

Tallinna Vesi



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

Currency	Thousand kroons
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

CONTENTS

	Page
MANAGEMENT REPORT	3
MANAGEMENT CONFIRMATION	10
BALANCE SHEETS	11
INCOME STATEMENTS	12
CASH FLOW STATEMENTS	13
STATEMENTS OF CHANGES IN EQUITY	14
NOTES TO THE ACCOUNTS	
NOTE 1. ACCOUNTING PRINCIPLES	15
NOTE 2. CASH AND CASH EQUIVALENTS	15
NOTE 3. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS	16
NOTE 4. NET SALES	17
NOTE 5. PERSONNEL EXPENSES	17
NOTE 6. COSTS AND EXPENSES	18
NOTE 7. FINANCIAL INCOME AND EXPENSES	19
NOTE 8. DIVIDENDS	19
NOTE 9. EARNINGS AND DIVIDENDS PER SHARE	19
NOTE 10. RELATED PARTIES	20
NOTE 11. LIST OF SUPERVISORY BOARD MEMBERS	21

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 820.8 mln EEK. 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 17.7 mln EEK year on year. The Company's profit before taxes was 333.1 mln EEK, which is a 12.9% increase compared to 2006. The Company invested 285.9 mln EEK, of which 143.7 mln EEK was invested in network extension and developments.

<i>mln EEK</i>	4 Q 2007	4 Q 2006	Change	12 months 2007	12 months 2006	Change
Sales	270,3	207,5	30,3%	820,8	693,2	18,4%
Main operating activities	165,7	148,9	11,3%	648,3	589,2	10,0%
Other operating activities	104,6	58,6	78,5%	172,4	104,0	65,7%
Gross profit	111,6	93,6	19,3%	445,9	375,6	18,7%
Gross profit margin %	41,3%	45,1%	-8,5%	54,3%	54,2%	0,3%
Operating profit	93,4	74,4	25,4%	377,4	337,9	11,7%
Operating profit margin %	34,5%	35,9%	-3,7%	46,0%	48,7%	-5,7%
Profit before taxes	82,0	63,1	29,9%	333,1	294,9	12,9%
Profit before taxes margin %	30,3%	30,4%	-0,3%	40,6%	42,5%	-4,6%
Net profit	82,0	63,1	29,9%	277,8	248,0	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 270.3 mln EEK. Sales from the Company's main operating activities were 165.7 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 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 151.8 mln EEK, 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 80.6 mln EEK. Sales to commercial customers within the service area increased by 7.9% to 63.6 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 24.7% reaching 711 000 m³ or 4.9 mln EEK. Over pollution fees received were 0.1 mln EEK 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 (+3 mln EEK 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 11.4 mln EEK 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 104.6 mln EEK which is 46 mln EEK 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 59.5 mln EEK in the 4th quarter of 2007, an increase of 1.3 mln EEK 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 1.7 mln EEK 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 5.2 mln EEK, which represents a 14.5% decrease compared to the corresponding period in 2006.

Electricity costs increased by 0.2 mln EEK 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 2.9 mln EEK 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 0.4 mln EEK, 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 111.6 mln EEK, which represents an increase of 18 mln EEK, or 19.3%, compared to the gross profit of 93.6 mln EEK for the 4th quarter of 2006.

Operating Costs and Operating Margin

Marketing expenses increased by 1.4 mln EEK to 3.8 mln EEK 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 0.1 mln EEK to 15.3 mln EEK in the 4th quarter of 2007 as a consequence of an increase in salaries as described above. The other general administration expenses include approximately 0.5 mln EEK 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 23.4 mln EEK in the 4th quarter of 2007, which is a 5.3 mln EEK 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 0.9 mln EEK in the 4th quarter of 2007 compared to a cost of 1.5 mln EEK in the 4th quarter of 2006, mainly because of a 2 mln EEK 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 93.4 mln EEK, an increase of 19 mln EEK compared to an operating profit of 74.4 mln EEK achieved in the 4th quarter of 2006.

Financial expenses

Net Financial expenses were 11.4 mln EEK in the 4th quarter of 2007, which is an increase of 0.1 mln EEK 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 82 mln EEK, which is 18.9 mln EEK higher than the profit before taxes of 63.1 mln EEK 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 820.8 mln EEK. Sales from the Company's main operating activities were 648.3 mln EEK. Sales of water and wastewater services were 599.6 mln EEK, a 9.2% increase worth of 50.6 mln EEK compared to the twelve months of 2006. The revenues from other operating activities, mainly connections and storm water construction, totaled 172.4 mln EEK in 2007.

The Company's profit before taxes for the twelve months of 2007 was 333.1 mln EEK, which is 38.2 mln EEK higher than the profit before taxes of 294.9 mln EEK 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 13.3 mln EEK for environmental taxes in the 1st quarter and secondly by 2 mln EEK 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 24.1 mln EEK. When eliminating these one-offs, the underlying profit before tax has increased by 47 mln EEK to 317.8 mln EEK i.e. 17.3% year-on-year.

Balance sheet

During the twelve months of 2007 the Company invested 285.9 mln EEK into fixed assets. Non-current assets were 2,185 mln EEK at 31 December 2007. Current assets increased by 43.2 mln EEK to 373.6 mln EEK 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 46.7 mln EEK to 199.7 mln EEK 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 1,125.2 mln EEK 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 333.7 mln EEK of cash flows from operating activities, an increase of 13.1 mln EEK 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 152.9 mln EEK, which is 79.8 mln EEK 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 285.9 mln EEK – 213.9 mln EEK networks extension and rehabilitation, 46.2 mln EEK Paljassaare wastewater treatment plant and wastewater treatment, 11.8 mln EEK water quality (Ülemiste water treatment plant and raw water) and 13.4 mln EEK other investments (IT, capital maintenance, meters, etc).

Cash outflows from financing activities were 251.8 mln EEK during the twelve months of the year compared to cash outflow of 205.2 mln EEK 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 71 mln EEK compared to a cash inflow of 42.3 mln EEK in the twelve months of 2006. Cash and cash equivalents stood at 178.4 mln EEK 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.

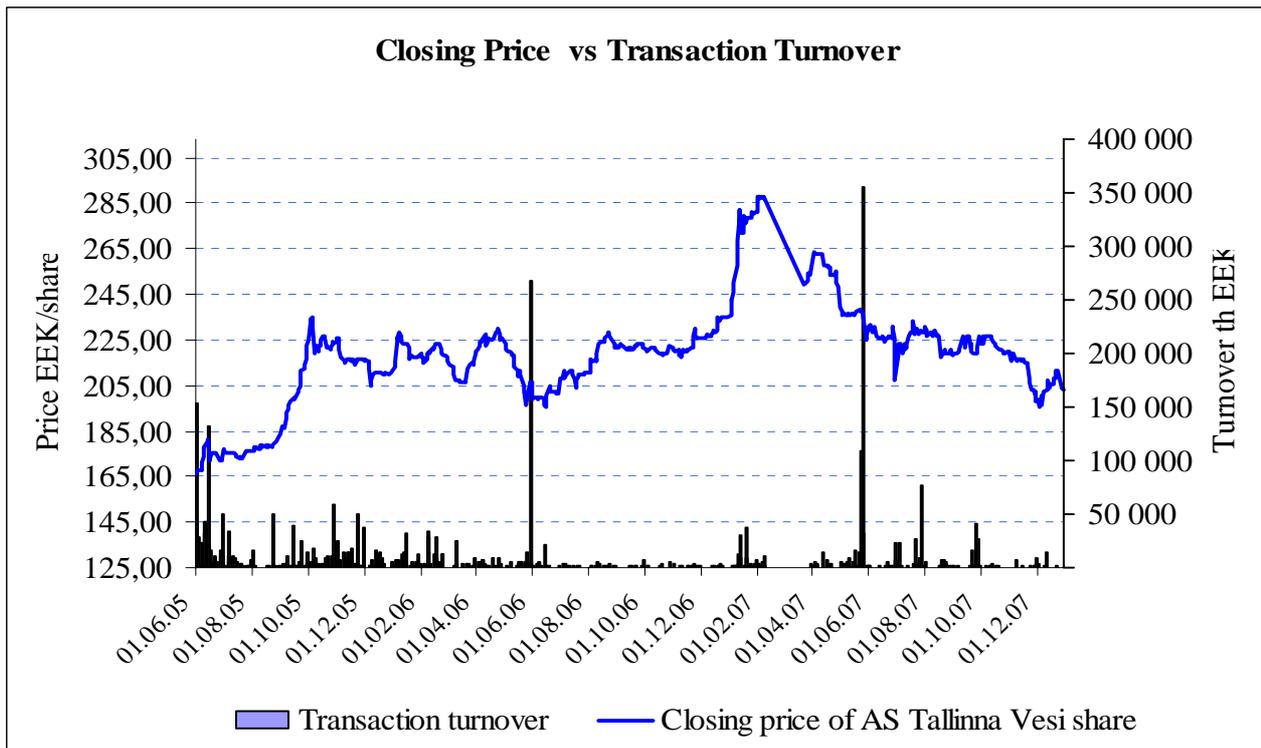
Dividends and share performance

Based on the results of the 2006 financial year, the Annual General Meeting of shareholders of AS Tallinna Vesi voted to pay 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 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 202.78 EEK (12.96 EUR), which is a 10.6% decrease compared to the closing price of 226.88 EEK (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 (9.00 kroons per m³ until 31 December 2011 and 6.10 kroons 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 40 mln EEK.
- 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 7.1 mln EEK 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:

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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 the auditors.

The preparation of the interim accounts according to International Financial Reporting Standards as adopted by the EU involves estimates made by the Management Board of the Company's assets and liabilities as at 31 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 17 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



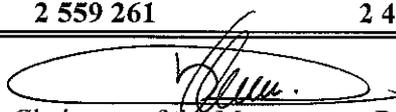
David Nigel Hetherington
Member of the Management Board

17 January 2008

BALANCE SHEETS AT 31 DECEMBER 2007 AND 2006

(thousand EEK)

ASSETS	Note	2007	2006
CURRENT ASSETS			
Cash at bank and in hand	2	178 420	249 413
Customer receivables		185 223	71 490
Accrued income and prepaid expenses		5 248	4 756
Inventories		3 645	3 142
Assets for sale		1 120	1 648
TOTAL CURRENT ASSETS		373 656	330 449
NON-CURRENT ASSETS			
Tangible assets	3	1 992 978	1 877 105
Intangible assets	3	49 137	52 595
Unfinished assets - non connections	3	48 034	91 676
Unfinished pipelines - new connections	3	90 057	117 162
Prepayments for fixed assets	3	5 399	2 795
TOTAL NON-CURRENT ASSETS		2 185 605	2 141 333
TOTAL ASSETS		2 559 261	2 471 782
LIABILITIES			
CURRENT LIABILITIES			
Current portion of long-term borrowings		41 911	473
Trade and other payables, incl. dividends		86 965	85 250
Taxes payable		26 555	30 508
Short-term provisions		2 231	538
Deferred income		42 099	36 325
TOTAL CURRENT LIABILITIES		199 761	153 094
NON-CURRENT LIABILITIES			
Bank loans		1 125 067	1 166 098
Other payables		113	100
TOTAL NON-CURRENT LIABILITIES		1 125 180	1 166 198
TOTAL LIABILITIES		1 324 941	1 319 292
EQUITY CAPITAL			
Share capital		200 001	200 001
Share premium		387 000	387 000
Statutory legal reserve		20 000	20 000
Accumulated profit		349 479	297 443
Net profit for the period		277 840	248 046
TOTAL EQUITY CAPITAL		1 234 320	1 152 490
TOTAL LIABILITIES AND EQUITY CAPITAL		2 559 261	2 471 782


 Chairman of the Management Board:

AS TALLINNA VESI

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 AND 2006

(thousand EEK)

	Note	Quarter 4		Year ended 31 December	
		2007	2006	2007	2006
Sales from main operating activities	4	165 710	148 909	648 335	589 176
Revenues from other operating activities	4	104 639	58 612	172 437	104 048
Net sales		270 349	207 521	820 772	693 224
Costs of goods sold (main operating activities)	5,6	-59 469	-58 219	-216 677	-220 537
Costs of goods sold (other operating activities)	6	-99 320	-55 752	-158 187	-97 096
GROSS PROFIT		111 560	93 550	445 908	375 591
Marketing expenses	5,6	-3 838	-2 467	-13 547	-9 578
General administration expenses	5,6	-15 278	-15 148	-56 849	-51 319
Other income/ expenses (-)	6	942	-1 487	1 850	23 229
OPERATING PROFIT		93 386	74 448	377 362	337 923
Financial income / expenses (-)	7	-11 426	-11 338	-44 237	-42 981
PROFIT BEFORE TAXES		81 960	63 110	333 125	294 942
Income tax on dividends	8	0	0	-55 285	-46 896
NET PROFIT FOR THE PERIOD		81 960	63 110	277 840	248 046
Attributable to:					
Equity holders of A-shares		81 950	63 100	277 830	248 036
B-share holder		10	10	10	10
Earnings per share in kroons	9	4,10	3,16	13,89	12,40


Chairman of the Management Board:

AS TALLINNA VESI

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007 AND 2006

(thousand EEK)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit	377 362	337 923
Adjustment for depreciation	79 241	81 047
Adjustment for income and expenses from constructions	-14 250	-6 952
Other financial income and expenses	-1 585	-536
Profit from sale of fixed assets	-2 422	-24 917
Expensed fixed assets	476	1 106
Capitalization of operating expenses	-19 764	-20 921
Movement in current assets involved in operating activities	-32 130	-4 142
Movement in liabilities involved in operating activities	-259	5 994
Interest paid	-52 986	-48 051
Total cash flow from operating activities	333 683	320 551
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of fixed assets (incl pipelines construction)	-265 951	-192 048
Proceeds from pipelines financed by construction income	101 840	112 662
Proceeds from sale of and prepayments received/returned(-) for fixed assets	390	-1 293
Proceeds from sale of assets and real estate investments	242	1 107
Interest received	10 571	6 545
Total cash flow from investing activities	-152 908	-73 027
CASH FLOWS FROM FINANCING ACTIVITIES		
Finance lease payments	-473	-1 282
Dividends paid	-196 010	-157 000
Income tax on dividends	-55 285	-46 896
Total cash flow from financing activities	-251 768	-205 178
Change in cash and bank accounts	-70 993	42 346
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD	249 413	207 067
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	178 420	249 413


 Chairman of the Management Board:

AS TALLINNA VESI

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

(thousand EEK)

	Share capital	Share premium	Statutory legal reserve	Accumulated profit	Net profit	Total equity
31 December 2005	200 001	387 000	20 000	280 089	174 354	1 061 444
Transfer of financial year profit to the accumulated profit	0	0	0	174 354	-174 354	0
Dividends	0	0	0	-157 000	0	-157 000
Net profit of the financial year	0	0	0	0	248 046	248 046
31 December 2006	200 001	387 000	20 000	297 443	248 046	1 152 490
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	277 840	277 840
31 December 2007	200 001	387 000	20 000	349 479	277 840	1 234 320



Chairman of the Management Board:

**NOTES TO THE INTERIM ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 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

	2007	2006
Cash at bank and in hand	37 838	53 702
Short term deposits	140 582	195 711
	<u>178 420</u>	<u>249 413</u>



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 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	
Acquisition cost at										
31.12.2005	349 941	1 946 121	503 588	19 143	94 793	109 190	3 479	13 841	56 100	3 096 196
Acquisition	0	0	0	0	139 665	106 811	0	0	0	246 476
Sale of fixed assets	-7 876	-8 965	-5 088	-7	0	0	0	0	0	-21 936
Write-off of fixed assets	0	-967	-4 930	-2 483	0	0	0	0	-7 006	-15 386
Reclassification within balance sheet	0	0	0	0	-43	-33	0	0	0	-76
Reclassification to expenses	0	-1	0	0	-614	0	-489	0	0	-1 104
Expensed pipelines	0	0	0	0	0	-97 096	0	0	0	-97 096
Reclassification from assets in progress	3 009	80 746	41 057	879	-142 125	-1 710	-195	0	18 339	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	148 257	135 085	2 611	0	0	285 953
Sale of fixed assets	-1 506	0	-1 505	0	0	0	0	0	0	-3 011
Write-off of fixed assets	-34	-1 319	-13 772	-482	0	0	0	-346	-623	-16 576
Reclassification within balance sheet	0	0	0	0	-170	-2 029	-7	0	0	-2 206
Reclassification to expenses	0	0	0	0	-460	0	0	0	0	-460
Expensed pipelines	0	0	0	0	0	-158 187	0	0	0	-158 187
Reclassification from assets in progress	20 654	119 355	47 058	658	-191 269	-1 974	0	1 809	3 709	0
31.12.2007	364 188	2 134 970	566 408	17 708	48 034	90 057	5 399	15 304	70 519	3 312 587
Accumulated depreciation										
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	3 952	33 642	31 569	1 102	0	0	0	1 918	7 058	79 241
Depreciation of fixed assets sold and written-off (-)	-34	-1 318	-15 197	-482	0	0	0	-346	-623	-18 000
31.12.2007	63 393	673 373	342 016	11 514	0	0	0	12 980	23 706	1 126 982
Net book value										
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
31.12.2007	300 795	1 461 597	224 392	6 194	48 034	90 057	5 399	2 324	46 813	2 185 605

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 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 EEK)

NOTE 4. NET SALES	Quarter 4		Year ended 31 December	
	2007	2006	2007	2006
Revenues from main operating activities				
Water supply service	80 549	72 710	318 686	289 250
Waste water disposal service	71 249	65 954	280 926	259 727
Stormwater treatment and disposal service	10 697	7 513	37 426	30 052
Fire hydrants service	718	832	2 361	3 007
Other works and services	2 497	1 900	8 936	7 140
Total revenues from main operating activities	165 710	148 909	648 335	589 176
Revenues from other operating activities				
Water, sewerage and storm water connections construction income	104 639	58 612	172 437	104 048
TOTAL NET SALES	270 349	207 521	820 772	693 224

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	-17 570	-13 610	-57 666	-50 532
Social security taxation	-5 851	-4 535	-19 203	-16 832
Staff costs total	-23 421	-18 145	-76 869	-67 364
Number of employees at the end of the reporting period	312	318	312	318



Chairman of the Management Board:

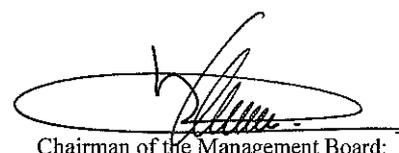
NOTES TO THE INTERIM ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007 AND 2006

(thousand EEK)

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	-2 628	-2 529	-10 493	-10 050
Chemicals	-5 167	-6 044	-20 979	-20 638
Electricity	-6 514	-6 282	-26 382	-24 594
Pollution tax	-1 723	-2 575	6 207	-11 988
Staff costs	-15 236	-12 389	-51 611	-46 521
Research and development	-30	-98	-99	-129
Depreciation and amortization	-18 350	-18 889	-72 806	-73 278
Other costs of goods sold	-9 821	-9 413	-40 514	-33 339
Total cost of goods sold (main operating activities)	-59 469	-58 219	-216 677	-220 537
Cost of goods sold (other operating activities)				
Water, sewerage and storm water connections construction cost	-99 320	-55 752	-158 187	-97 096
Marketing Expenses				
Staff costs	-1 908	-1 253	-6 107	-4 710
Depreciation and amortization	-907	-404	-3 553	-2 453
Other marketing expenses	-1 023	-810	-3 887	-2 415
Total cost of marketing expenses	-3 838	-2 467	-13 547	-9 578
General Administration Expenses				
Staff costs	-6 277	-4 503	-19 151	-16 133
Depreciation and amortization	-700	-2 098	-2 882	-5 316
Other general administration expenses	-8 301	-8 547	-34 816	-29 870
Total cost of general administration expenses	-15 278	-15 148	-56 849	-51 319

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 EEK)

NOTE 7. FINANCIAL INCOME AND EXPENSES

	2007	2006
Interest income	10 861	7 034
Interest expense	-53 513	-48 444
Other financial income / expenses (-)	-1 585	-1 571
Total financial income / expenses	-44 237	-42 981

NOTE 8. DIVIDENDS

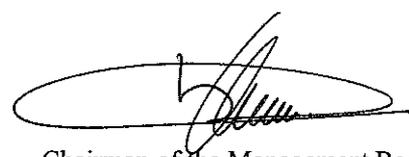
	2007	2006
Dividends declared during the period	196 010	157 000
Dividends paid during the period	196 010	157 000
Income tax on dividends declared	-55 285	-46 896
Income tax accounted	-55 285	-46 896

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)	277 830	248 036
Weighted average number of ordinary shares for the purposes of basic earnings per share	20 000 000	20 000 000
Earnings per share in kroons	13,89	12,40
Dividends per A-share in kroons	9,80	7,85
Dividends per B-share in kroons	10 000	10 000

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 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.

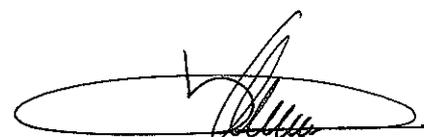
The transactions with related parties in 2006 and 2007 and respective balances as of 31.12.2006 and 31.12.2007 are recorded as follows:

	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	2 176
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	84 686	0
General administration expenses	0	14 729
Other income (-) / expenses	0	10
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	11 593
2007		
Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi		
Customer receivables	110 639	0
Accounts payable - short-term trade and other payables, incl. dividends	0	4 091
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	158 733	0
General administration expenses	0	17 612
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	5 836
	2007	2006
Management Board fees excluding social tax	2 118	2 097
Supervisory Board fees excluding social tax	578	500

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 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: