7 mln EEK. Total water and sewerage services sales volumes increased by 0.5%. Sales to residential customers increased by 9.9% year on year, sales to commercial customers within the service area increased by 4.3% year on year, and sales to commercial customers outside of the service area increased by 43.6% reaching 637 000 m<sup>3</sup> or 4.5 mln EEK year on year. The Company's quarterly operating profit was 88.5 mln EEK, which is a 10.1 mln EEK increase compared to the 3<sup>rd</sup> quarter of 2006. The Company invested 165.3 mln EEK, from which 106.7 mln EEK was invested in networks extension and rehabilitation.

mln EEK	3 Q 2007	3 Q 2006	Change	9 months 2007	9 months 2006	Change
Sales	168.7	149.2	13.1%	550.4	485.7	13.3%
Main operating activities	157.1	144.6	8.7%	482.6	440.3	9.6%
Other operating activities	11.5	4.6	151.9%	67.8	45.4	49.2%
Gross profit	104.8	92.4	13.4%	334.3	282.2	18.5%
Gross profit margin %	62.1%	61.9%	0.3%	60.7%	58.1%	4.5%
Operating profit	88.5	78.4	12.8%	284.0	263.5	7.8%
Operating profit margin %	52.4%	52.5%	-0.2%	51.6%	54.2%	-4.9%
Profit before taxes	76.7	67.5	13.7%	251.2	231.8	8.3%
Profit before taxes margin %	45.5%	45.2%	0.6%	45.6%	47.7%	-4.4%
Net profit	76.7	67.5	13.7%	195.9	184.9	5.9%
ROA %	3.1%	2.8%	12.3%	8.0%	7.7%	4.6%
Debt to total capital employed	52.9%	54.9%	-3.7%	52.9%	54.9%	-3.7%

*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**

3<sup>rd</sup> quarter 2007

*Sales*

In the 3<sup>rd</sup> quarter of 2007 the Company's total sales increased, year on year, by 13.1% to 168.7 mln EEK. Sales from the Company's main operating activities were 157.1 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 144.6 mln EEK, a 7.6% increase compared to the third 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 9.9% to 77.5 mln EEK. Sales to commercial customers within the service area increased by 4.3% to 59.9 mln EEK. Sales to commercial customers outside of the service area – primarily bulk volumes of wastewater treatment services provided to the surrounding municipalities – increased by 43.6% reaching 637 000 m<sup>3</sup> or 4.5 mln EEK. Overpollution fees received were 0.6 mln EEK lower than in the 3<sup>rd</sup> quarter of 2006.

In the third quarter of 2007, the volumes sold to residential customers were influenced by the seasonality factor. As the third quarter of 2007 was extraordinary rainy compared to same period in 2006, the usage of gardening water was relatively lower, reflecting in lower sales. This loss of sales is to some extent (+2 mln EEK extra sales as specified below) recovered in the stormwater disposal and firehydrant services line, as due to the rainy season, the treatment volumes of stormwater increased.

The volumes sold to commercial customers inside the service area decreased compared to the relevant period in 2006 due to several factors combined. Most of the volumes lost in Tallinn are due to companies moving to the surrounding municipalities, attracted by cheaper real estate prices. Most of these customers are re-captured through the bulk-supply contracts signed with the surrounding municipalities. In the 2<sup>nd</sup> quarter of 2007, one of the Company's biggest industrial customers moved its facilities out of our area, resulting in a volume loss of 56 000 m<sup>3</sup> in the 3<sup>rd</sup> quarter only. We have recognised that the external factors such as the "bronze night" event and a heat on the real estate market have had their negative effect on the overall economy and also to the Company's commercial sales.

The statistics show, that following the "bronze night" event in April, the tourist flow to Tallinn has slowed down. Tourists are an important consumer group for the Company, who use the water and wastewater services through the commercial customers (hotels, restaurants, SPAs etc). Also the real estate market seems to have reached a point of stagnation. Even though the number of new apartments and business buildings constructed in Tallinn has continued to increase, a large share of new buildings remain vacant as commercial customers as well as people in need of space are moving to surrounding areas due to more affordable real estate prices. This trend is also reflected in the Company's sales to surrounding areas, which has increased by 43.6% compared to the same period last year.

The sales from the operation and maintenance of the stormwater and firehydrant system increased by 24.5% to 10.3 mln EEK in the 3<sup>rd</sup> quarter of 2007 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 11.5 mln EEK (mainly connections and stormwater construction) was 7 mln EEK higher than in the 3<sup>rd</sup> quarter of 2006.

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

The cost of goods sold for the main operating activity was 55.2 mln EEK in the 3<sup>rd</sup> quarter of 2007, an increase of 2.3 mln EEK or 4.4% from the equivalent period in 2006.

In the 3rd quarter of 2007 the Company has for the third successive quarter recorded zero failures in all pollution measures taken, and as a result the amount of pollution tax payable reduced by 1.7 mln EEK.

The increase in chemical costs was due to larger amount of wastewater treated in the 3<sup>rd</sup> quarter of 2007 compared to the 3<sup>rd</sup> quarter of 2006, which was partly balanced by relatively low methanol prices in the 3<sup>rd</sup> quarter. The chemical costs were 5.5 mln EEK, which represents an 11.6% increase compared to the corresponding period in 2006.

Electricity costs increased by 0.9 mln EEK or 16.1% due to higher electricity prices and increased volume of wastewater treated in the 3<sup>rd</sup> quarter of 2007 compared to the 3<sup>rd</sup> quarter of 2006.

Salaries expenses increased by 0.3 mln EEK or 3.3%. As a consequence of the highly competitive labour market and rapidly growing salaries. The salaries increase is still in all categories below the overall increase in average salaries in Estonian market, which according to the latest statistics has increased by more than 20% year on year. In late 2006 all the Company's 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 3rd quarter of 2007, the average number of people working for the Company was 313 people, compared to 319 people in the 3rd quarter of 2006.

Other cost of goods sold in the main operating activity increased by 2.4 mln EEK, or 30% year on year. In the 3<sup>rd</sup> quarter other costs increased due to increased costs on a number of support services contracts, such as transport, 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 3<sup>rd</sup> quarter of 2007 was 104.8 mln EEK, which represents an increase of 12.4 mln EEK, or 13,4%, compared to the gross profit of 92.4 mln EEK for the 3<sup>rd</sup> quarter of 2006.

#### *Operating Costs and Operating Margin*

Marketing expenses increased by 0.9 mln EEK to 3.2 mln EEK during the 3<sup>rd</sup> quarter of 2007 compared to the corresponding period in 2006. At the beginning of July 2007, the company formed a new business unit focusing on new business development. 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 1 mln EEK to 12.1 mln EEK in the 3<sup>rd</sup> quarter of 2007 as a consequence of an increase in salaries and other general administration expenses. Approximately 0.5 mln EEK accounted for switching from owning the computers into the lease contracts as well as outsourcing the maintenance of software development – a corresponding reduction can be found in the depreciation charge. In addition to these changes there were higher technical services agreement and legal services costs.

Included within the above cost categories are staff costs. These totaled 15.6 mln EEK in the 3<sup>rd</sup> quarter of 2007, which is a 0.6 mln EEK or 4.2% 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 totalled a cost of 1.1 mln EEK in the 3<sup>rd</sup> quarter of 2007 compared to a cost of 0.6 mln EEK in the 3<sup>rd</sup> quarter of 2006.

As a result of all of the above the Company's operating profit for the 3<sup>rd</sup> quarter of 2007 was 88.5 mln EEK, an increase of 10.1 mln EEK compared to an operating profit of 78.4 mln EEK achieved in the 3<sup>rd</sup> quarter of 2006.

#### *Financial expenses*

Net Financial expenses were 11.7 mln EEK in the 3<sup>rd</sup> quarter of 2007, which is an increase of 0.8 mln EEK or 7.6% compared to the 3<sup>rd</sup> quarter of 2006. The Company's interest costs have increased by 14,6% compared to the 3<sup>rd</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 was 4.228% in 3<sup>rd</sup> quarter of 2007 compared to 3.298% in the 3<sup>rd</sup> quarter of 2006. The increase in interest expenses is partially offset by an increase in financial income earned during the 3rd quarter of 2007, as a result of a more favourable cash position, and increasing interest rates.

#### *Profit Before Tax*

The Company's profit before taxes for the 3<sup>rd</sup> quarter of 2007 was 76.7 mln EEK, which is 9.2 mln EEK higher than the profit before taxes of 67.5 mln EEK for the 3<sup>rd</sup> quarter of 2006.

#### Results for the first nine months of 2007

During the first nine months of 2007 the Company's total sales increased, year on year, by 13.3% to 550.4 mln EEK. Sales from the Company's main operating activities were 482.6 mln EEK. Sales of water and wastewater treatment were 447.8 mln EEK, a 9.1% increase compared to the first nine months of 2006.

The Company's profit before taxes for the first nine months of 2007 was 251.2 mln EEK, which is 19.3 mln EEK higher than the profit before taxes of 231.8 mln EEK in the relevant period in 2006. The results for the first nine months 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 13.3 mln EEK for environmental taxes. The results for the first nine months of 2006 were impacted by the sale of excess land in Paljassaare worth 24.1 mln EEK. When eliminating these one-offs, the underlying profit before tax has increased by 30.2 mln EEK to 237.9 mln EEK i.e. 14.6% year-on-year.

#### **Balance sheet**

During the nine months of 2007 the Company invested 165.3 mln EEK into fixed assets. Non-current assets were 2,186 mln EEK at 30 September 2007. Current assets decreased by 69.3 mln EEK to 261.1 mln EEK in the first nine months of the year, which was largely attributable to a decrease in cash reflecting the dividend payout.

Current liabilities decreased by 25.2 mln EEK to 127.9 mln EEK in the first nine months of the year. This was mainly due to decreased trade and other payables and taxes payable.

The company continues to maintain its leverage level within its target range of 50-60% with total liabilities to total capital employed of 52.9% as at 30 September 2007. Long-term liabilities stood at

1,166.9 mln EEK at the end of September 2007, consisting almost entirely of the outstanding balance on the two long-term bank loans.

### **Cash flow**

During the first nine months of 2007, the Company generated 270.2 mln EEK of cash flows from operating activities, an increase of 27.4 mln EEK compared to the corresponding period in 2006. Operating profit continues to be main driver for growth.

In the first nine months of 2007 net cash outflows from investing activities were 98.6 mln EEK, which is 77.2 mln EEK more than in 2006. This was mainly due to increased investment levels. In the first nine months of the year, the company invested 165.3 mln EEK – 106.7 mln EEK networks extension and rehabilitation, 42.5 mln EEK Paljassaare wastewater treatment plant and wastewater treatment, 8.2 mln EEK water quality (Ülemiste water treatment plant and raw water) and 7.9 mln EEK other investments (IT, capital maintenance, meters, etc).

Cash outflows from financing activities were 251.8 mln EEK during the first nine months of the year compared to cash outflow of 204.9 mln EEK during the first nine months of 2006, reflecting increased dividend payments and related taxes.

As a result of all of the above factors, the total cash outflow in the first nine months of 2007 was 80.2 mln EEK compared to a cash inflow of 16.5 mln EEK in the first nine months of 2006. Cash and cash equivalents stood at 169.3 mln EEK as at 30 September 2007.

### **Employees**

In the third quarter of 2007 the average number of employees was 313 people.

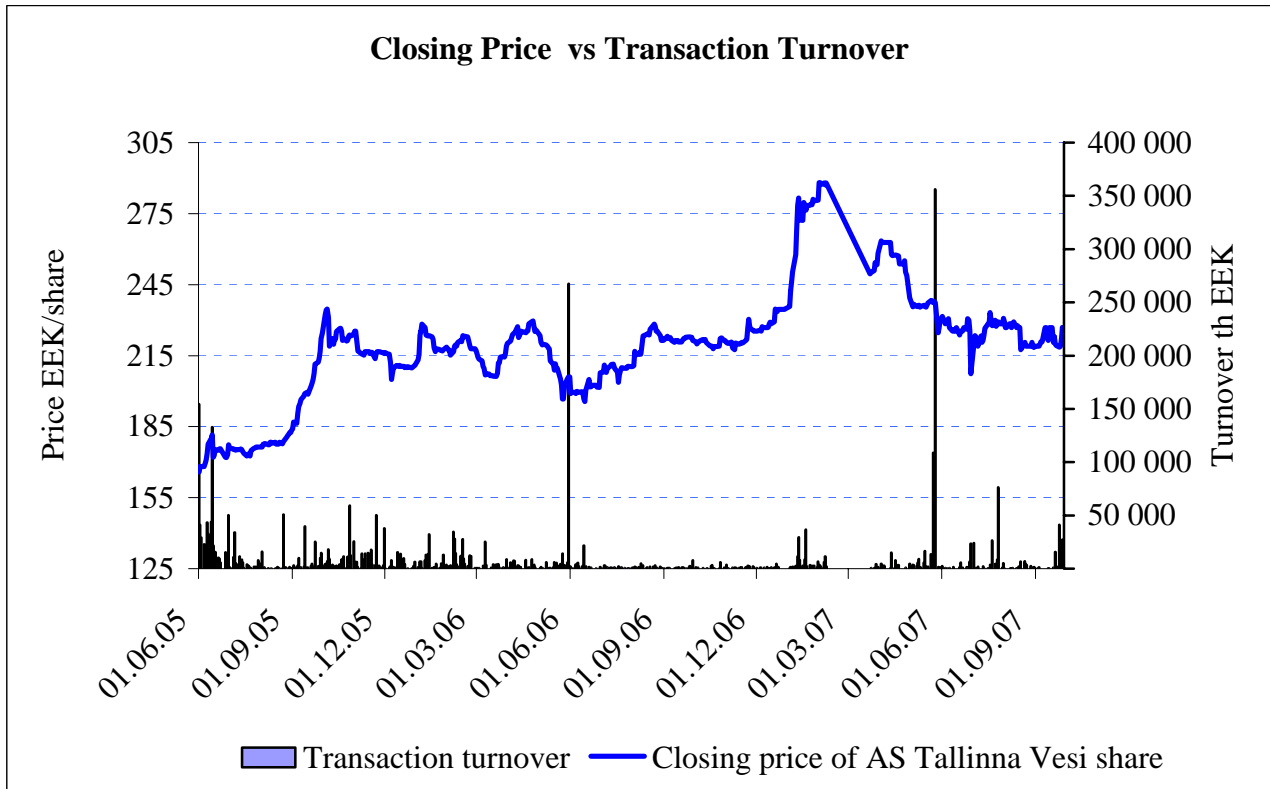
### **Dividends and share performance**

Based on the results of the 2006 financial year, the Annual General Meeting of shareholders of AS Tallinna Vesi voted to pay 196,010,000 EEK of dividends. Of this 10 000 EEK was paid to the owner of the B-share and 196 000 000 EEK, i.e. 9.8 EEK per share to the owners of the A-shares. Dividends were paid on 15 June 2007.

As of 30 September 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	7.43%
Nordea Bank Finland Plc clients account trading	5.55%

At the end of the reporting period, 30 September 2007, the closing price of the AS Tallinna Vesi share was 226.88 EEK (14.50 EUR), which is a 9.5% increase compared to the closing price of 207.32 EEK (13.25 EUR) at the beginning of the period, outperforming the market as the OMX Tallinn index dropped by 6.4% during the relevant period.



### Operational achievements in 2007

- The work on the new Paljassaare sludge processing building nears completion and commissioning activities have begun with full hand over programmed for October 2007. The project provides for the more effective and efficient operation and maintenance of this equipment and will realise further benefits in the operation of the wastewater and sludge treatment processes. The sludge composting fields were completed in the 3<sup>rd</sup> quarter and these have been taken into full operation. 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 40 mln EEK.
- In the 3<sup>rd</sup> quarter, the excellent wastewater treatment performance continued with all outfall effluent samples at all locations compliant with requirements and as a consequence the environmental charges for the quarter attracted a 50% reduction.
- In quarter 3 OHSAS accreditation was awarded to the company and the certification will be formally presented to the company on 26th October.
- On 26 September the City Council approved the tariffs for water and wastewater services for 2008. The tariff increase is going to be at expected level, i.e. 11.7%. The tariff increase consists of +6.5% increase of the K-coefficient, +5.8% increase of CPI and -0.6% increase due to change of law.

#### Additional information:

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## AS TALLINNA VESI

### MANAGEMENT CONFIRMATION

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The Management Board of AS Tallinna Vesi (hereinafter the company) has prepared the interim accounts for the period ended 30 September 2007. 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 30 September 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 September 2007. The actual results of these business transactions recorded may differ from such estimates.

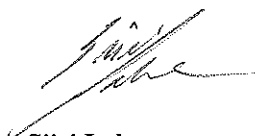
The interim accounts give a true and fair view of the financial position, economic performance and cash flows of the company.

All material subsequent events that occurred by the interim accounts preparation date of 15 October 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



**Siiri Lahe**  
Member of the Management Board



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

15 October 2007

**BALANCE SHEETS AT 30 SEPTEMBER 2007 AND 2006, AND AT 31 DECEMBER 2006**

(thousand EEK)

ASSETS	Note	30 September		31 December
		2007	2006	2006
<b>CURRENT ASSETS</b>				
Cash at bank and in hand	2	169 252	223 590	249 413
Customer receivables		81 618	73 090	71 490
Accrued income and prepaid expenses		5 581	5 919	4 756
Inventories		3 015	3 270	3 142
Assets for sale		1 680	1 531	1 648
<b>TOTAL CURRENT ASSETS</b>		<b>261 146</b>	<b>307 400</b>	<b>330 449</b>
<b>NON-CURRENT ASSETS</b>				
Tangible assets	3	1 919 273	1 846 720	1 877 105
Intangible assets	3	48 266	39 600	52 595
Unfinished assets - non connections	3	90 495	111 849	91 676
Unfinished pipelines - new connections	3	124 873	108 426	117 162
Prepayments for fixed assets	3	3 099	2 998	2 795
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2 186 006</b>	<b>2 109 593</b>	<b>2 141 333</b>
<b>TOTAL ASSETS</b>		<b>2 447 152</b>	<b>2 416 993</b>	<b>2 471 782</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Current portion of long-term borrowings		0	743	473
Trade and other payables, incl. dividends		65 477	83 212	85 250
Taxes payable		14 143	25 395	30 508
Short-term provisions		2 232	476	538
Deferred income		46 070	51 808	36 325
<b>TOTAL CURRENT LIABILITIES</b>		<b>127 922</b>	<b>161 634</b>	<b>153 094</b>
<b>NON-CURRENT LIABILITIES</b>				
Bank loans		1 166 757	1 165 879	1 166 098
Other payables		114	100	100
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1 166 871</b>	<b>1 165 979</b>	<b>1 166 198</b>
<b>TOTAL LIABILITIES</b>		<b>1 294 793</b>	<b>1 327 613</b>	<b>1 319 292</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		349 479	297 443	297 443
Net profit for the period		195 879	184 936	248 046
<b>TOTAL EQUITY CAPITAL</b>		<b>1 152 359</b>	<b>1 089 380</b>	<b>1 152 490</b>
<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>		<b>2 447 152</b>	<b>2 416 993</b>	<b>2 471 782</b>

## AS TALLINNA VESI

INCOME STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2007 AND 2006

(thousand EEK)

	Note	Quarter 3		9 months		Year ended 31 December
		2007	2006	2007	2006	2006
Sales from main operating activities	4	157 128	144 611	482 623	440 267	589 176
Revenues from other operating activities	4	11 541	4 582	67 798	45 436	104 048
<b>Net sales</b>		<b>168 669</b>	<b>149 193</b>	<b>550 421</b>	<b>485 703</b>	<b>693 224</b>
Costs of goods sold (main operating activities)	5,6	-55 202	-52 872	-157 207	-162 114	-220 537
Costs of goods sold (other operating activities)	6	-8 709	-3 921	-58 867	-41 345	-97 096
<b>GROSS PROFIT</b>		<b>104 758</b>	<b>92 400</b>	<b>334 347</b>	<b>282 244</b>	<b>375 591</b>
Marketing expenses	5,6	-3 182	-2 308	-9 709	-7 111	-9 578
General administration expenses	5,6	-12 061	-11 110	-41 571	-36 171	-51 319
Other income/ expenses (-)	6	-1 064	-596	908	24 513	23 229
<b>OPERATING PROFIT</b>		<b>88 451</b>	<b>78 386</b>	<b>283 975</b>	<b>263 475</b>	<b>337 923</b>
Financial income / expenses (-)	7	-11 738	-10 914	-32 811	-31 643	-42 981
<b>PROFIT BEFORE TAXES</b>		<b>76 713</b>	<b>67 472</b>	<b>251 164</b>	<b>231 832</b>	<b>294 942</b>
Income tax on dividends	8	0	0	-55 285	-46 896	-46 896
<b>NET PROFIT FOR THE PERIOD</b>		<b>76 713</b>	<b>67 472</b>	<b>195 879</b>	<b>184 936</b>	<b>248 046</b>
Attributable to:						
Equity holders of A-shares		76 703	67 462	195 869	184 926	248 036
B-share holder		10	10	10	10	10
<b>Earnings per share in kroons</b>	9	<b>3,84</b>	<b>3,37</b>	<b>9,79</b>	<b>9,25</b>	<b>12,40</b>

Chairman of the Management Board:

## CASH FLOW STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2007 AND 2006

(thousand EEK)

	9 months	Year ended 31 December	
	2007	2006	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating profit	283 975	263 475	337 923
Adjustment for depreciation	59 284	59 656	81 047
Adjustment for income and expenses from constructions	-8 931	-4 091	-6 952
Other financial income and expenses	-247	-1 183	-536
Profit from sale of fixed assets	12	-24 917	-24 917
Expensed fixed assets	0	650	1 106
Capitalization of operating expenses	-14 406	-15 878	-20 921
Movement in current assets involved in operating activities	-5 619	-8 642	-4 142
Movement in liabilities involved in operating activities	-17 999	-3 030	5 994
Interest paid	-25 849	-23 175	-48 051
<b>Total cash flow from operating activities</b>	<b>270 220</b>	<b>242 865</b>	<b>320 551</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of fixed assets (incl pipelines construction)	-180 561	-95 155	-192 048
Proceeds from pipelines financed by construction income	74 671	70 748	112 662
Proceeds from sale of and prepayments received/returned(-) for fixed assets	17	-2 778	-1 293
Proceeds from sale of assets and real estate investments	233	1 107	1 107
Interest received	7 027	4 644	6 545
<b>Total cash flow from investing activities</b>	<b>-98 613</b>	<b>-21 434</b>	<b>-73 027</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Finance lease payments	-473	-1 012	-1 282
Dividends paid	-196 010	-157 000	-157 000
Income tax on dividends	-55 285	-46 896	-46 896
<b>Total cash flow from financing activities</b>	<b>-251 768</b>	<b>-204 908</b>	<b>-205 178</b>
<b>Change in cash and bank accounts</b>	<b>-80 161</b>	<b>16 523</b>	<b>42 346</b>
<b>CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>249 413</b>	<b>207 067</b>	<b>207 067</b>
<b>CASH AND EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>169 252</b>	<b>223 590</b>	<b>249 413</b>


  
Chairman of the Management Board:

## AS TALLINNA VESI

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

(thousand EEK)

	Share capital	Share premium	Statutory legal reserve	Accumulated profit	Net profit	Total equity
<b>31 December 2005</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>280 089</b>	<b>174 354</b>	<b>1 061 444</b>
Transfer of financial year profit to the accumulated profit	0	0	0	174 354	-174 354	0
Dividends	0	0	0	-157 000	0	-157 000
Net profit of the financial year	0	0	0	0	248 046	248 046
<b>31 December 2006</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>297 443</b>	<b>248 046</b>	<b>1 152 490</b>
<b>31 December 2005</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>280 089</b>	<b>174 354</b>	<b>1 061 444</b>
Transfer of financial year profit to the accumulated profit	0	0	0	174 354	-174 354	0
Dividends	0	0	0	-157 000	0	-157 000
Net profit of the financial period	0	0	0	0	184 936	184 936
<b>30 September 2006</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>297 443</b>	<b>184 936</b>	<b>1 089 380</b>
<b>31 December 2006</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>297 443</b>	<b>248 046</b>	<b>1 152 490</b>
Transfer of financial year profit to the accumulated profit	0	0	0	248 046	-248 046	0
Dividends	0	0	0	-196 010	0	-196 010
Net profit of the financial period	0	0	0	0	195 879	195 879
<b>30 September 2007</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>349 479</b>	<b>195 879</b>	<b>1 152 359</b>



Chairman of the Management Board:

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

(thousand EEK)

**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.

**NOTE 2. CASH AND CASH EQUIVALENTS**

	9 months		Year ended 31 December
	2007	2006	2006
Cash at bank and in hand	37 044	25 080	17 227
Short term deposits	132 208	198 510	232 186
	<b>169 252</b>	<b>223 590</b>	<b>249 413</b>



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2007 AND 2006

(thousand EEK)

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>											
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	0	246 476
Sale of fixed assets	-7 876	-8 965	-5 088	-7	0	0	0	0	0	0	-21 936
Write-off of fixed assets	0	-967	-4 930	-2 483	0	0	0	0	-7 006	0	-15 386
Reclassification within balance sheet	0	0	0	0	-43	-33	0	0	0	0	-76
Reclassification to expenses	0	-1	0	0	-614	0	-489	0	0	0	-1 104
Expensed pipelines	0	0	0	0	0	-97 096	0	0	0	0	-97 096
Reclassification from assets in progress	3 009	80 746	41 057	879	-142 125	-1 710	-195	0	18 339	0	0
31.12.2006	345 074	2 016 934	534 627	17 532	91 676	117 162	2 795	13 841	67 433		3 207 074
Acquisition	0	0	0	0	96 412	68 566	311	0	0	0	165 289
Sale of fixed assets	0	0	-184	0	0	0	0	0	0	0	-184
Write-off of fixed assets	-34	-983	-2 448	-235	0	0	0	0	0	0	-3 700
Reclassification within balance sheet	0	0	0	0	-399	-1 988	-7	0	0	0	-2 394
Reclassification to expenses	0	0	0	0	-41	0	0	0	0	0	-41
Expensed pipelines	0	0	0	0	0	-58 867	0	0	0	0	-58 867
Reclassification from assets in progress	567	76 906	16 971	326	-97 153	0	0	4 489	-2 106	0	0
30.09.2007	345 607	2 092 857	548 966	17 623	90 495	124 873	3 099	18 330	65 327		3 307 177
<b>Accumulated depreciation</b>											
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
Depreciation	2 971	25 611	23 153	837	0	0	0	1 413	5 299		59 284
Depreciation of fixed assets sold and written-off (-)	-34	-1 381	-2 190	-249	0	0	0	0	0		-3 854
30.09.2007	62 412	665 279	346 607	11 482	0	0	0	12 821	22 570		1 121 171
<b>Net book value</b>											
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	2 433	50 162		2 141 333
30.09.2007	283 195	1 427 578	202 359	6 141	90 495	124 873	3 099	5 509	42 757		2 186 006

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 2 448 thousand kroons, as of 30 September 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 SEPTEMBER 2007 AND 2006

(thousand EEK)

NOTE 4. NET SALES	Quarter 3		9 months		Year ended 31
	2007	2006	2007	2006	December 2006
<b>Revenues from main operating activities</b>					
Water supply service	77 285	71 443	238 137	216 540	289 250
Waste water disposal service	67 293	62 957	209 677	193 773	259 727
Stormwater treatment and disposal service	9 712	7 513	26 729	22 539	30 052
Fire hydrants service	541	725	1 641	2 175	3 007
Other works and services	2 297	1 973	6 439	5 240	7 140
<b>Total revenues from main operating activities</b>	<b>157 128</b>	<b>144 611</b>	<b>482 623</b>	<b>440 267</b>	<b>589 176</b>
<b>Revenues from other operating activities</b>					
Water, sewerage and storm water connections construction income	11 541	4 582	67 798	45 436	104 048
<b>TOTAL NET SALES</b>	<b>168 669</b>	<b>149 193</b>	<b>550 421</b>	<b>485 703</b>	<b>693 224</b>

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

NOTE 5. PERSONNEL EXPENSES

	Quarter 3		9 months		Year ended 31
	2007	2006	2007	2006	December 2006
Salaries and wages	-11 738	-11 311	-40 092	-36 923	-50 532
Social security taxation	-3 909	-3 709	-13 356	-12 296	-16 832
<b>Staff costs total</b>	<b>-15 647</b>	<b>-15 020</b>	<b>-53 448</b>	<b>-49 219</b>	<b>-67 364</b>
<b>Average number of employees during the reporting period</b>	<b>313</b>	<b>319</b>	<b>308</b>	<b>326</b>	<b>322</b>



Chairman of the Management Board:



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

(thousand EEK)

**NOTE 6. COSTS AND EXPENSES**

Cost of goods sold (main operating activities)	Quarter 3		9 months		Year ended 31 December
	2007	2006	2007	2006	2006
Tax on special use of water	-2 606	-2 482	-7 865	-7 521	-10 050
Chemicals	-5 498	-4 927	-15 811	-14 594	-20 638
Electricity	-6 500	-5 599	-19 868	-18 312	-24 594
Pollution tax	-1 678	-3 395	7 930	-9 208	-11 988
Staff costs	-10 747	-10 401	-36 375	-34 132	-46 521
Research and development	-10	-30	-69	-31	-129
Depreciation and amortization	-17 942	-18 181	-54 456	-54 389	-73 278
Other costs of goods sold	-10 221	-7 857	-30 693	-23 927	-33 339
<b>Total cost of goods sold (main operating activities)</b>	<b>-55 202</b>	<b>-52 872</b>	<b>-157 207</b>	<b>-162 114</b>	<b>-220 537</b>
<b>Cost of goods sold (other operating activities)</b>					
Water, sewerage and storm water connections construction cost	-8 709	-3 921	-58 867	-41 345	-97 096
<b>Marketing Expenses</b>					
Staff costs	-1 284	-1 167	-4 199	-3 457	-4 710
Depreciation and amortization	-896	-534	-2 646	-2 049	-2 453
Other marketing expenses	-1 002	-607	-2 864	-1 605	-2 415
<b>Total cost of marketing expenses</b>	<b>-3 182</b>	<b>-2 308</b>	<b>-9 709</b>	<b>-7 111</b>	<b>-9 578</b>
<b>General Administration Expenses</b>					
Staff costs	-3 616	-3 452	-12 874	-11 630	-16 133
Depreciation and amortization	-709	-1 082	-2 182	-3 218	-5 316
Other general administration expenses	-7 736	-6 576	-26 515	-21 323	-29 870
<b>Total cost of general administration expenses</b>	<b>-12 061</b>	<b>-11 110</b>	<b>-41 571</b>	<b>-36 171</b>	<b>-51 319</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 SEPTEMBER 2007 AND 2006

(thousand EEK)

NOTE 7. FINANCIAL INCOME AND EXPENSES	9 months		Year ended 31 December
	2007	2006	2006
Interest income	7 088	4 615	6 598
Interest expense	-39 653	-35 076	-49 479
Other financial income / expenses (-)	-246	-1 182	-100
<b>Total financial income / expenses</b>	<b>-32 811</b>	<b>-31 643</b>	<b>-42 981</b>

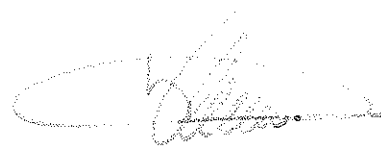
NOTE 8. DIVIDENDS	9 months		Year ended 31 December
	2007	2006	2006
Dividends declared during the period	196 010	157 000	157 000
Dividends paid during the period	196 010	157 000	157 000
Income tax on dividends declared	-55 285	-46 896	-46 896
<b>Income tax accounted</b>	<b>-55 285</b>	<b>-46 896</b>	<b>-46 896</b>

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

NOTE 9. EARNINGS AND DIVIDENDS PER SHARE

	9 months		Year ended 31 December
	2007	2006	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)	195 869	184 926	248 036
Weighted average number of ordinary shares for the purposes of basic earnings per share	20 000 000	20 000 000	20 000 000
Earnings per share in kroons	9,79	9,25	12,40
Dividends per A-share in kroons	9,80	7,85	7,85
Dividends per B-share in kroons	10 000	10 000	10 000

Diluted earnings per share for the periods ended 30 September 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 SEPTEMBER 2007 AND 2006**

(thousand EEK)

**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 significant transactions with the shareholders. 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 30.09.2006 and 30.09.2007 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 9 months</b>		
<b>Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi</b>		
Customer receivables	2 568	0
Accrued income and prepaid expenses	0	2 405
Deferred income	2 176	0
Accounts payable - short-term trade and other payables, incl. dividends	0	2 293
<b>Transactions recorded to the Income Statement of AS Tallinna Vesi</b>		
Net sales	53 515	0
General administration expenses	0	10 826
<b>Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi</b>		
Non-current assets incl unfinished assets and new connections	0	9 403
<b>2007 for 9 months</b>		
<b>Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi</b>		
Customer receivables	1 804	0
Accrued income and prepaid expenses	0	0
Deferred income	1 528	0
Accounts payable - short-term trade and other payables, incl. dividends	0	1 957
<b>Transactions recorded to the Income Statement of AS Tallinna Vesi</b>		
Net sales	71 108	0
General administration expenses	0	14 431
<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	4 083
	<b>9 months</b>	<b>Year ended 31 December</b>
	<b>2007</b>	<b>2006</b>
<b>Management Board fees excluding social tax</b>	<b>1 483</b>	<b>1 609</b>
<b>Supervisory Board fees excluding social tax</b>	<b>428</b>	<b>375</b>
		<b>2 097</b>
		<b>500</b>

The fees disclosed above are contractual payments made by the Company to the management board members. In addition to this the overseas members of the management board have 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 Chérourx owned 400 AS Tallinna Vesi shares.

  
Chairman of the Management Board:

**AS TALLINNA VESI**

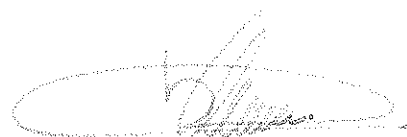
**NOTES TO THE INTERIM ACCOUNTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2007 AND 2006**

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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
Deniss Boroditš	Member of the Supervisory Board

On 4 October 2007 United Utilities (Tallinn) BV recalled Joanne Bream from the Supervisory Board and referred David Leonard Fuller as the new member of the Supervisory Board.



Chairman of the Management Board: