

Tallinna Vesi



AS Tallinna Vesi
Results of operations – for the 4th quarter and 2007 financial year

Currency	Thousand euros
Start of reporting period	1 January 2007
End of reporting period	31 December 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 4th QUARTER 2007

2007 Overview

In 2007 the Company's total sales increased, year on year, by 18.4% to 52.5 mln EUR. Total water and sewerage services sales volumes increased by 0.3%. Sales to residential customers increased by 10.5% year on year, sales to commercial customers within the service area increased by 7.5% year on year, and sales to commercial customers outside of the service area increased by 32.2% reaching 2.46 mln m³ or 1.13 mln EUR year on year. The Company's profit before taxes was 21.3 mln EUR, which is a 12.9% increase compared to 2006. The Company invested 18.3 mln EUR, of which 9.2 mln EUR was invested in network extension and developments.

<i>mln EUR</i>	4 Q 2007	4 Q 2006	Change	12 months 2007	12 months 2006	Change
Sales	17,3	13,3	30,3%	52,5	44,3	18,4%
Main operating activities	10,6	9,5	11,3%	41,4	37,7	10,0%
Other operating activities	6,7	3,7	78,5%	11,0	6,6	65,7%
Gross profit	7,1	6,0	19,3%	28,5	24,0	18,7%
Gross profit margin %	41,3%	45,1%	-8,5%	54,3%	54,2%	0,3%
Operating profit	6,0	4,8	25,4%	24,1	21,6	11,7%
Operating profit margin %	34,5%	35,9%	-3,7%	46,0%	48,7%	-5,7%
Profit before taxes	5,2	4,0	29,9%	21,3	18,9	12,9%
Profit before taxes margin	30,3%	30,4%	-0,3%	40,6%	42,5%	-4,6%
Net profit	5,2	4,0	29,9%	17,8	15,9	12,0%
ROA %	3,3%	2,6%	28,3%	11,4%	10,3%	10,6%
Debt to total capital employed	51,8%	53,4%	-3,0%	51,8%	53,4%	-3,0%

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

4th quarter 2007

Sales

In the 4th quarter of 2007 the Company's total sales increased, year on year, by 30.3% to 17.3 mln EUR. Sales from the Company's main operating activities were 10.6 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 service area, and fees received from the City of Tallinn for operating and maintaining the storm water system.

Sales of water and wastewater treatment were 9.7 mln EUR, a 9.5% increase compared to the 4th quarter of 2006, resulting from the 10.8% increase in tariffs from 1 January 2007 for the Company's residential and commercial customers combined with the factors described below.

Included within this amount were the following increases by sector: Sales to residential customers increased by 10.4% to 5.2 mln EUR. Sales to commercial customers within the service area increased by 7.9% to 4.1 mln EUR. Sales to commercial customers outside of the service area – primarily bulk volumes of wastewater treatment services provided to the surrounding municipalities – increased by 24.7% reaching 711 000 m³ or 0.3 mln EUR. Over pollution fees received were 6 th EUR lower than in the 4th quarter of 2006.

In the 4th quarter of 2007, the volumes sold to residential customers stayed at a similar level to that in 2006. Volumes sold in 2007 have dropped 0.3% or 90 thousand m³, mainly because of the rainy summer in 2007 (compared to 2006) when water used for gardening purposes reduced considerably. This loss of sales is more than recovered (+0.2 mln EUR extra sales as specified below) in the storm water disposal and fire hydrant services line, as due to the rainy year, the treatment volumes of storm water 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 reduction in sales volumes in Tallinn is 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, but not always. For example in the 2nd quarter of 2007, one of the Company's biggest industrial customers moved its facilities out of our area, resulting in a volume loss of 68 000 m³ in the 4th quarter only. We have recognized that the overall economic situation and the heat on the real estate market have also had a negative effect on the Company's commercial sales.

Statistics show, that starting from May the tourist flow to Tallinn has slowed down, still exceeding 2005 level, but slightly below 2006. 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 24.7% compared to the same period last year.

The sales from the operation and maintenance of the stormwater and firehydrant system increased by 36.8% to 0.7 mln EUR in the 4th quarter of 2007 compared to the same period in 2006. This is in accordance with the terms and conditions of the contract whereby the storm water and fire hydrant costs are invoiced based on actual costs and volumes treated. This is contractually agreed up to 2020.

Sales revenues from other operating activities, mainly connections and storm water construction, totaled 6.7 mln EUR which is 2.9 mln EUR higher than in the 4th quarter of 2006. This line depends on construction completion and the revenue is recorded when it is probable that the revenues will flow to the company.

Cost of Goods Sold and Gross Margin

The cost of goods sold for the main operating activity was 3.8 mln EUR in the 4th quarter of 2007, an increase of 0.08 mln EUR or 2.1% from the equivalent period in 2006.

In the 4th quarter of 2007 the Company has for the fourth successive quarter recorded zero failures in all pollution measures taken, and as a result the amount of pollution tax payable reduced by 0.11 mln EUR in quarter, partly balanced by increase in tax rates year on year by 20%.

The chemical costs decreased although larger amount of wastewater was treated in the 4th quarter of 2007 compared to the 4th quarter of 2006. The decrease was mainly due to fluctuations in methanol price, which was extremely high in 4th quarter 2006. The chemical costs were 0.3 mln EUR, which represents a 14.5% decrease compared to the corresponding period in 2006.

Electricity costs increased by 0.01 mln EUR or 3.7% due to higher electricity prices and the increased volume of wastewater treated in the 4th quarter of 2007 compared to the 4th quarter of 2006.

Salaries expenses increased by 0.2 mln EUR or 23%, partly as a consequence of the highly competitive labour market and rapidly growing salaries, but the 4th quarter is also impacted by the annual bonuses and correction of the holiday reserve. Eliminating the 4th quarter exceptional items the salaries increase is still in all categories below the overall increase in average salaries in the Estonian market, which according to the latest statistics has increased by more than 20% year on year.

Other cost of goods sold in the main operating activity increased by 0.03 mln EUR, or 4.3% year on year. In the 4th 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 4th quarter of 2007 was 7.1 mln EUR, which represents an increase of 1.15 mln EUR, or 19.3%, compared to the gross profit of 6 mln EUR for the 4th quarter of 2006.

Operating Costs and Operating Margin

Marketing expenses increased by 0.09 mln EUR to 0.24 mln EUR during the 4th quarter of 2007 compared to the corresponding period in 2006. This is partly the result of the overall salary increases, but particularly in this group it is impacted by formation of the new business unit focusing on new business development in 2007. 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 6 th EUR to 0.98 mln EUR in the 4th quarter of 2007 as a consequence of an increase in salaries as described above. The other general administration expenses include approximately 0.03 mln EUR rental cost of computers resulting from switching from owning the computers into the lease contracts– a corresponding reduction can be found in the depreciation charge. . A switch from old billing related modules to new software, recorded within marketing expenses complements the reduction in this line.

Included within the above cost categories are staff costs. These totaled 1.5 mln EUR in the 4th quarter of 2007, which is a 0.34 mln EUR or 29% increase compared to the same period in 2006, which as mentioned earlier was due to exceptional items and the wide revision of salaries at end of 2006.

Other net income/expenses totaled an income of 0.06 mln EUR in the 4th quarter of 2007 compared to a cost of 0.09 mln EUR in the 4th quarter of 2006, mainly because of a 0.13 mln EUR profit from the sale of one small plot.

As a result of all of the above the Company's operating profit for the 4th quarter of 2007 was 6 mln EUR, an increase of 1.2 mln EUR compared to an operating profit of 4.8 mln EUR achieved in the 4th quarter of 2006.

Financial expenses

Net Financial expenses were 0.73 mln EUR in the 4th quarter of 2007, which is an increase of 6 th EUR or 0.8% compared to the 4th quarter of 2006. The Company's interest costs have increased by 14.6% compared to the 4th 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 4.686% in the 4th quarter of 2007 compared to 3.736% in the 4th quarter of 2006. The increase in interest expenses is partially offset by an increase in financial income earned during the 4th 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 4th quarter of 2007 was 5.2 mln EUR, which is 1.2 mln EUR higher than the profit before taxes of 4.0 mln EUR for the 4th quarter of 2006.

Results for the twelve months of 2007

During the twelve months of 2007 the Company's total sales increased, year on year, by 18.4% to 52.5 mln EUR. Sales from the Company's main operating activities were 41.4 mln EUR. Sales of water and wastewater services were 38.3 mln EUR, a 9.2% increase worth of 3.2 mln EUR compared to the twelve months of 2006. The revenues from other operating activities, mainly connections and storm water construction, totaled 11.0 mln EUR in 2007.

The Company's profit before taxes for the twelve months of 2007 was 21.3 mln EUR, which is 2.4 mln EUR higher than the profit before taxes of 18.9 mln EUR in 2006. The results for the twelve months of 2007 were impacted by 2 one-offs, first 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 in the 1st quarter and secondly by 0.13 mln EUR profit from sale of one small plot in the 4th quarter. The results for the twelve months 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 3 mln EUR to 20.3 mln EUR i.e. 17.3% year-on-year.

Balance sheet

During the twelve months of 2007 the Company invested 18.3 mln EUR into fixed assets. Non-current assets were 139.6 mln EUR at 31 December 2007. Current assets increased by 2.8 mln EUR to 23.9 mln EUR in the twelve months of the year, which was largely attributable to an increase in customer receivables payable in 1st quarter 2008.

Current liabilities increased by 3.0 mln EUR to 12.8 mln EUR in the twelve months of the year. This was mainly due to transfer of current portion of the long-term borrowings from non-current liabilities to current liabilities.

The company continues to maintain its leverage level within its target range of 50-60% with total liabilities to total capital employed of 51.8% as at 31 December 2007. Long-term liabilities stood at 71.9 mln EUR at the end of December 2007, consisting almost entirely of the outstanding balance on the two long-term bank loans.

Cash flow

During the twelve months of 2007, the Company generated 21.3 mln EUR of cash flows from operating activities, an increase of 0.8 mln EUR compared to the corresponding period in 2006. Operating profit continues to be the main driver for growth.

In the twelve months of 2007 net cash outflows from investing activities were 9.8 mln EUR, which is 5.1 mln EUR more than in 2006. This was mainly due to some big construction revenue invoices that are due in the 1st quarter 2008, but also impacted by increased investment levels. In the twelve months of the year, the company invested 18.3 mln EUR – 13.7 mln EUR networks extension and rehabilitation, 2.95 mln EUR Paljassaare wastewater treatment plant and wastewater treatment, 0.75 mln EUR water quality (Ülemiste water treatment plant and raw water) and 0.86 mln EUR other investments (IT, capital maintenance, meters, etc).

Cash outflows from financing activities were 16.1 mln EUR during the twelve months of the year compared to cash outflow of 13.1 mln EUR during the twelve 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 twelve months of 2007 was 4.5 mln EUR compared to a cash inflow of 2.7 mln EUR in the twelve months of 2006. Cash and cash equivalents stood at 11.4 mln EUR as at 31 December 2007.

Employees

At the end of the 4th quarter of 2007, the number of employees was 312, compared to 318 at the end of the 4th quarter of 2006.

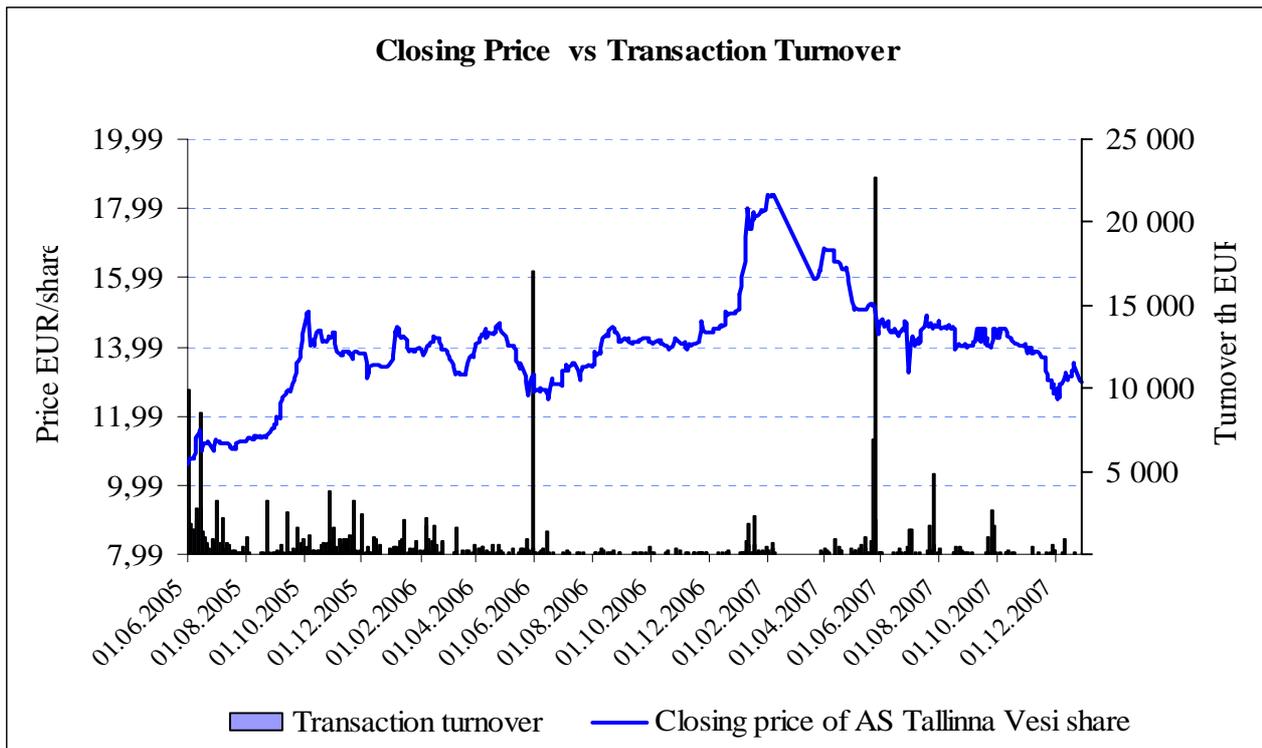
Dividends and share performance

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, i.e. 0.6 EUR per share to the owners of the A-shares. Dividends were paid on 15 June 2007.

As of 31 December 2007 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%
Nordea Bank Finland Plc clients account trading	7.71%
Morgan Stanley + Co International Equity client account	6.81%

At the end of the quarter, 31 December 2007, the closing price of the AS Tallinna Vesi share was 12.96 EUR, which is a 10.6% decrease compared to the closing price of 14.50 EUR at the beginning of quarter, outperforming the market as the OMX Tallinn index dropped by 17.5% during the quarter.



Operational achievements in 2007

- In the 4th quarter the Services Agreement Amendment was signed with the City of Tallinn. The Services Agreement is extended until 2020 and the k-coefficient is also fixed until 2020 – 2% in years 2009 to 2010 and 0% in years 2011 to 2020. No extra capital expenditures (in addition to maintenance capex and extensions program agreed in the contract) can be imposed on the company until 2020. According to the agreement the network extension constructions must be completed by March 2011. To compensate the Company for the construction and financing costs a specific development component is included into the domestic water tariff starting from 1 March 2008 to the end of 2017 and the City of Tallinn will compensate the storm water constructions every month until the end of 2011. The development component shall be compensated to the customers with direct payment to the company by the City of Tallinn. The component is bigger during the construction period (0.58 EUR per m³ until 31 December 2011 and 0.39 EUR per m³ in years 2012 to 2017).
- Earlier, on 26 September the City Council approved the ‘basic’ tariffs for water and wastewater services for 2008. The tariff increase is going to be at the expected level, i.e. 11.7%.
- The work on the new Paljassaare sludge processing building was completed and commissioning activities ended with full hand over in the beginning of November 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 3rd 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 was over 2.6 mln EUR.
- The wastewater treatment performance with all outfall effluent samples at all locations was all year long compliant with requirements and as a consequence the environmental charges for the year attracted a 50% reduction. As a result of the excellent treatment results the company saved 0.45 mln EUR from environmental taxes in 2007.
- In the 3rd quarter the OHSAS (i.e. health and safety) accreditation was awarded to the company and the certification was formally presented to the company on 26th October.

- In the 3rd quarter the Estonian Chamber of Commerce nominated the company for the award of the Most Competitive Service Providing Company and we were acknowledged as the best in this category. The customers also acknowledge the work done by the Company to improve the services it provides. According to the survey carried out in December 2007 the customers' satisfaction index increased from 73 in 2006 to 79 at end of 2007.

Additional information:

Siiri Lahe

Chief Financial Officer

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AS TALLINNA VESI

MANAGEMENT CONFIRMATION

The Management Board of AS Tallinna Vesi (hereinafter the company) has prepared the interim accounts for the period ended 31 December 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 31 December 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 31 December 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 January 2008 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



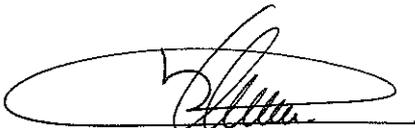
David Nigel Hetherington
Member of the Management Board

17 January 2008

BALANCE SHEETS AT 31 DECEMBER 2007 AND 2006

(thousand EUR)

ASSETS	Note	2007	2006
CURRENT ASSETS			
Cash at bank and in hand	2	11 403	15 940
Customer receivables		11 838	4 569
Accrued income and prepaid expenses		335	304
Inventories		233	201
Assets for sale		72	105
TOTAL CURRENT ASSETS		23 881	21 120
NON-CURRENT ASSETS			
Tangible assets	3	127 375	119 969
Intangible assets	3	3 140	3 361
Unfinished assets - non connections	3	3 070	5 859
Unfinished pipelines - new connections	3	5 756	7 488
Prepayments for fixed assets	3	345	179
TOTAL NON-CURRENT ASSETS		139 686	136 856
TOTAL ASSETS		163 567	157 976
LIABILITIES			
CURRENT LIABILITIES			
Current portion of long-term borrowings		2 679	30
Trade and other payables, incl. dividends		5 558	5 448
Taxes payable		1 697	1 950
Short-term provisions		143	34
Deferred income		2 691	2 322
TOTAL CURRENT LIABILITIES		12 767	9 784
NON-CURRENT LIABILITIES			
Bank loans		71 905	74 527
Other payables		7	6
TOTAL NON-CURRENT LIABILITIES		71 912	74 534
TOTAL LIABILITIES		84 679	84 318
EQUITY CAPITAL			
Share capital		12 782	12 782
Share premium		24 734	24 734
Statutory legal reserve		1 278	1 278
Accumulated profit		22 336	19 010
Net profit for the period		17 757	15 853
TOTAL EQUITY CAPITAL		78 887	73 658
TOTAL LIABILITIES AND EQUITY CAPITAL		163 567	157 976



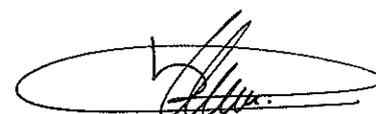
Chairman of the Management Board:

AS TALLINNA VESI

**INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 AND 2006**

(thousand EUR)

	Note	Quarter 4		Year ended 31 December	
		2007	2006	2007	2006
Sales from main operating activities	4	10 591	9 517	41 436	37 655
Revenues from other operating activities	4	6 688	3 746	11 021	6 650
Net sales		17 278	13 263	52 457	44 305
Costs of goods sold (main operating activities)	5,6	-3 801	-3 721	-13 848	-14 095
Costs of goods sold (other operating activities)	6	-6 348	-3 563	-10 110	-6 206
GROSS PROFIT		7 130	5 979	28 499	24 005
Marketing expenses	5,6	-245	-158	-866	-612
General administration expenses	5,6	-976	-968	-3 633	-3 280
Other income/ expenses (-)	6	60	-95	118	1 485
OPERATING PROFIT		5 968	4 758	24 118	21 597
Financial income / expenses (-)	7	-730	-725	-2 827	-2 747
PROFIT BEFORE TAXES		5 238	4 033	21 291	18 850
Income tax on dividends	8	0	0	-3 533	-2 997
NET PROFIT FOR THE PERIOD		5 238	4 033	17 757	15 853
Attributable to:					
Equity holders of A-shares		5 238	4 033	17 757	15 852
B-share holder		0,64	0,64	0,64	0,64
Earnings per share in euros	9	0,26	0,20	0,89	0,79



Chairman of the Management Board:

AS TALLINNA VESI

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007 AND 2006

(thousand EUR)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit	24 118	21 597
Adjustment for depreciation	5 064	5 180
Adjustment for income and expenses from constructions	-911	-444
Other financial income and expenses	-101	-34
Profit from sale of fixed assets	-155	-1 592
Expensed fixed assets	30	71
Capitalization of operating expenses	-1 263	-1 337
Movement in current assets involved in operating activities	-2 053	-265
Movement in liabilities involved in operating activities	-17	383
Interest paid	-3 386	-3 071
Total cash flow from operating activities	21 326	20 487
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of fixed assets (incl pipelines construction)	-16 997	-12 274
Proceeds from pipelines financed by construction income	6 509	7 200
Proceeds from sale of and prepayments received/returned(-) for fixed assets	25	-83
Proceeds from sale of assets and real estate investments	15	71
Interest received	676	418
Total cash flow from investing activities	-9 773	-4 667
CASH FLOWS FROM FINANCING ACTIVITIES		
Finance lease payments	-30	-82
Dividends paid	-12 527	-10 034
Income tax on dividends	-3 533	-2 997
Total cash flow from financing activities	-16 091	-13 113
Change in cash and bank accounts	-4 537	2 706
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD	15 940	13 234
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	11 403	15 940



Chairman of the Management Board:

AS TALLINNA VESI

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007 AND 2006

(thousand EUR)

	Share capital	Share premium	Statutory legal reserve	Accumulated profit	Net profit	Total equity
31 December 2005	12 782	24 734	1 278	17 901	11 143	67 839
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
31 December 2006	12 782	24 734	1 278	19 010	15 853	73 658
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	17 757	17 757
30 September 2007	12 782	24 734	1 278	22 336	17 757	78 887



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 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

	2007	2006
Cash at bank and in hand	2 418	3 432
Short term deposits	8 985	12 508
	<hr/> 11 403	<hr/> 15 940



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007 AND 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	
Acquisition cost at										
31.12.2005	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	15 753
Sale of fixed assets	-503	-573	-325	0	0	0	0	0	0	-1 402
Write-off of fixed assets	0	-62	-315	-159	0	0	0	0	-448	-983
Reclassification within balance sheet	0	0	0	0	-3	-2	0	0	0	-5
Reclassification to expenses	0	0	0	0	-39	0	-31	0	0	-71
Expensed pipelines	0	0	0	0	0	-6 206	0	0	0	-6 206
Reclassification from assets in progress	192	5 161	2 624	56	-9 083	-109	-12	0	1 172	0
31.12.2006	22 054	128 906	34 169	1 120	5 859	7 488	179	885	4 310	204 969
Acquisition	0	0	0	0	9 475	8 634	167	0	0	18 276
Sale of fixed assets	-96	0	-96	0	0	0	0	0	0	-192
Write-off of fixed assets	-2	-84	-880	-31	0	0	0	-22	-40	-1 059
Reclassification within balance sheet	0	0	0	0	-11	-130	0	0	0	-141
Reclassification to expenses	0	0	0	0	-29	0	0	0	0	-29
Expensed pipelines	0	0	0	0	0	-10 110	0	0	0	-10 110
Reclassification from assets in progress	1 320	7 628	3 008	42	-12 224	-126	0	116	237	0
31.12.2007	23 276	136 449	36 200	1 132	3 070	5 756	345	978	4 507	211 713
Accumulated depreciation										
31.12.2005	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
31.12.2006	3 801	40 970	20 812	696	0	0	0	729	1 104	68 113
Depreciation	253	2 150	2 018	70	0	0	0	123	451	5 064
Depreciation of fixed assets sold and written-off (-)	-2	-84	-971	-31	0	0	0	-22	-40	-1 150
31.12.2007	4 052	43 036	21 859	736	0	0	0	830	1 515	72 027
Net book value										
31.12.2005	18 807	85 182	13 029	486	6 058	6 979	222	282	2 529	133 573
31.12.2006	18 253	87 935	13 356	424	5 859	7 488	179	155	3 206	136 856
31.12.2007	19 224	93 413	14 341	396	3 070	5 756	345	149	2 992	139 686

Of 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 31 December 2007 there was no finance lease contract.



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007 AND 2006

(thousand EUR)

NOTE 4. NET SALES

	Quarter 4		Year ended 31 December	
	2007	2006	2007	2006
Revenues from main operating activities				
Water supply service	5 148	4 647	20 368	18 486
Waste water disposal service	4 554	4 215	17 954	16 600
Stormwater treatment and disposal service	684	480	2 392	1 921
Fire hydrants service	46	53	151	192
Other works and services	160	121	571	456
Total revenues from main operating activities	10 591	9 517	41 436	37 655
Revenues from other operating activities				
Water, sewerage and storm water connections construction income	6 688	3 746	11 021	6 650
TOTAL NET SALES	17 278	13 263	52 457	44 305

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

NOTE 5. PERSONNEL EXPENSES

	Quarter 4		Year ended 31 December	
	2007	2006	2007	2006
Salaries and wages	-1 123	-870	-3 686	-3 230
Social security taxation	-374	-290	-1 227	-1 076
Staff costs total	-1 497	-1 160	-4 913	-4 305
Number of employees at the end of the reporting period	312	318	312	318



Chairman of the Management Board:

**NOTES TO THE INTERIM ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007 AND 2006**

(thousand EUR)

NOTE 6. COSTS AND EXPENSES

Cost of goods sold (main operating activities)	Quarter 4		Year ended 31 December	
	2007	2006	2007	2006
Tax on special use of water	-168	-162	-671	-642
Chemicals	-330	-386	-1 341	-1 319
Electricity	-416	-401	-1 686	-1 572
Pollution tax	-110	-165	397	-766
Staff costs	-974	-792	-3 299	-2 973
Research and development	-2	-6	-6	-8
Depreciation and amortization	-1 173	-1 207	-4 653	-4 683
Other costs of goods sold	-628	-602	-2 589	-2 131
Total cost of goods sold (main operating activities)	-3 801	-3 721	-13 848	-14 095
Cost of goods sold (other operating activities)				
Water, sewerage and storm water connections construction cost	-6 348	-3 563	-10 110	-6 206
Marketing Expenses				
Staff costs	-122	-80	-390	-301
Depreciation and amortization	-58	-26	-227	-157
Other marketing expenses	-65	-52	-248	-154
Total cost of marketing expenses	-245	-158	-866	-612
General Administration Expenses				
Staff costs	-401	-288	-1 224	-1 031
Depreciation and amortization	-45	-134	-184	-340
Other general administration expenses	-531	-546	-2 225	-1 909
Total cost of general administration expenses	-976	-968	-3 633	-3 280

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 YEAR ENDED 31 DECEMBER 2007 AND 2006

(thousand EUR)

NOTE 7. FINANCIAL INCOME AND EXPENSES

	2007	2006
Interest income	694	450
Interest expense	-3 420	-3 096
Other financial income / expenses (-)	-101	-100
Total financial income / expenses	-2 827	-2 747

NOTE 8. DIVIDENDS

	2007	2006
Dividends declared during the period	12 527	10 034
Dividends paid during the period	12 527	10 034
Income tax on dividends declared	-3 533	-2 997
Income tax accounted	-3 533	-2 997

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

NOTE 9. EARNINGS AND DIVIDENDS PER SHARE

	2007	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)	17 757	15 852
Weighted average number of ordinary shares for the purposes of basic earnings per share	20 000 000	20 000 000
Earnings per share in euros	0,89	0,79
Dividends per A-share in euros	0,63	0,50
Dividends per B-share in euros	639	639

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



Chairman of the Management Board:

**NOTES TO THE INTERIM ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 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 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 31.12.2006 and 31.12.2007 are recorded as follows:

	Tallinn City Government and related boards	The companies belonging to the same group with the United Utilities (Tallinn) B.V.
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	139
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	5 412	0
General administration expenses	0	941
Other income (-) / expences	0	1
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	741
2007		
Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi		
Customer receivables	7 071	0
Accounts payable - short-term trade and other payables, incl. dividends	0	261
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	10 145	0
General administration expenses	0	1 126
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	373
	2007	2006
Management Board fees excluding social tax	135	134
Supervisory Board fees excluding social tax	37	32

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 Chéroux owned 1 000 and Siiri Lahe 180 AS Tallinna Vesi shares.



Chairman of the Management Board:

AS TALLINNA VESI

**NOTES TO THE INTERIM ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007 AND 2006**

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
David Leonard Fuller	Member of the Supervisory Board
Elmar Sepp	Member of the Supervisory Board
Mart Mägi	Member of the Supervisory Board
Rein Ratas	Member of the Supervisory Board
Valdur Laid	Member of the Supervisory Board
Deniss Borodits	Member of the Supervisory Board



Chairman of the Management Board: