

ANNUAL REPORT
2006

Tallinna Vesi


HIGHLIGHTS OF THE YEAR 2006



Company participates in "Excellent service Month" and takes part in campaign "Praise Excellent Customer Service"



Company launches "Our promises"; Paljassaare RockFest takes place



The Baltic Marine Environment Protection Commission HELCOM removes Tallinn from its hot-spots' list



Company completed successfully the biological treatment reconstruction in Paljassaare Wastewater Treatment Plant and the test year, as a result of which the amount of nitrogen reaching the Bay of Tallinn was reduced by more than 37.5%



Work begins building the new sludge dewatering plant



The company's service conference of 2005 "You Get What You Give Up: A Recipe For A Happy Employee!" was voted amongst the seven best for content by the Service Deed of the Year 2006 and it was awarded as the most popular among the audience



Internal Service Conference for all Employees and introduction of the "4 Strategic Objectives"

TALLINNA VESI

MISSION We create a better life with pure water!

VISION We will be a role model for every service providing company and employer, exceeding the expectations of our customers, employees and owners and setting a benchmark for environmental behaviour in order to improve the quality of life.



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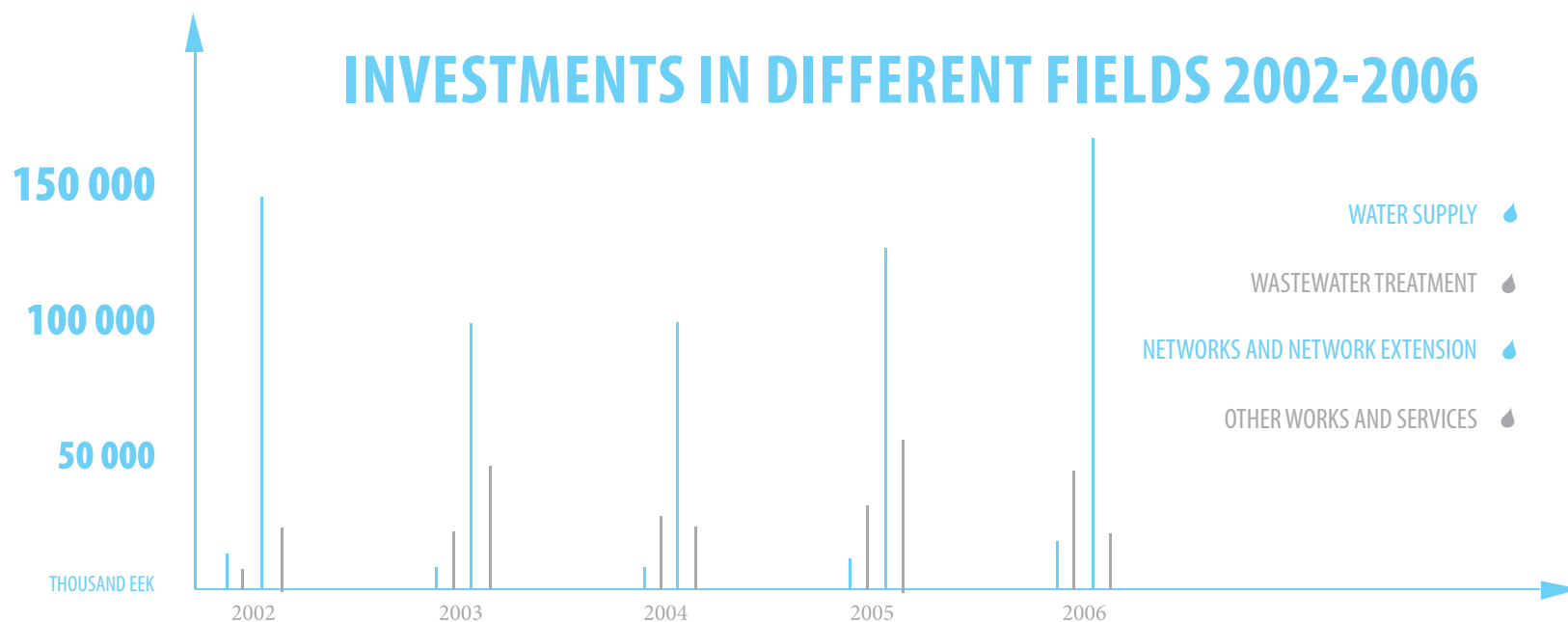
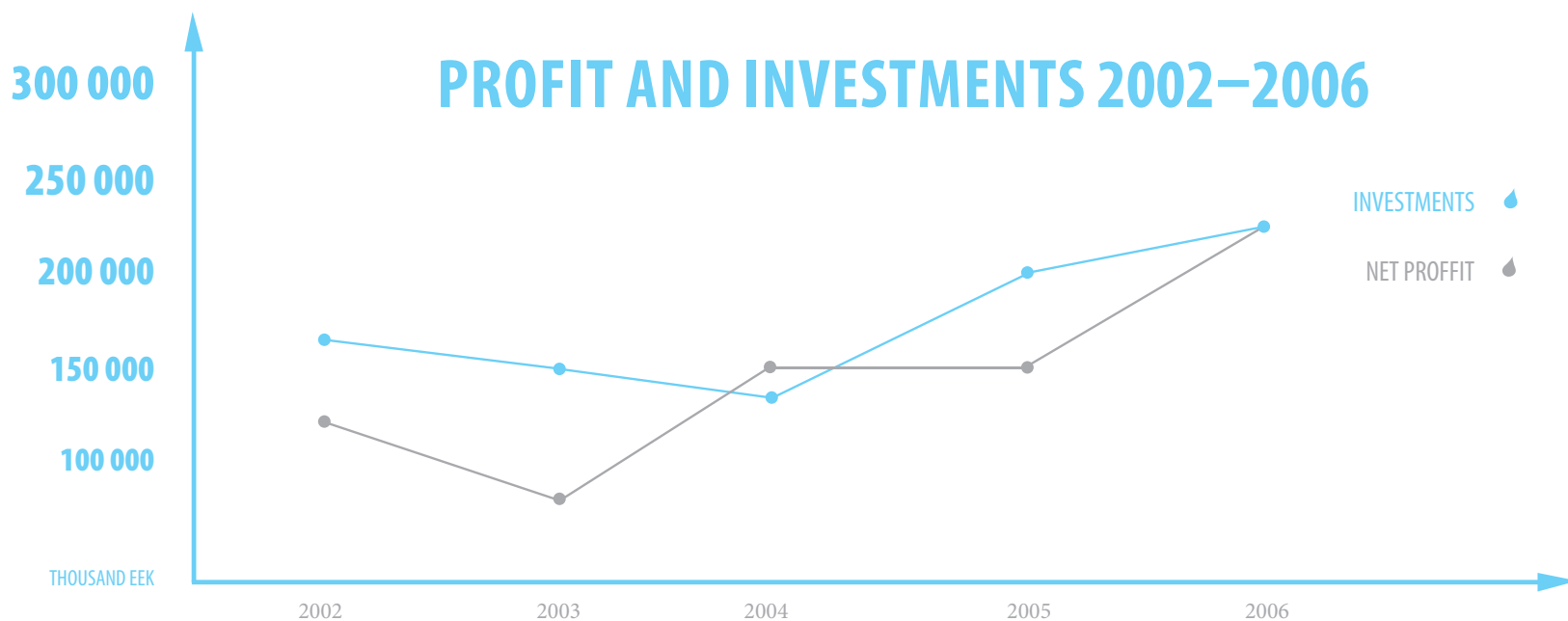
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KEY PERFORMANCE INDICATORS

MILLION EEK	2006	2005	2004	2003	2002
SALES	693,2	592,0	548,5	504,0	512,5
Main operating activities	589,2	549,9	478,8	434,8	432,9
Other operating activities	104,0	42,1	69,7	69,2	79,6
Gross profit	375,6	351,6	286,9	249,3	240,3
Gross profit margin %	54,2%	59,4%	52,3%	49,5%	46,9%
Operating profit	337,9	282,6	254,9	169,8	174,9
Operating profit margin %	48,7%	47,7%	46,5%	33,7%	34,1%
Profit before taxes	294,9	209,7	199,2	119,8	169,6
Profit before taxes margin %	42,5%	35,4%	36,3%	23,8%	33,1%
Net profit	248,0	174,4	173,0	104,5	146,2
ROA %	10,0%	7,3%	7,8%	4,8%	6,4%
Debt to total capital employed	53,4%	55,3%	55,1%	58,4%	62,9%
ROE%	21,5%	16,4%	17,3%	11,6%	17%
Current ratio	2,2	1,9	0,9	0,9	1,0
Average number of employees	322	337	351	348	370

SALES BREAKDOWN	2006
Water supply service	42%
Wastewater disposal service	38%
Stormwater treatment and disposal service	4%
Other revenues	1%
Other works and services	15%

EEK	2006	2005	2004	2003	2002
Share price, at the end of the year	234,86	210,92	n/a	n/a	n/a
Share price, low	195,11	155,53	n/a	n/a	n/a
Share price, high	234,86	235,48	n/a	n/a	n/a
Share price, average	217,49	197,46	n/a	n/a	n/a
Earnings per share	12,40	8,72	8,65	5,23	1,75
Dividend per share	n/a	7,85	5,60	3,75	2,25
Dividend / net profit	n/a	90%	65%	72%	129%
P/E	18,94	24,19			
P/BV	4,1	4,0			



AS TALLINNA VESI IN BRIEF

AS Tallinna Vesi is the largest water utility in Estonia providing drinking water and wastewater disposal services to over 400 000 people in Tallinn and in several neighbouring municipalities of Tallinn. AS Tallinna Vesi has the exclusive right to provide water and sewerage services in Tallinn's main service area until the year 2015.

The company has two treatment plants Ülemiste Water Treatment Plant (WTP) and Paljassaare Wastewater Treatment Plant (WWTP).

The first Ülemiste Plant started working in 1927 and this plant is still providing services to Tallinners today. In addition the new water treatment

One of the strategic objectives of AS Tallinna Vesi is to grow its business activities and to expand the provision of water and sewerage services to the surrounding municipalities of Tallinn. This objective is supported by a fast real estate development and the demand for new residential buildings around Tallinn. Ülemiste treatment plant has sufficient excess capacity to increase the treatment volumes and provide services to a larger number of people than currently.

AS Tallinna Vesi operates over 2000 kilometres of water, wastewater and stormwater network in the City of Tallinn. In 2005, AS Tallinna Vesi was the first company in the Baltic's to receive the EU EMAS (Eco-Management

THE WATER LABORATORY OF TALLINNA VESI TAKES AROUND 100 ANALYSES FROM THE CITY'S WATER NETWORK EVERY DAY.

plant was built at Ülemiste in 1970. The plants use Lake Ülemiste's water to produce drinking water for about 90% of the City of Tallinn. The remainder of Tallinn, ca 10%, uses ground water. The quality of drinking water in Tallinn has been constantly improving and today meets all the required EU quality standards.

Paljassaare WWTP started operating in 1980 and its treatment processes have been extended modernised and made more environmentally-friendly year by year. As a result the treated wastewater discharged into the Baltic Sea is much cleaner.

The Baltic Marine Environment Protection Commission HELCOM decided to remove Tallinn from its hotspots' list in 2006, recognising the investments made by the Company to improve its wastewater treatment processes.

and Audit Scheme) certificate that is issued to the companies continuously improving their environmental activities.

The company has also obtained ISO certificates on quality- (ISO 9001) and environmental management (ISO 14001) and its laboratories also hold the ISO 17025 certificate.

The Company has over 19,300 contractual customers and employs 320 people on average.

AS Tallinna Vesi shares are listed on the main list of the Tallinn Stock Exchange.

**WE ARE AWARE OF THE RESPONSIBILITY AND THE IMPACT THAT
OUR ACTIVITY HAS ON PUBLIC HEALTH AND THE QUALITY OF
LIFE OF OUR CUSTOMERS AND SOCIETY.**







CHAIRMAN'S STATEMENT

ROCH JEAN GUY ANTOINE CHÉROUX

*Building on what we have achieved to date, we will continue to
deliver our business objectives.*

*Chairman of the Management Board
CEO*

A stylized, handwritten signature in blue ink, consisting of a large loop and several fluid strokes.

In 2006, our Company has again improved its performance: its operating performance, with a very high water quality level and a treated effluent quality now compliant with all EU standards; its customer service performance with the full deployment of a new customer relationship management and billing software; its financial performance with a strong set of results. The dynamism of our employees was instrumental in reaching this level of performance.

CLOSER TO CLIENTS 2006 has seen the full deployment of our new client relationship and billing software. The new system gathers in one place information that was stored previously in different databases. This enables a much more complete and accurate overview of each client's information, and thus a much more accurate and diligent response to any client's request. This new system brings a lot more possibilities to

OUR EMPLOYEES AS DRIVERS OF PERFORMANCE

Our employees drive the performance of the Company and they deserve credit for what has been achieved in 2006. The strong cost control culture of the Company enabled a good set of financial results to be achieved in a situation where the cost pressure was significant. The shift from a production culture towards a service culture is underway however there is more to be done to achieve the level of excellence we desire. A full review of the human resources strategy has been started and the outcome will be implemented in 2007, providing to all our employees an environment in which they can develop their full potential.

Our health and safety performance, whilst still at a good level, has fallen compared to previous years. Focus on this key area will be enhanced in 2007.

THE FIRST WATER TREATMENT PLANT BEGAN OPERATING AT ÜLEMISTE IN 1927, AND CONTINUES TO SERVE THE CITY TODAY.

interact with the client in a friendly and effective way. The web interface gives the possibility for each client to have access to their own information and engage in dialogue easily with the Company. In addition, new billing functionalities offer, for example direct debit and e-invoice.

The Guaranteed Standard Scheme ('Our Promises') implemented in 2006 was very well received by our clients. This scheme, in which we pay a monetary compensation in case we fail to deliver on our promises, demonstrates how far we are engaged to continuously improve the quality of our service.

OPERATIONAL EXCELLENCE AS AN OBJECTIVE

An extensive investment programme of 246.5 mln kroons was carried out, to renew, upgrade and develop the asset base of the Company. The main areas of investment were networks and water quality (182.8 mln kroons), and treated wastewater quality (43.7 mln kroons). In 2005 the Company invested 223.1 mln kroons overall of which 130.7 mln kroons was in networks and water quality, and 30.4 mln kroons in treated wastewater quality. This ongoing investment programme is a key contributor to the good level of operational performance in 2006. The water quality has been 100% compliant for microbiological standards and 99.55% compliant for all standards. With this level of quality, the Company is already delivering compliance with the new standards that come into force 1st January 2007. The leakage level

stands at 19.3%, more than 6% below the contractual target, and continues to be closely monitored. In addition to these good technical results, we are constantly looking at the possibility to improve and streamline the organization. A project to review and simplify our internal processes was initiated and will be continued in 2007.

WE PRESERVE OUR ENVIRONMENT

The Company has been heavily investing in different projects. The nitrogen project, total investment of 54.7 mln kroons, which aimed to reduce the amount of nitrogen discharged to the Baltic Sea was successfully completed. As a result, Tallinn was removed from the HELCOM (Environmental body monitoring the quality of the Baltic sea) hotspots list. This international recognition is a great achievement for the Company, the City of Tallinn and Estonia. The construction of 13 hectares of composting fields, which

OUR ENGAGEMENT TOWARDS THE COMMUNITY

As we provide one of life's essential services, we have a very special responsibility to the Community. The Company is well aware of this fact and has been focusing on the quality of product delivered and the quality of service provided to its clients, who are the community. In addition we have pursued our investment and our support into several educational and social projects.

DEVELOPING THE COMPANY

Our out performance in delivering the Services Agreement in Tallinn gives us a strong market position and we are well positioned to build on our current success. Focusing on our core activity, water and wastewater

THE FIRST WATER TREATMENT PLANT BEGAN OPERATING AT ÜLEMISTE IN 1927, AND CONTINUES TO SERVE THE CITY TODAY.

enable us to turn all our sludge production into a good quality soil conditioner used for greenery works and reforestation, is now almost completed and already in use. The Paljassaare waste water treatment plant, is not only treating effluent to a very high level of quality and composting its sludge, but also turning the gas produced during the treatment process into electricity, and is now a reference in terms of recycling. On the clean water side, the biomanipulation project to improve the condition of lake Ülemiste continues.

services, we have expanded our service area: a way to maximise the use of the excess capacity of our assets and share our economy of scale with the municipalities surrounding Tallinn. We will continue to focus on our core activity, and seek to expand geographically. In addition, a review of potential routes for growing the Company in activities closely related to water and wastewater, has been undertaken. The growth prospects look promising.

COMMITMENT TO SHAREHOLDERS

The Company understands the importance of high standards of governance and transparency in its actions and reporting, and this is described in more detail in the corporate governance section of this report.

The Company has in 2006 delivered a strong set of financial results achieved in a challenging environment. Revenue, supported by the strong economic growth of the country, has grown year on year. A growth in the volumes of water and waste water sold was recorded, originating from a moderate increase in consumption in the main service area of Tallinn and from a very sharp increase in the new contracts signed with other municipalities. Despite pressure on labour costs, increases in environmental taxes, more stringent consents that have triggered an increase in chemical consumption, and the high level of inflation, the Company has succeeded in improving its profit after tax to 248.0 mln kroons. In parallel, the Company has invested 246.5 mln kroons in new assets.

The share price increased by 11.35% in 2006, and the dividend paid out amounted to 7.85 kroons/share. The Company is committed to stay focused on creating shareholder value.

The 2007 Company's objectives, with a strong emphasis on improving performance, have been cascaded down and all the objectives have been aligned throughout the Company.

With the commitment and hard work of all its employees, with the support of its Supervisory Board and Shareholders, with constructive cooperation with all its business partners, especially the City of Tallinn, the Company has developed strong foundations for the future.

TALLINN'S OLDEST EXTANT CITY REGISTER, DATING BACK TO 1337, HOLDS ITS EARLIEST RECORDS OF THE PUBLIC WATER SUPPLY.

LOOKING FORWARD

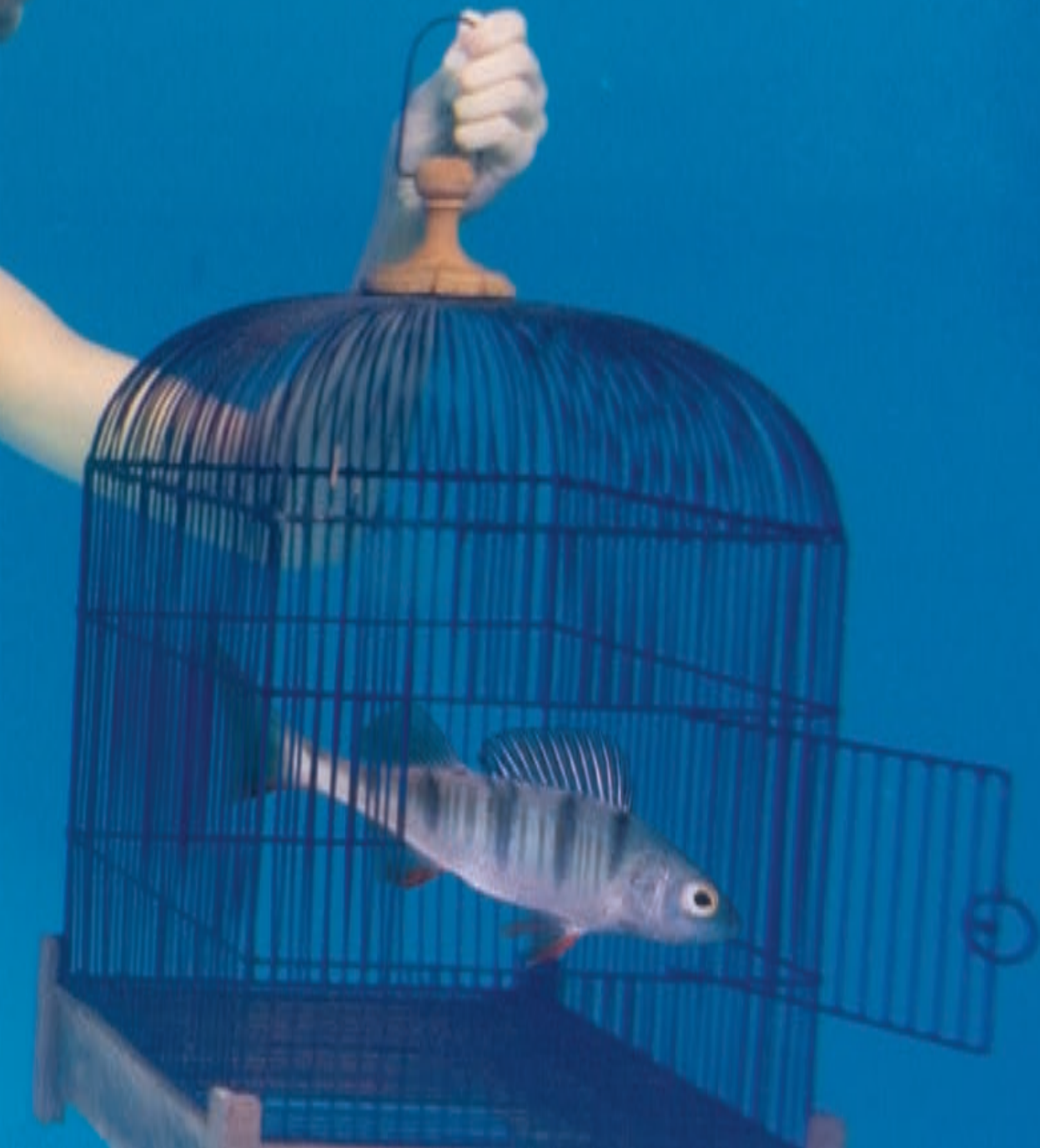
objectives aligned with our vision:

A review of the strategy established the 4 strategic

- TO DELIVER CUSTOMER SERVICE EXCELLENCE
- TO DELIVER OPERATIONAL EXCELLENCE
- TO GROW THE ACTIVITY OF THE COMPANY
- TO DELIVER SHAREHOLDER VALUE



**WE WILL SET A BENCHMARK FOR ENVIRONMENTAL
BEHAVIOUR AND IMPROVE THE QUALITY OF LIFE**



A VISION FOR THE FUTURE

The Company has gone through radical changes during the last years, reaching a status of a world-class utility company. A clear vision and mission statement, supported by clear and measurable objectives defined each year gave the whole team clear guidelines regarding where the Company was heading.

The Company was listed on the Tallinn Stock Exchange in 2005, which meant that the Company entered into a new business cycle, and there was a need to define even more clearly the strategic objectives that were aligned with our vision of being a world-class utility company.

The review of the strategy established the four strategic objectives of the

Company which are:

- a. TO ACHIEVE CUSTOMER SERVICE EXCELLENCE
- b. TO ACHIEVE OPERATIONAL EXCELLENCE
- c. TO GROW THE ACTIVITY OF THE COMPANY
- d. TO DELIVER SHAREHOLDER VALUE

‘RATASKAEV’ (THE ‘WHEEL WELL’) WAS FIRST MENTIONED IN 1375 AND CAN STILL BE SEEN IN TALLINN’S OLD TOWN TODAY.



TO ACHIEVE CUSTOMER SERVICE EXCELLENCE

The Company is committed to achieving customer service excellence. We want to deliver a service that exceeds the expectations of all our stakeholders: Customers, Community, Shareholders, Employees.

The overriding objective of the Company is to provide the best customer service of any utility Company in the Baltic's – by using customer service as a positive differentiator we can position the Company high in the marketplace.

To achieve this we are developing systems, processes and people that focus on each of our customers and end users.

TO GROW THE ACTIVITY OF THE COMPANY

The Company is committed to growing its activity. Our objective is to increase the turnover whilst keeping a satisfactory rate of return.

The Company is targeting to deliver growth in volumes both inside and outside the current service area. In addition to the general economic growth, completing the network extension programme and gaining more wastewater service consumers provides good growth opportunities for the Company.

Besides targeting growth in the water and wastewater operating services activity, the Company is actively looking at new opportunities for supporting the Company's core business and for initiating new activities.

GROUND WATER IS WATER THAT CAN BE FOUND IN THE EARTH'S CRUST IN A SOLID, LIQUID OR GASEOUS STATE.

TO ACHIEVE OPERATIONAL EXCELLENCE

The Company is committed to achieving operational excellence. Our objective is to deliver the best services and products, at the best cost, by using the most efficient technology and processes. In order to achieve these results the Company has invested heavily in operational processes, acquiring several internationally recognized quality standards (ISO and EMAS) and will continue to improve through the implementation of the EFQM (The European Foundation for Quality Management) quality model recommendations. Concurrently the Company will continue its investment programme in assets and tools and importantly the development of its people, it will stay open to innovation and constantly ensure the delivery of the best product at the best cost.

TO INCREASE SHAREHOLDER VALUE

The Company is committed to increasing shareholder value. Our objective is to deliver the right rate of return, combining distribution of dividends and improving the value of the share on the market. Strong earnings growth from the main business and new activities supported by increased cost efficiencies and operational service excellence will enable the Company to continue growing. This, coupled with our objective of real dividend increases will enable the Company to meet the expectations of investors, both large and small. The Company understands the importance of transparent and clear communications with existing and new investors. We have worked extremely hard at our investor relations programme since listing on the Tallinn Stock Exchange and will continue to do so in the future. By achieving its overall strategic objectives, ASTV expects to be viewed as a "benchmark" organization that has been able to demonstrate and capitalize on the benefits of privatisation and flotation on the Tallinn Stock Exchange.

WE EXCEED THE EXPECTATIONS OF OUR





CUSTOMERS, EMPLOYEES AND OWNERS



ON THE PICTURE: KATRIN VAHOPSKI, ANDRES PIKKER, EVELIN MCQUAY, REIGO MAROSOV, TIIT LAUR

TO ACHIEVE CUSTOMER SERVICE EXCELLENCE

I am most glad about the fact that our supporters have not asked us how would they benefit from the programme – support is based on recognition of the idea of social initiative that needs to be promoted in Estonia today.

DAVID REBANE

*Managing Director, the Foundation
Noored Kooli*

Looking from the customer's point of view, I find AS Tallinna Vesi a reliable partner with whom it is easy and pleasant to communicate.

ANTS LAASFELD

*Engineer-Designer for water and sewerage
networks, AS Eesti Projekt*

OUR COMMITMENT TO CUSTOMERS

As a Company we wish to be honest, open and customer focused in all our activities. We believe that all our customers, and those who use our services, should receive levels of service of the highest quality each and every day. In addition, working in cooperation with the City of Tallinn we are committed to giving access to our services to all households and businesses within our services area. AS Tallinna Vesi provides a water supply and wastewater service for over 19,300 customers in Tallinn and its surrounding areas, almost 90% of these are domestic customers and apartment associations (see chart 2). An average person in Tallinn consumes approximately 102 litres of water. Fundamental to customer service excellence is the consistent delivery of a high quality product and service. We have made significant investments in our water and wastewater infrastructure since privatization, investing

YEAR	2003	2004	2005	2006
LITERS PER PERSON PER DAY	103,1	100,6	101,8	101,9

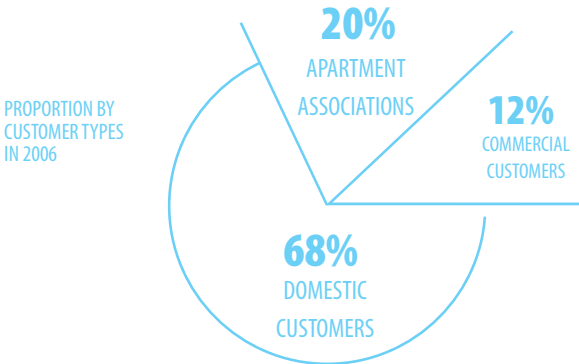
OUR PROMISES- LEVELS OF SERVICE BEYOND THE AGREEMENT

We understand that despite our success so far, we must make an even greater effort to provide a better service.

Based on this notion we developed 22 promises to our customers, valid since 2006, under the heading “Our promises”, which concern the services and everyday communication of the Company.

A PERSON CAN SURVIVE WITHOUT EATING FOR UP TO A MONTH, BUT CAN ONLY SURVIVE WITHOUT WATER FOR A WEEK.

well over 1 billion kroons, with 246m EEK invested in 2006 alone. In addition to these investments we have incorporated “best practice” production and treatment techniques into our daily work. As a result of these improvements we are proud to be able to say that, our customers, the citizens of Tallinn, and three million plus tourists who visit Tallinn each year able to use water and wastewater services that are fully compliant with all EU standards.



Our promises are sacred for us and in case we fail to keep any of Our promises, the customer will receive a momentary compensation for the inconvenience caused. Substantially the promises can be grouped into two main categories:

- promises aimed at maintaining and securing the quality of life, ensuring clean drinkable water is available from the tap, and sewerage is treated in a way that minimises the impact on the environment 24/7 and 365 days a year, and
- promises regarding the timeliness of response and clarity of communication, which demonstrate that in our interactions with customers we adhere to the deadlines recorded in the promises.

Our promises are not part of the Services Agreement concluded with the City nor related to legislative requirements, but, in terms of service, improve on that required from this agreement and the law. Tallinna Vesi is the first Company in Estonia, and possibly in all of the Baltic States, who has made such promises to its customers as a statement of good will. In 2006 thirty six customers received monetary compensation as a result of our failure to fulfil “our promises”. The main failures were related to the timeliness of feedback by phone, informing customers about planned water interruptions and providing a temporary water supply in case an interruption lasts longer than 5 hours.

DEVELOPING OUR CUSTOMER INFORMATION SYSTEMS

In 2006 we significantly developed the Company’s customer information and billing system. The new system replaces the four programmes that were used earlier and enables a more

customer satisfaction survey that would enable the Company to benchmark itself globally against other service providers. The Company has an objective to be the best customer service provider of any utility in the Baltic’s and this would enable us to position ourselves against our peers. At the end of 2006 an independent research company carried out this survey. This included interviews with over 900 customers and end consumers who gave an assessment of the services provided by AS Tallinna Vesi, rating all aspects of our service for quality and importance - the importance questioning will give greater customer focus to the action plans being developed. The strength of the relationship between AS Tallinna Vesi and its customers and end users is high. Using the index developed by the research company we scored 73 for customers and 80 for end users, which, when compared to other global utilities, placed the Company in the top third for customers and top 10% for end users. What the survey clearly demonstrated were the core strengths of our Company, which are the consistent quality of the water and wastewater service provided each day. The areas in which we must focus to move towards becoming a “best in class” service provider were related with eliminating and

WATER IS ALSO IMPORTANT WHEN YOU EAT. FOR EXAMPLE, THE BODY USES AROUND 4 LITRES OF WATER TO DIGEST A HAMBURGER.

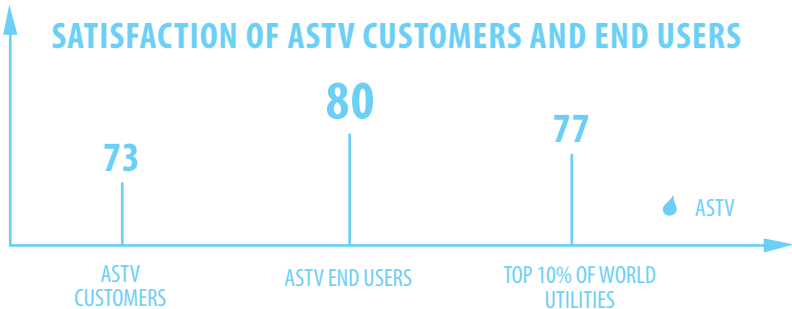
efficient and customer friendly service. As a result of this we can offer our customers a wide range of new options, e.g. web-based self-service, direct debit for payment of bills, e-invoices, automatic reminder systems by e-mail or text message, etc, all of which make the communication and billing quicker and more convenient. Moreover, the system is connected to several national registers and databases, which automatically links information systems and enables us to reply to customer’s inquiries much faster. All in all, the new system significantly improves our customer interaction, which is beneficial for customers and the Company.

CUSTOMER SATISFACTION

As a company we very much value the opinions of all our customers. For that reason we conduct two customer research analyses each year, one to a large sample to quantitatively measure the service and the second to focus on a smaller group with questions more qualitative in nature. In 2006 we took the decision to invest in an independent

flexibility in solving problems, customer communication, web services and the development of the water and sewerage system.

Chart two - Tallinna Vesi 2006 Customer Satisfaction Survey Results compared to the ranking of the top 10% of global utilities



ACCESS TO HIGH QUALITY SERVICES FOR EVERYONE

The Company is progressing with its plans to give more customers access to EU compliant water and wastewater services within Tallinn and the surrounding municipalities.

In 2006, in cooperation with the City of Tallinn a further 461 customers were able to access the sewerage system for the first time as part of the network extensions programme. In addition, due to our work with developers and individual property owners, over 200 new connection points were added into our water and wastewater network. We continue to expand our services to the municipalities close to Tallinn. By the end of 2006 approximately 20,000 people in the areas surrounding the City had their wastewater treated according to EU standards in our Wastewater Treatment Plant in

Haabersti) receive their drinking water from Ülemiste Water Treatment Plant and the remainder of the population from regional bored well pumping stations (the districts of Nõmme, Pirita, Merivälja). During 2006 the Company took approximately three thousand samples from the water network of Tallinn. The samples were analysed in the central laboratory of AS Tallinna Vesi, which since 2001 holds an Estonian Accreditation Centre ISO 17025 compliant accreditation certificate for drinking water, ground water, surface water and wastewater quality analyses.

In 2006 the Company laboratories successfully passed a regular full accreditation process and a new accreditation certificate is valid until 2011. The results of the samples confirmed that the quality of water in Tallinn has increased year-by-year. In 2006, as regards the indicators determined, 100% of microbiological analyses results and 99.55% of the chemical parameters results were compliant with the established requirements. Thus the quality of the water provided from Ülemiste Water Treatment Plant into the network was fully compliant with the regulation in force in

HUMAN BRAIN TISSUE IS 85% WATER. MESSAGES FROM BRAIN TO EVERYWHERE ELSE IN THE BODY ARE TRANSPORTED ON 'WATERWAYS'

Paljassaare. Furthermore, the investments made in our new customer management system have made the connection process quicker and simpler for our new customers.

For each new connection, customers and the Company have a complete overview of the progress at each stage of the connection project which significantly improves the quality of communication and saves time for the customer.

WATER IN TALLINN IS OF HIGH QUALITY

The task of our Company entailing most responsibility is to ensure high quality drinking water for our customers. Over 90% of the residents of Tallinn (the districts of City Centre, Lasnamäe, Muštamäe, Northern Tallinn, Kristiine,

the Republic of Estonia and in the European Union. Water quality compliance with the requirements of the Services Agreement 2001-2006

	COMPLIANCE % OF MICROBIOLOGICAL SAMPLES	COMPLIANCE % OF ALL SAMPLES
2006	100,00%	99,55%
2005	99,93%	99,67%
2004	100,00%	99,04%
2003	99,97%	99,02%
2002	99,88%	99,02%
2001	97,72%	95,10%

INVESTMENTS INTO GUARANTEEING THE QUALITY OF WATER AND WASTE - WATER

The main factors behind achieving the excellent water and wastewater quality results are significant investments and employee commitment. In 2006 we invested 182.8 million kroons into improving the quality of water and wastewater, including 166.2 million kroons for the construction of water and wastewater networks and for the reconstruction of the water network.

We also continued investments into Lake Ülemiste, which is the main source of water supply for Tallinn. In 2006 the construction of shore enforcements and service roads was completed. In total 4 km of existing shore enforcements were reconstructed and 1.1 km of new enforcements

continue in 2007. In the course of the works the canal will be cleaned and dredged, also the facilities connected to the canal and the adjustment devices of Kaunissaare water reservoir will be repaired.

Investments into replacing old pipes and network extensions have also significantly contributed to the improvement in water quality. In 2006 we reconstructed approximately 6.5 km of the water network below the City of Tallinn and constructed 0.8 km of new pipeline. Furthermore, the Company will continue with regular flushing of the City's water network of 900 km, by using the air-scouring method. Each year we flush approximately 200 km of water network this way. As a result of the works carried out for improving the quality of water, the number of customer complaints regarding water quality has reduced by about 50% when compared to 2002 and have been maintained at this lower level.

AS TALLINNA VESI IS THE BIGGEST WATER COMPANY IN ESTONIA, PROVIDING SERVICE TO MORE THAN 400 000 END CUSTOMERS.

were built at a total cost of 3.2 million kroons. The Company maintains a surface water catchment system, consisting of several reservoirs, hydropoints and canals, in order to guarantee the strategic water reserve for the capital.

The most important water conduit in the surface water system is the Pirita – Ülemiste canal, the cleaning of which was initiated last year and shall

WATER QUALITY	2002	2003	2004	2005	2006
Interactions in writing	75	37	59	50	54
incl. written complaints	51	14	16	8	11
TOTAL:	126	51	75	58	65

Customer complaints and written inquiries regarding water quality 2002–2006



VALUING EMPLOYEES

Human Resources in figures:

- 318 EMPLOYEES AS AT 31.12.2006,
- 309 PERMANENT STAFF,
- 9 FIXED-TERM STAFF;
- 24 SEASONAL WORKERS.

RECRUITMENT

RECRUITED STAFF (INCL. EXTERNAL AND INTERNAL)	62
INTERNAL RECRUITMENT (FILLING POSITIONS WITH CANDIDATES FROM INSIDE THE ORGANISATION)	24
EXTERNAL RECRUITMENT	38

EQUALITY

MEN	214
WOMEN	104

SENIOR MANAGEMENT	8
MANAGEMENT (MIDDLE AND FRONTLINE MANAGERS)	30
SPECIALISTS	168
WORKERS	112

EDUCATIONAL STRUCTURE

GRADUATE	106
SECONDARY	98
VOCATIONAL	81
OTHER	33

THANKS TO ITS CHEMICAL CONTENT, WATER IS THE MOST EFFECTIVE LIQUID SOLVENT IN THE WORLD.

LEAVING TURNOVER (PERMANENT STAFF)

RETIREMENT DUE TO AGE	1
RESIGNED	27
OTHER REASONS	26
TOTAL	54

STAFF TRAINING

PARTICIPATION IN TRAINING DAY/PERSON/YEAR	4,55 DAYS
TRAINING COST PER PERSON/ YEAR	3500 EEK

AVERAGE AGE (PERMANENT STAFF ONLY)	45,05
YEARS OF EMPLOYMENT, AVERAGE	12,89

OUR PEOPLE Underpinning the delivery of customer service and operational excellence are well trained and motivated people. Because committed employees are the greatest assets of our Company, great attention should be paid every day in order to retain them.

In 2006 we continued developing the HR programmes launched over previous years and created new programmes, which would support the delivery of the Company's objectives and would provide more opportunities for employees to get involved in the making of decisions regarding their work organisation.

CULTURE AND COMMON VALUES Since 2003 the Company has focused on values based management. In 2006 we continued the service personnel development programme for all

shall continue in 2007 and shall be extended to managers at all levels in order to increase management quality and thus create the preconditions for growing employee commitment.

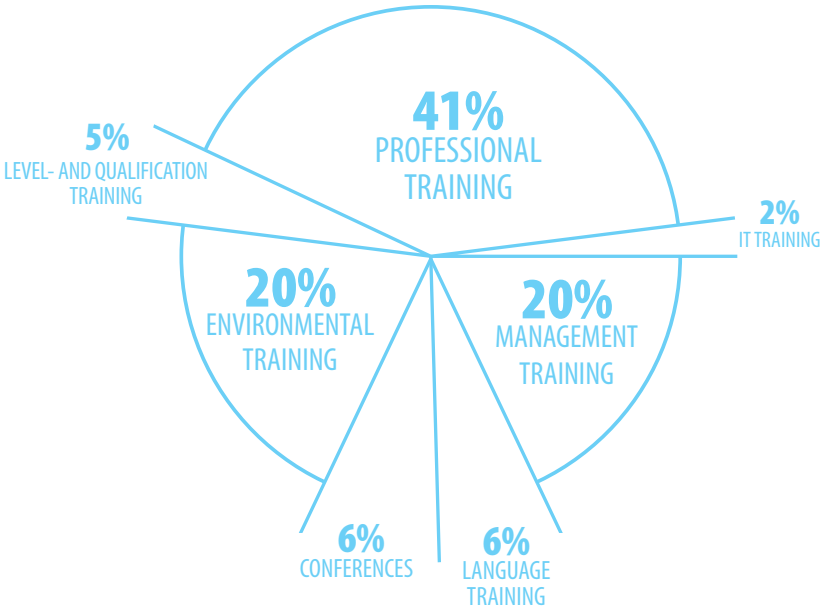
According to the statistics of the trainings in 2006 the participation figures were the highest as regards professional as well as occupational environment and safety training courses. In connection with the launch of the new customer information system we also conducted several training and practice sessions linked to the new work organisation and new work habits.

Moreover, since 2004 our employees have taken part in safe driving courses organised by OÜ Autosõit in slippery road conditions. The reason behind us seeking this type of training was the fact that the employees of our Company need to drive all-year-round.

THE MAJORITY OF THE FRESH WATER FOUND ON THE PLANET IS NOT IN RIVERS AND LAKES, BUT HIDDEN DEEP WITHIN THE EARTH'S CRUST.

employees who play a role in meeting the expectations of our customers. The main focus was on facilitating smooth information exchange between units and intensifying effective cooperation with the purpose of solving customers' problems swiftly and effectively.

Acquiring people development skills, i.e. instructing skills, skills for identifying employees' development needs and for career counselling, skills for acting as a mentor for a new colleague or for employees who have taken new positions within the Company, emerged as the main priority in the managers development programme. This programme, which is targeted at the managers, started with a self-evaluation, to which a 360 degree feedback was added, providing an opportunity for managers to draw up an individual action plan for themselves, which would then form the basis for developing managerial competencies. The development programme



EMPLOYEE OPINION SURVEY

The traditional employee opinion survey carried out at the end of the year gave us feedback regarding employee commitment. This year we introduced some changes to the survey methodology, providing us with an excellent opportunity to compare ourselves to other similar companies both in Estonia and elsewhere in the world. 59% of employees took part in the survey, which is more than in 2005.

Positive trends can be observed in employee satisfaction with their work, with the opportunity to apply their skills and abilities when working and thus develop professionally. The results have dropped as regards movement of work-related information and assessments of fair remuneration levels. On the basis of the survey results we have prepared an action plan for carrying out improvement actions both at Company level as well as at the level of each larger structural unit.

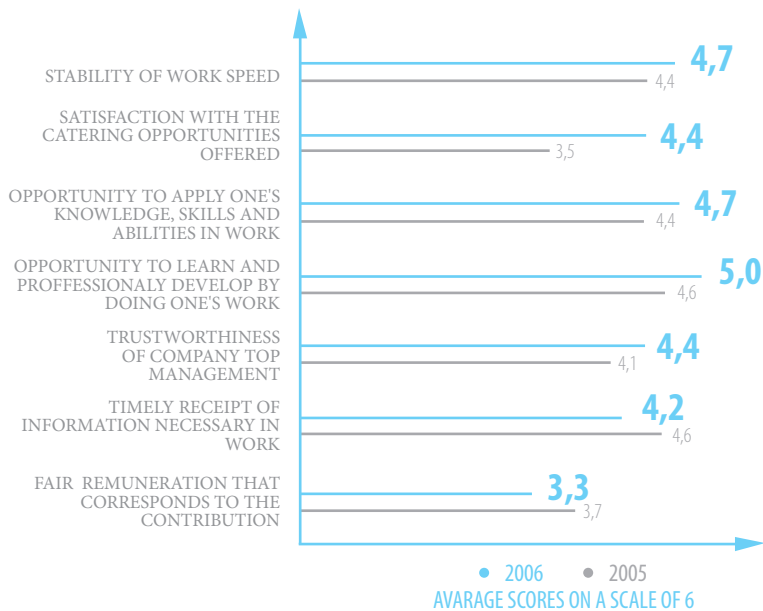
EMPLOYEE INVOLVEMENT

The service conference of the Company at the end of 2006 took place under the title “From Good to Excellent”. This time we took a look at the Company through the eyes of an owner of the Company, the eyes of a customer, the eyes of the City of Tallinn and through the eyes of an employee. The main purpose of the annual service conference is to communicate the Company objectives to each employee and to demonstrate, how they can contribute to the delivery of these objectives with their work.

The service conference of 2005 “You Get What You Give Up: A Recipe For A Happy Employee!” was voted amongst the seven best for content by the Service Deed of the Year 2006 and it was awarded as the most popular among the audience.

In 2006 the Company employees initiated the “Bank of Ideas”, created with the purpose of giving employees an opportunity to propose innovative ideas

HOWEVER THIRSTY YOU FEEL, THE ONSET OF THIRST ONLY MEANS THAT YOUR BODY HAS LOST 1% OF ITS WATER.



for better organisation of work, developing of an environmentally friendly mindset or improvement of the work environment. The majority of the ideas have been approved by the management and have been implemented or will be implemented in 2007 when the HR strategy action plan is put into practice, including, for example, the new recognition system, the new benefits system, new flexible work formats, new remuneration and performance related pay system (partially implemented already in 2006) and innovative events for the employees, etc.

Positive cooperation together with a regular dialogue with the trade union makes it possible to listen to employee proposals and wishes. A whole range of proposals concerning work organization, wages and benefits, professional development and training were included into the HR action plan, which we plan to put into practice in 2007.

COOPERATION WITH PARTNERS

The Company supports financially the retired employees association, which brings together former employees who have an employment history of at least 20 years with the Company. Approximately 10% of them are actively involved in the Company's activities today. Furthermore, the Company cooperates with Tallinn Technical University and Kopli Vocational School in a staff succession programme. This programme ensures an increased professionalism both at the level of specialists and managers in our field of activity.

OUTLOOK FOR 2007 The new HR strategy supports the implementation of the Company's business strategy for the next five years and the delivery of the strategic objectives.

The key areas that we will focus on in 2007 are HR planning, leadership,

YOUTH TO SCHOOL AS Tallinna Vesi supports and actively participates in the Youth to School ("Noored kooli") programme. The objective of the Youth to School programme, initiated by the Good Deed Foundation, is to bring a greater number of active and talented young teachers to Estonian schools over the next years.

The organisers of the programme intend to bring 10 – 15 talented university graduates to schools this year, with an objective to increase this number in the coming years. In the framework of the programme novice teachers are offered innovative teacher training, a leadership training programme and mentoring as well as a support network over two years. Tallinna Vesi supports the programme financially and we also participate actively in the activities of the programme with our specialists counselling the young people in the programme via the leadership training programme and mentoring.

WATER FROM LAKE ÜLEMISTE HAS BEEN USED SINCE 1345 - AN OPEN CHANNEL RAN FROM THE LAKE ALL THE WAY TO HARJU STREET.

performance management, employee development and the establishment of the image of employer.

THE COMMUNITY AND THE COMPANY

Tallinna Vesi is a company that has a very close link to almost a third of the Estonian population, thus we must consider the interests of different stakeholders in everything we do. We are aware that in the longer term our success will depend not only on our business decisions and financial results, but also on the company's wider societal impact. Thus our company pursues the objective of supporting the principles of sustainable development and facilitating economic, social and environmental developments in the Estonian society.

SENSIBLE USE OF NATURAL RESOURCES

We wish to increase the awareness of consumers of the environmental impacts of the wasteful use of natural resources. Due to the nature of our core activities, we focus on water resources and environmentally friendly waste disposal.

In addition to their main tasks of drinking water production and wastewater treatment, Ülemiste Water Treatment Plant and Paljassaare Wastewater Treatment Plant also play the important role of a training institution. Each year the two plants together host about 3500 people on field trips, of whom more than half are schoolchildren and university students. Each year we also introduce municipal or national public servants the Estonian

Water Companies Association and their international cooperation partners to the water and wastewater treatment technologies and processes.

Tallinners have an opportunity to see the operation of the plants during open door days. In 2007, an open door day will be held on May 26th at Paljassaare Wastewater Treatment Plant, followed by the traditional Paljassaare RockFest. Last year the festival was a step of careful probing, however this year we will offer the fans of heavier music true treats arriving, for example, from Italy, Slovakia, Germany and Finland.

A WATER GAME FOR CHILDREN

In order to increase the water-related knowledge of primary school and kindergarten children, we support the creation of a "Water Game" intended for children aged six to nine. The objective of the game is to develop a free interactive learning software package, which helps to raise children's

THE AVERAGE TALLINN RESIDENT USES 102 LITRES OF WATER EVERY DAY, TAKING A BATH TAKES 130 LITRES ON AVERAGE.

environmental awareness and facilitates environmentally friendly behaviour already in the early years of school.

The game makes gaining new knowledge easier for children, since the innovative illustrated learning tool has a significantly stronger impact on children than a text or lecture. The Water Game will result in a student who is more aware and interested in the natural environment surrounding us.

A HEALTHY LIFESTYLE

We attach value to a healthy lifestyle both inside the company as well as in the wider community. The run around the city's main reservoir, i.e. Lake Ülemiste, has become a tradition which we intend to keep going also in the future. The event is popular among Tallinners and one of the underlying reasons for the popularity is perhaps the fact that the beautiful natural territory surrounding the lake is usually closed to the

general public as it is a sanitary protection zone.

We will continue our cooperation with Audentes sports club this year. We wish to contribute to the development of young athletes and provide company employees with an opportunity to enrol their children in training groups. Company employees are able to use two company gyms, a squash court and a basketball/volleyball hall as well as saunas with pools free of charge and a joint sports event is organised on a monthly basis.

SOCIAL RESPONSIBILITY

AS Tallinna Vesi has for a number of years supported the kindergarten Õunake for children with special needs. We support the kindergarten financially and the level of support is directly linked to the level of employee participation in the company employee satisfaction survey. For several years we have used Christmas cards drawn by

Õunake children to send all our Christmas greetings. In addition, we support the summer camp for Riistiku School children and help to fund the non-profit association Victim Help (Ohvriabi).

Not everything, however, can always be translated into kroons or euros. The most important contribution of the Company is to increase employee awareness of their social responsibility and of the opportunities to do something for the people in need. We offer our people the opportunity to take an active approach and help solve the problems appearing in the community.

We wish to be a reliable partner for our customers, investors, employees and the community, publishing information on our activities, financial standing and results on regular basis. We consider it important to be open to proposals, feedback and constructive criticism, as this is the key to understanding of the different stakeholders' expectations towards us.

**WE WILL BE A ROLE MODEL FOR EVERY SERVICE
PROVIDING COMPANY AND EMPLOYER**







**ON THE PICTURE: MEELIS RAIDMAA, HELI VOOGLA,
DAVID HETHERINGTON, JANA KELUS, ELLEN MIHKLEPP, RIHO SOBI**

TO ACHIEVE OPERATIONAL EXCELLENCE

Being in contact with AS Tallinna Vesi one would immediately realise that these people are the best in their field.

DANIEL VAARIK

*Hill & Knowlton Eesti,
Managing Director*

Supporting excellent Customer Service, are activities of production and distribution of drinking water and collection and treatment of wastewater. The water quality produced by the water treatment plant continues to be of high quality. In 2006 compliance in the network with the current standard was 100% for microbiology and an overall compliance of 99.55%. In 2006 the wastewater treatment plant effluent complied with the regulatory requirements for all parameters. The levels of treatment achieved were very high resulting in the amount of Nitrogen and Phosphorus discharged to the Baltic Sea being at their lowest ever levels.

These primary activities are intimately related to the environment; therefore we try to keep the impact of the Company's activity on the environment at a minimum level. We have adjusted our environmental management system with the requirements of the Environmental Management System standard ISO 14001 and European Union Environmental Management and Auditing System EMAS, which help us to solve the environmental issues systematically in all operating areas.

ECONOMIC USE OF WATER RESOURCES

Use of Tallinn's main water resource - Lake Ülemiste - is regulated and in compliance with the permit for the special use of water issued by the Harju County Environmental Service. We constantly monitor the amount of water extracted from the 2000 km² surface water catchment area, in order to

DEEP FROZEN ICE ALLOWS US TO FIND OUT WHAT THE CLIMATE ON EARTH WAS LIKE TENS OF THOUSANDS OF YEARS AGO.

avoid any interference to flora or fauna. In the last years we have used approximately 50% of the amount of water permitted. Beside surface water the economic use of ground water is of great importance. The permit for the special use of water sets a limit of 19 150 m³ of ground water a day that the Company is allowed to use; the actual ground water extraction in 2006 was 6 706 m³/day. The economic use of water resources also means reducing the water loss from the system.

The Company's contractual commitment was to reduce the amount of leakage from the water network by year 2005 by at least 25% in comparison to the water leakages estimated in 1999. This target was first achieved in 2004 and continues to be met. In water networks the normal level of leakages is generally considered to be 15-20% and we as a business invest in renewing and rehabilitating pipes to maintain and improve the levels achieved today.

Level of leakages in 2002–2006

2002	2003	2004	2005	2006
31,64%	29,57%	21,44%	17,95%	19,65%

WASTEWATER REMOVAL NITROGEN PROJECT

In 2006 we completed the biological treatment reconstruction in Paljassaare Wastewater Treatment Plant, as a result of which the amount of nitrogen reaching the Bay of Tallinn was reduced by more than 37.5%, exceeding the 25% target reduction. Reconstruction works and tests took over 3 years and cost 30 million kroons. This resulted in Tallinn being removed from the list of Baltic Sea pollution hotspots, it had been on this list since 1992. We continue to make additional investments as over the last couple of years the pollutant concentrations to be treated at the plant have increased

and new areas connected to Tallinn sewer system increases the amount of wastewater to be treated. We are actively looking for new technologies that would enable us to enhance the wastewater treatment capacity further. For 2007 we have envisaged regular replacement of process equipment and ensuring we have sufficient spare equipment available to continue to treat the wastewater to the required standards at all times.

Wastewater plant efficiency in 2002–2006

YEAR	2002	2003	2004	2005	2006
Total nitrogen %	57,1	56,9	58,5	77,1	78,9

EXTENSION OF COMPOST FIELDS

In 2006, 35 439 tons of sludge was produced as a by-product of wastewater treatment. The Company turned this on its compost fields into a valuable soil conditioner and sold it to companies who provide planting of greenery.

The new areas being connected to the network, the increase of pollution and the achievement of better wastewater standards means that the amount of sludge produced will continue to grow.

We have enhanced our composting capacity already and will complete a major sludge treatment refurbishment in 2007. In total over 19 million kroons will have been spent in 2006 and 2007 extending the compost fields. In addition over 36 million kroons is being spent on the sludge treatment refurbishment.

PREVENTION OF LIVING ENVIRONMENT RISKS

We recognize our responsibility for preserving the living environment and systematically work on reducing the risks. We realize that every prolonged production failure or any ignored work safety requirement may cause serious consequences on human health and the environment. The Company must also be prepared for operating in exceptional weather conditions.

In 2006, the Company invested to prevent dangerous events. The largest projects included the completion of bank enforcement construction on the south and south-west side of Lake Ülemiste, which reduces the risk arising from excessive water levels, and the repair of the service road adjacent to Kurna Wetland. Also, the City of Tallinn approved the initial task for creating a sanitary protection area around Lake Ülemiste and the Company has signed a contract for compiling the sanitary protection area design.

IT IS THOUGHT THAT THE WATER ON EARTH WAS PRODUCED MILLIONS OF YEARS AGO AS A RESULT OF VOLCANIC ERUPTIONS

SAFETY OF WORKING ENVIRONMENT

AS Tallinna Vesi participates in the "Health Promoting Working Places" (HPWP) network project. The aim of this project is to create an effective HPWP network that relies on the five most widespread principles in European occupational health care systems: avoiding health risks and protection of employee's health, adapting working conditions to employee's abilities, health promotion and primary health care. Last year the National Institute for Health Development granted the Company with the certificate "Health Promoting Company 2006 – Tallinna Vesi." The target for year 2007 is to implement work environment related activities that comply with the international standard OHSAS (Occupational Health and Safety Accreditation Scheme). This is a work safety and health care standard that gives directives how to organize and continuously develop and improve the company's work environment related activity.

INVESTMENTS TO INCREASE THE OPERATIONAL RESULTS

In 2006 AS Tallinna Vesi invested 245.9 million kroons, which is considerably more than in 2005. This is the largest investment program in the company's history, the main accent of which was on the continuous improvement of drinking water quality.

To guarantee excellent operational results and deliver robust, reliable and efficient operations the Company plans to invest even more resources in 2007. In addition to the wastewater and sludge treatment investments detailed above, over 68 million kroons will be allocated to maintain and improve the existing water and wastewater network. Extending the network into uncovered areas continues as does the development of the city's storm water system



ON THE PICTURE: VIRGO ROASTO, LEHO VÕRK, ETERI HARRING

TO GROW THE ACTIVITIES OF THE COMPANY

The cooperation between our municipality and AS Tallinna Vesi has been great. AS Tallinna Vesi's extensive experience and knowledge in providing the water supply and wastewater services have helped us to put this area of services into order – the responsibility clearly lies with one provider of the named services, to whom the residents can turn with relevant issues.

MAIT KORNET

*Head of the Economic- and Municipal
Engineering Department, Harku Municipality*



The Company is committed to grow its activity: to increase its turnover without diluting present rates of return. Shareholder value shall be ensured through a more efficient use of all our assets. By making the right investments, building on our relationships and increasing our productivity we can continue to grow our business supplemented by the wider development of the whole region.

THE DEVELOPMENT TRENDS FOR THE PUBLIC WATER SUPPLY AND SEWERAGE NETWORK IN TALLINN AND SURROUNDING AREAS

2005 and 2006 saw rapid growth and changes for the Estonian real estate market and the economy as a whole, which brought along the extension of the main service area of

This will give approximately 4000 new customers access to the sewerage services of the Company and will bring further benefits for the wider environment.

NEW AREAS OUTSIDE OF TALLINN

AS Tallinna Vesi has concluded several contracts with local municipalities for the provision of either water supply and/or sewerage services in the areas surrounding Tallinn.

To provide this service physical connection points have been built at strategic locations at the border with the City which have enabled the municipalities to receive water from the Ülemiste Water Treatment plant and have their wastewater treated at the Paljassaare Wastewater Treatment Plant.

90% OF TALLINN'S RESIDENTS GET THEIR DRINKING WATER FROM LAKE ÜLEMISTE, WHICH HOLDS 17 MILLION CUBIC METRES OF H₂O.

AS Tallinna Vesi at a much higher pace than in previous years.

As a result of this rapid residential development new public water supply and sewerage networks worth approximately 400-500 million kroons have been constructed. Economic development has also contributed to the recovery of industrial activities and business and through this we have seen an increase in business customers and water consumption in Tallinn.

In the medium to long term this pace of growth in the real estate market is unlikely to continue, therefore the Company will improve its cooperation with developers to maximise growth potential whilst actively developing new business areas.

In the medium term the Company will continue to work in partnership with the City of Tallinn to complete the network extension programme.

NEW BUSINESS In addition to targeting growth in volumes of water and wastewater, the company is also actively looking at new opportunities that support the Company's core business.

Bringing new products to the market and starting new profitable business activities enables the Company to grow its turnover and profit. By moving into related business areas synergies can be created with existing areas of activity.

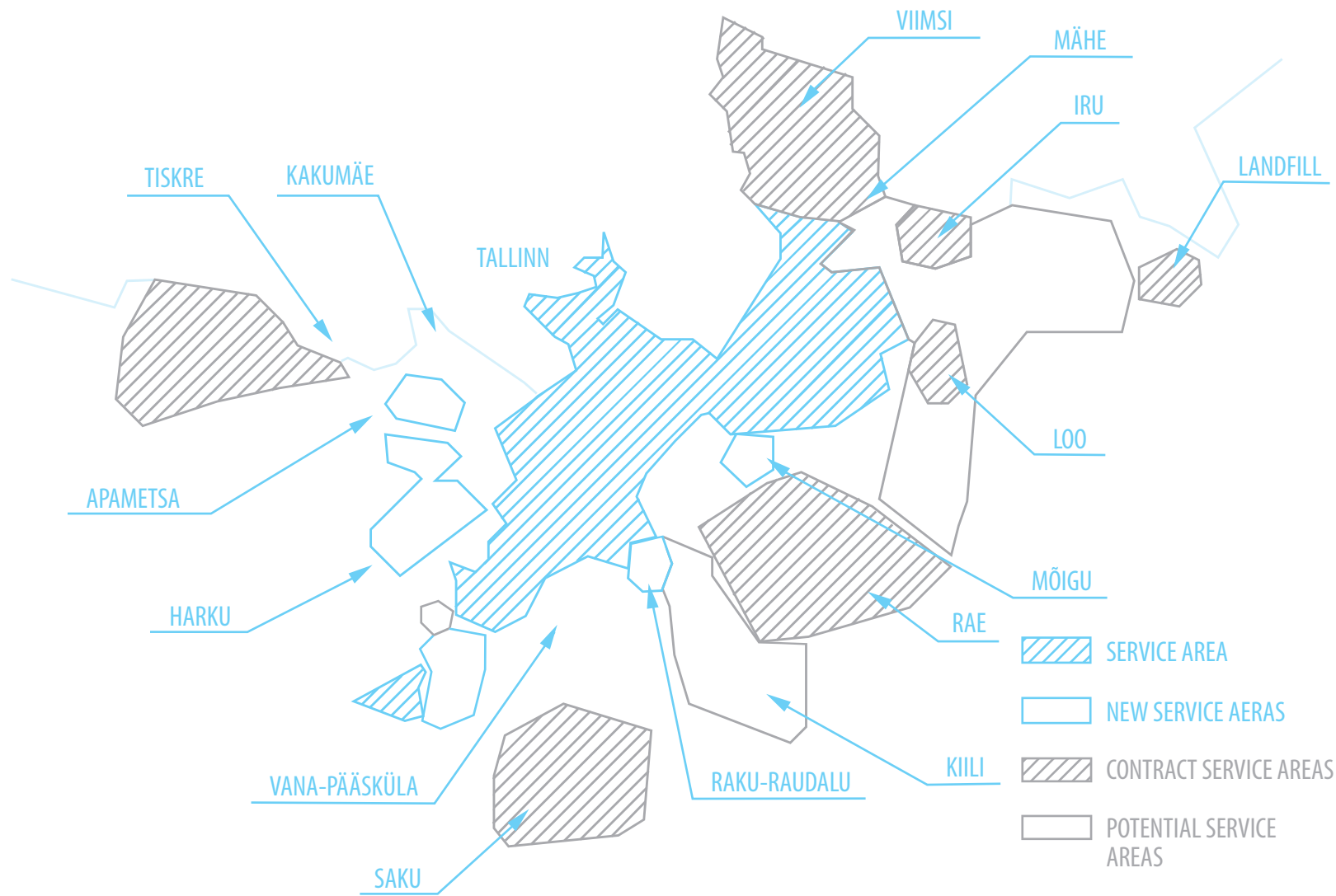
During 2006 AS Tallinna Vesi started working on a number of the potential new business opportunities to be developed in the future. These focus on three specific areas: emergency works – repairing and maintaining the water pipes within a customers' property, a network design service and pipe network construction.

MANAGING WATER AND WASTE WATER SERVICES ELSEWHERE IN ESTONIA

AS Tallinna Vesi has extensive experience of managing water and wastewater services. Within Tallinn the Company provides the full scope of activities of a water business, many of the surrounding municipalities are now taking our EU

compliant water and wastewater service. The Company is managing an improvement programme on behalf of the EBRD for a water company in Tajikistan, plus the close working relationship with United Utilities in the UK.

With this wealth of expertise and experience behind it, the Company has the strength to expand to a wider market in Estonia.





**WE CREATE A BETTER LIFE
WITH PURE WATER!**

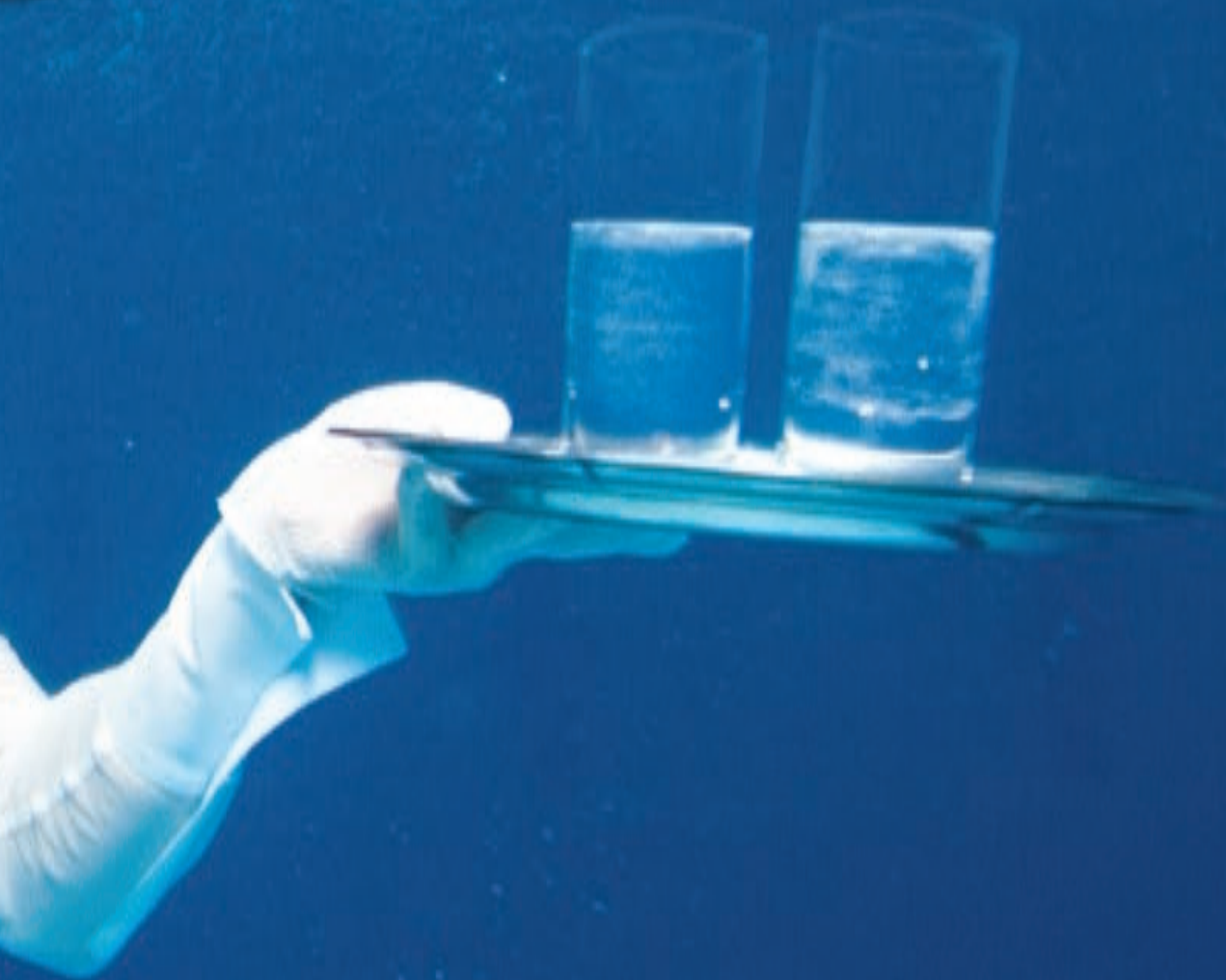


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ON THE PICTURE: MARI METSAR, IAN PLENDERLEITH, TIIT VEEL, SIIRI LAHE, VAINO RÄST, ERIK SUIT

TO DELIVER SHAREHOLDER VALUE

AS Tallinna Vesi was, over a long period of time, the first company to join the premier league of companies in 2005. The Company's courage to go public, providing the investors with the opportunity to take part in its success and adding value to the Estonian stock market, also served as a good example for other companies. Trust of the investors will certainly motivate the management of the Company to make even more efforts for further achievements in the future and thus increase the shareholder value.

KALLEVIKS

OMX / Tallinna Börs
CEO

FINANCIAL HIGHLIGHTS The 2006 financial year was a period of consolidation for AS Tallinna Vesi. After the IPO and listing on the Tallinn Stock Exchange and the re-financing of the Company's long-term debt in 2005 this year was a period in which we concentrated on business fundamentals to build on these past successes. In spite of the challenging inflationary environment AS Tallinna Vesi again managed to meet all its financial targets and grow the business. Sales of water and wastewater were driven higher through geographical expansion. In 2006 another five municipalities commenced long term contracts to receive EU complaint water and wastewater from the Company, with the value of sales to surrounding municipalities growing by 66% year on year.

Within the services area we continued to make significant investments to improve the quality of our products and services. During the year over 246

the Company to offer an expanded range of payment options to our customers, which helped the Company to collect close to 100% of all debt raised during the year.

The dividend declared from 2006 profits is 196 million kroons, which is a 25% increase from that paid from profits generated in 2005 and demonstrates our commitment to delivering dividend growth.

Looking forward to 2007 we believe we have the growth fundamentals in place to enable the Company to progress in spite of the inflationary pressures in the local market place.

The development contracts signed in previous years with the surrounding municipalities will continue to provide extra revenue growth as the domestic and commercial populations rise in these areas. On the cost side,

LAKE ÜLEMISTE IS SUPPLIED WITH WATER FROM THE SURFACE WATER CATCHMENT AREA OF TOTAL 1800 KM².

million kroons was invested in the acquisition of fixed assets, which is the highest amount in the Company's history and a 10% increase year on year.

The company did not make any changes to the structure of its long-term debt levels in 2006. We have reduced our interest rate risk by fixing the interest rate on 50% of the long-term debt with a further 30% in an upper and lower cap swap agreement that limits our exposure to significant rate increases. In 2006 the average interest rate was 4.1% compared to 5% in 2005 demonstrating the benefits of the re-financing carried out in November 2005.

Operating cash flows were once again very strong as a result of the excellent collection policies and procedures we have in place. In 2006 the implementation of the new customer management system allowed

with wage inflation forecast to stay high in 2007, and as interest rates are also forecast to rise the company will face further cost pressures.

The balance sheet remains strong and we do not expect any significant changes to our long-term debt levels or financial structure.

IAN JOHN ALEXANDER PLENDERLETH

*Finantsdirektor
Juhatuseliige*

I. J. A. Plenderleth

DECLARATION OF MANAGEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

The Management Board of AS Tallinna Vesi (hereinafter the Company) hereby declares its responsibility for the preparation of the annual accounts for the financial year ended 31 December 2006.

The annual 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 preparation of the annual accounts according to International Financial Reporting Standards involves estimates made by the Management Board

of the Company's assets and liabilities as at 31 December 2006, and of income and expenses during the financial year.

These estimates are based on current information about AS Tallinna Vesi and consider all plans and risks as at 31 December 2006. The actual results of these business transactions recorded may differ from such estimates.

Any subsequent events that materially affect the valuation of assets and liabilities until the preparation of the annual accounts as at 15 February 2007 have been assessed as part of this review. The Management Board considers AS Tallinna Vesi to be a going concern entity.

TALLINNA VESI OPERATES MORE THAN 2000 KM OF WATER, SEWERAGE AND STORM WATER PIPELINES IN THE CITY OF TALLINN.

NAME	POSITION	SIGNATURE
ROCH JEAN GUY ANTOINE CHÉROUX	Chairman of the Management Board	
DAVID NIGEL HETHERINGTON	Member of the Management Board	
IAN JOHN ALEXANDER PLENDERLEITH	Member of the Management Board	

BALANCE SHEETS

AT 31 DECEMBER 2006 AND 2005

ASSETS	NOTE	2006	2005
CURRENT ASSETS			
Cash at bank and in hand	2	249 413	207 067
Customer receivables	3	71 490	66 737
Accrued income and prepaid expenses	4	4 756	5 286
Inventories	5	3 142	3 156
Assets for sale	6	1 648	1 390
TOTAL CURRENT ASSETS		330 449	283 636
NON-CURRENT ASSETS			
Tangible assets	7	1 877 105	1 838 528
Intangible assets	7	52 595	43 981
Unfinished assets - non connections	7	91 676	94 793
Unfinished pipelines - new connections	7	117 162	109 190
Prepayments for fixed assets	7	2 795	3 479
TOTAL NON-CURRENT ASSETS		2 141 333	2 089 971
TOTAL ASSETS		2 471 782	2 373 607
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Current portion of long-term borrowings	8	473	1 340
Trade and other payables	9	85 250	53 507
Taxes payable	10	30 508	22 724
Short-term provisions	11	538	289
Deferred income	12	36 325	68 569
TOTAL CURRENT LIABILITIES		153 094	146 429
NON-CURRENT LIABILITIES			
Borrowings	8	1 166 098	1 165 634
Other payables	9	100	100
TOTAL NON-CURRENT LIABILITIES		1 166 198	1 165 734
TOTAL LIABILITIES		1 319 292	1 312 163
EQUITY			
Share capital	13	200 001	200 001
Share premium		387 000	387 000
Statutory legal reserve		20 000	20 000
Accumulated profit		297 443	280 089
Net profit for the period		248 046	174 354
TOTAL EQUITY		1 152 490	1 061 444
TOTAL LIABILITIES AND EQUITY		2 471 782	2 373 607

INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

	NOTE	2006	2005
Sales from main operating activities	14	589 176	549 918
Revenues from other operating activities	14	104 048	42 111
NET SALES		693 224	592 029
Costs of goods sold (main operating activities)	15,16	-220 537	-202 055
Costs of goods sold (other operating activities)	16	-97 096	-38 338
GROSS PROFIT		375 591	351 636
Marketing expenses	15,16	-9 578	-6 778
General administration expenses	15,16	-51 319	-64 257
Other income/ expenses (-)	16	23 229	1 959
OPERATING PROFIT		337 923	282 560
Financial income / expenses (-)	17	-42 981	-72 838
PROFIT BEFORE TAXES		294 942	209 722
Income tax on dividends	18	-46 896	-35 368
NET PROFIT FOR THE PERIOD		248 046	174 354
Attributable to:			
Equity holders of A-shares		248 036	174 344
B-share holder		10	10
Earnings per share in kroons	19	12,40	8,72

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

	SHARE CAPITAL	SHARE PREMIUM	STATUTORY LEGAL RESERVE	ACCUMULATED PROFIT	NET PROFIT	TOTAL EQUITY
31. DECEMBER 2004	200 001	387 000	93 394	145 734	172 961	999 090
Transfer of financial year profit to the accumulated profit	0	0	0	172 961	-172 961	0
Transfer of statutory legal reserve to the accumulated profit	0	0	-73 394	73 394	0	0
Dividends	0	0	0	-112 000	0	-112 000
Net profit of the financial year	0	0	0	0	174 354	174 354
31. DECEMBER 2005	200 001	387 000	20 000	280 089	174 354	1 061 444
Transfer of financial year profit to the accumulated profit	0	0	0	174 354	-174 354	0
Dividends	0	0	0	-157 000	0	-157 000
Net profit of the financial 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

CASH FLOW STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

	NOTE	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		337 923	282 560
Adjustment for depreciation	16	81 047	78 741
Adjustment for income and expenses from constructions	20A	-6 952	-3 773
Other financial income and expenses		-536	-20 012
Profit from sale of fixed assets		-24 917	-11 870
Expensed fixed assets		1 106	394
Capitalization of operating expenses	20C	-20 921	-23 280
Change in current assets involved in operating activities	20B	-4 142	57 754
Change in liabilities involved in operating activities	20B	5 994	6 414
Interest paid		-48 051	-59 854
Total cash flow from operating activities		320 551	307 074
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of fixed assets (incl pipelines construction)	20C	-192 048	-199 875
Proceeds from pipelines financed by construction income	20A	112 662	52 494
Proceeds from sale of and prepayments received/ repaid for fixed assets		-1 293	47 345
Proceeds from sale of assets for sale and of real estate investments		1 107	11 700
Interest received		6 545	5 067
Total cash flow used in investing activities		-73 027	-83 269
CASH FLOWS FROM FINANCING ACTIVITIES			
Received long-term loans	8	0	696 318
Repayment of long-term loans	8	0	-664 981
Finance lease payments	8	-1 282	-1 707
Dividends paid	18	-157 000	-112 000
Income tax on dividends	18	-46 896	-35 368
Total cash flow used in financing activities		-205 178	-117 738
Change in cash and bank accounts		42 346	106 067
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD		207 067	101 000
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	2	249 413	207 067

NOTES TO THE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 1. ACCOUNTING PRINCIPLES

The annual accounts for the financial year 2006 (hereinafter financial statements) have been prepared according to International Financial Reporting Standards (hereinafter IFRS) as adopted by the European Union.

IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB), except for certain hedge accounting requirements under IAS 39 which have not been endorsed by the EU. The Company has determined that the unendorsed

- IFRS 7 'Financial Instruments: Disclosures' shall be applied to the annual periods beginning on or after 1 January 2007;
- IFRS 8 'Operating segments' shall be applied to the annual periods beginning on or after 1 January 2009;
- IFRS 7 'Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Environments' shall be applied to the annual periods beginning on or after 1 March 2006;
- IFRS 8 'Scope of IFRS 2' shall be applied to the annual periods beginning on or after 1 May 2006;

WATER COVERS AROUND 70% OF THE EARTH'S SURFACE AND TOTAL WATER RESOURCE IS ESTIMATED TO BE 1.4 BILLION KM³.

hedge accounting requirements under IAS 39 would not impact the financial statements had they been endorsed by the EU at the balance sheet date. IFRIC 4 'Determining whether an Arrangement Contains a Lease' is the only new standard or an interpretation of a standard which became effective from 1 January 2006 and is applicable to the Company. The IFRIC 4 has been adopted in the preparation of the statements without any impact on the accounting principles and financial statements.

At the time of preparing the current financial statements, the following new IFRS standards and interpretations have been issued, which shall be mandatory for the Company's financial statements prepared for accounting periods beginning on or after 1 January 2007:

- IFRS 9 'Reassessment of Embedded Derivatives' shall be applied to the annual periods beginning on or after 1 June 2006;
- IFRS 10 'Interim Financial Reporting and Impairment' shall be applied to the annual periods beginning on or 1 January 2007;
- IFRS 11 'IFRS 2 on Group and treasury shares transactions' shall be applied to the annual periods beginning on or after 1 March 2007;
- IFRS 12 'Service concession arrangements' shall be applied to the annual periods beginning on or after 1 January 2008.

IFRS 8, IFRIC 10, IFRIC 11 and IFRIC 12 have not yet been endorsed for use in the EU, however endorsement is expected by the time the standards and interpretations become effective. Based on management's best estimate the implementation of the standards or interpretations mentioned above will not have an impact on the Company's financial statements in the future.

The functional currency of the Company is Estonian kroon. The financial statements are prepared in Estonian kroons (kroons) rounded to the nearest thousand, unless otherwise indicated. The financial statements have been prepared on a historical cost accounting basis, unless specified otherwise. Initial acquisition cost includes all costs directly related to the acquisition of the asset or liability.

The financial statements do not include the segment reporting as there are no geographical segments and no clearly distinguished business segments

- Management has estimated the useful lifetime of property, plant and equipment and intangible assets. The results of the estimates are disclosed in the section 'Tangible and intangible fixed assets' below, and the information about the carrying amounts is disclosed in note 7 to the financial statements.
- The Company has made a specific tax accrual for pollution taxes foregone. As the decision to exempt the Company from payment of these taxes has not yet been received from the Ministry of Environment the management of the Company has made the decision not to release the accrual (see the details in note 10). Exemption from payment of these taxes in 2007 would decrease the Company's liabilities by 13 million kroons and respectively would increase net profit.

EARTH ISN'T THE ONLY PLANET ON WHICH WATER CAN BE FOUND: IT HAS ALSO BEEN DISCOVERED FROM THE MARS SURFACE.

related to the activities of the Company.

The main accounting principles applied in the preparation of the financial statements are detailed below.

CRITICAL ACCOUNTING ESTIMATES

Management has made an assessment of the key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year. The most important areas of estimates contained in the financial statements are the following:

FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are recorded on the basis of the foreign currency exchange rates of the Bank of Estonia at the date of the transaction. Monetary assets and liabilities recorded in foreign currencies in the financial statements have been converted into Estonian kroons based on foreign currency exchange rates valid at the Balance Sheet date. Profits and losses due to exchange rate changes are aggregated and shown in the Income Statement. Gains and losses from foreign currency transactions are recorded in the Income Statement on net basis.

FINANCIAL ASSETS AND LIABILITIES

Financial assets are cash, trade receivables, accrued income, other current and long-term receivables including the derivatives with positive value. Financial liabilities are accounts payable, accrued expenses, other current and long-term liabilities including the derivatives with negative value. Financial assets and liabilities are recognized at acquisition cost, which is assumed to be a fair value paid for or gained from that asset or liability.

Financial assets and liabilities are recorded in the Balance Sheet when the Company acquires ownership according to the financial asset or liability contract conditions.

Loans are recorded at the value of the proceeds received, net of direct transaction costs, which are accounted for on an accruals basis

CASH AND CASH EQUIVALENTS

Cash and cash equivalents within the Balance Sheet and the Cash Flow Statement comprise of cash held on the Company premises, cash in bank accounts and short-term, risk free, liquid bank deposits convertible into cash within a three month period without penalty.

RECEIVABLES Receivables are presented using the amortized cost method. Provisions for accounts receivable that are considered to be doubtful are recorded in the Income Statement under 'Other income/ expenses(-)' and a respective allowance is recorded on the Balance Sheet line 'Customer receivables'.

Accounts receivable from previous periods that were recorded as doubtful, but that were received during the year, are recorded on the same expense

97.2% OF THE EARTH'S WATER IS FOUND IN OUR FIVE OCEANS. 90% OF ALL FRESH WATER IS FROZEN IN THE GLACIERS OF ANTARCTICA.

proportionally to the income statement during the loan agreement validity period. As the transaction costs have been considered immaterial compared to the loans received, no effective interest method is implemented.

Interest income and expenses are recorded on an accrual basis using the effective interest rate on line 'Financial income/expenses' in the Income Statement.

The interest rate swap is initially recognised at fair value at the date the interest rate swap is entered into and is subsequently remeasured to its fair value at each balance sheet date. The resulting gain or loss is recognised as a profit or loss immediately. The fair value of the swap is recorded either in current assets or in current liabilities depending on the swap's positive or negative value.

account as a reverse entry. Receivables which cannot be collected, or the collection is considered to be economically not justified, are evaluated as un-collectible and written-off from the Balance Sheet.

For the evaluation of doubtful debts the individual debts are grouped by age and, based on past experience, the following percentages are applied in the doubtful debt calculation:

61 TO 90 DAYS	10%;
91 TO 180 DAYS	30%;
181 TO 360 DAYS	70%;
OVER 360 DAYS	100%.

INVENTORIES Raw materials and spare parts are recorded at acquisition cost, which consists of purchase price, non-recoverable taxes, freight costs and other direct costs, less discounts and subsidies received. Any inventories received at nil cost are recorded at zero value.

Inventories are recorded on the Balance Sheet at the lower of acquisition cost and net realizable value with any impairment recorded in the Income Statement to 'Other income/ expenses(-)'. The acquisition cost of inventories is accounted for by using weighted average acquisition cost method.

ASSETS FOR SALE The land and buildings held for sale in the ordinary course of business are classified as assets for sale, as management has made the sale

TANGIBLE AND INTANGIBLE FIXED ASSETS Fixed assets are the assets used for production, services or administration purposes that have a minimum useful lifetime of 1 year and with an acquisition value exceeding 10 thousand kroons. Assets that have a value less than this are only accounted as fixed assets if the item is an essential part of fixed asset or if the expected useful lifetime is considerably longer than 1 year and the asset has an important role in the provision of key business process (for example the water meters used to measure consumption).

Before 2006 the minimum value of a fixed asset was 2 thousand kroons. As a result of the increase in the minimum acquisition value to 10 thousand kroons, additional depreciation of 522 thousand kroons was expensed to the profit and loss account with respect to assets capitalised in prior years.

AROUND 100 PEOPLE HAVE ALREADY BEEN SHOT INTO SPACE, BUT ONLY TWO HAVE EVER TRAVELLED TO TRUE DEPTHS OF OUR OCEANS.

decision and will endeavour to make every effort to do so during the next financial year.

Assets for sale are measured at cost. For assets for sale the depreciation is stopped after the decision is taken to move the assets to the assets for sale group.

The initial acquisition value of these assets was 1 465 thousand kroons. The additional depreciation for the year is recorded mainly within 'Cost of goods sold (main operating activities)'.

Fixed assets are recorded at acquisition cost, which comprises of purchase price, non-recoverable taxes and all other direct costs required to take the fixed asset object into operation, including directly related internal labour costs. Capitalisation of internal labour costs is based on hours worked on the acquisition of asset. In addition to salary costs all other employee related costs are capitalized in the same proportion.

Unfinished pipelines – new connections include the costs of acquiring water or sewerage pipelines. After completion of construction and the concluding of the connection contracts with customers the costs related

to the acquisition of these pipelines are recorded within costs of goods sold to ensure the correct matching of revenues and expenses in the same accounting period. Remaining expenses relating to the construction, that are not directly compensated to the Company, are recorded within the Balance Sheet as ‘Tangible assets’.

Depreciation is calculated on a straight-line method. The depreciation rate of each fixed asset is based on the fixed asset’s useful life, using the following rates:

• BUILDINGS	1,25-2,0 % PER ANNUM;
• FACILITIES	1,0-8,33 % PER ANNUM;
• MACHINERY AND EQUIPMENT	3,33-50 % PER ANNUM;
• INSTRUMENTS, FACILITIES ETC	10-20 % PER ANNUM;
• INTANGIBLE ASSETS	10-33 % PER ANNUM.

Land is not depreciated.

Improvements to fixed assets are capitalised if the properties of that asset are improved substantially or, as a result of the improvement, the useful life of the asset will be extended, or it is foreseen that additional future revenues will result. Maintenance and repair works are expensed in the period incurred.

All costs of identifiable and controllable development projects which are likely to earn future revenues, and the acquisition costs of computer software are capitalised as intangible assets on the Balance Sheet and amortised on a straight-line basis for a period of up to 10 years. If the software is necessary to take computer hardware into use, the acquisition cost of such software is capitalised in the acquisition cost of the hardware and depreciated according to the useful life of the hardware. Research costs are expensed.

HIPPOCRATES, (THE FATHER OF MODERN MEDICINE) TAUGHT PEOPLE TO PURIFY WATER BEFORE DRINKING, BY BOILING AND STRAINING IT.

In exceptional circumstances rates may differ from the above rates if it is evident that the useful lifetime of the asset varies materially from the rate assigned to the respective category.

Depreciation and amortisation of fixed assets are recorded in the Income Statement according to the business’ use of the relevant asset, i.e. in ‘Cost of goods sold (main operating activities)’ or in ‘Marketing expenses’ or in ‘General administration expenses’.

Prepayments for fixed assets and construction-in-process, including unfinished pipelines – new connections, are recorded as fixed assets and are not depreciated.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

At each balance sheet date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Individual assets with no realization value are removed from operations and the net balance sheet value is recorded in the Income Statement to the lines ‘Costs of goods sold – main operating activities’, ‘Marketing expenses’ or ‘General administration expenses’ depending on purpose of asset usage before the impairment.

LIABILITIES Liabilities with payment terms of more than one year after the balance sheet date are considered to be long-term liabilities. All other liabilities are considered to be short-term liabilities. No long-term employee benefit schemes are applicable to the Company. The company has made an internal decision to pay bonuses to the employees based on the accounting year results of the company and other individual performance criteria. The expected cost is recorded on the Income Statement as an expense and on the Balance Sheet as a short-term liability. As profits are not taxable in Estonia no deferred tax liabilities are applicable. Taxation is described more thoroughly in notes 10 and 22.

PROVISIONS Legal or contractual liabilities which have arisen during the financial year or previous periods, which are reasonably expected to result in abandoning the asset and result in costs that can be reliably measured at any point in the future,

ACCOUNTING FOR LEASES Lease contracts are considered as finance leases if all relevant risks and benefits with reference to the ownership of the asset are borne by the lessee, otherwise the lease contract is considered as an operating lease. Operating lease payments are recorded as an expense during the period incurred i.e. the asset is neither recorded as a fixed asset nor is it depreciated.

Assets acquired under a finance lease and finance lease liabilities are recognised on the balance sheet of the lessee. If ownership is expected to be transferred to the lessee, depreciation is calculated in the usual manner.

REVENUES Sales revenue is recorded on an accrual basis at the fair value received or receivable. Sales comprises of the income received from goods and services sold after the deduction of sales discounts.

AROUND 70% OF THE HUMAN BODY IS MADE UP OF WATER, WHICH IS WHY IT NEEDS BETWEEN 1,5 AND 2 LITRES OF WATER A DAY.

but the final cost or term of payment is not firmly fixed, and the expected loss from the liquidation of financial assets existing independently of the Company's future actions, are accounted for as provisions. Provisions for losses are recorded using the best evaluations made by the management of the Company. The final costs of such transactions may differ from these estimates. Contingent liabilities are not recognised on the balance sheet. The Company had no known contingent liabilities at the time of the preparation of the financial statements.

RESERVES Statutory legal reserve is recorded based upon the requirements of the Commercial Code and comprises of the allocations made from net profits. The annual allocation must be at least 5% of the approved net profit of the financial year until the statutory legal reserve is equal to 10% of share capital.

Sales income from goods is recorded in the period when all material risks and benefits related to the ownership have been delivered to the purchaser, the proceeds from the sale of goods is probable and the revenue and the costs related to the goods are reliably identified. Sales income from services is recorded in the period when the service has been provided, the proceeds from the provision of the service is probable and the revenue and the costs related to the provision of the service are reliably identified.

Connections revenue is recorded when construction is completed and the connection contract is concluded, ensuring the correct matching of revenues and expenses in the same accounting period. If the construction works of new connections is not compensated by the property owner and takes place in a different accounting period from the connection contract completion date, then the revenue and costs are booked in the accounting period when compensation confirmation is received.

NOTE 2. CASH AND CASH EQUIVALENTS

	2006	2005
Cash and bank accounts	17 227	46 822
Short-term deposits	232 186	160 245
TOTAL CASH AND CASH EQUIVALENTS	249 413	207 067

NOTE 3. CUSTOMER RECEIVABLES

	2006	2005
Accounts receivable	76 693	74 133
Allowance for doubtful debts	-5 203	-7 396
Total customer receivables	71 490	66 737
Impairment costs of receivables:		
Write off of uncollectible receivables	-607	-1 074
Proceeds from uncollectible receivables	9	216
Change in allowance for doubtful debts	2 193	343

NOTE 4. ACCRUED INCOME AND PREPAID EXPENSES

	2006	2005
Fair value of interest rate swap	436	0
Accrued interest	226	173
Other accrued income	200	20
Prepaid taxes	263	1 105
Other prepaid expenses	3 631	3 988
TOTAL ACCRUED INCOME AND PREPAID EXPENSES	4 756	5 286

NOTE 5. INVENTORIES Inventories consist of raw materials and are shown net of provisions for obsolete assets. Old raw materials with a nature and value only specific to the Company are considered obsolete, subject to the assumption that management has made all reasonable efforts to sell the unnecessary assets during the year. The most likely outcome for the majority of these assets is treatment as scrap with no material revenue to

the Company. These items have been fully provided in the accounts in 2005 in the amount of 222 thousand kroons. Any subsequent revenues received on the sale of these assets have been immaterial in value and have been offset against the value written off. In 2006 previously discounted materials were used, utilized and sold without profit and therefore there was no need for additional discount.

NOTE 6. ASSETS FOR SALE

	2006	2005
Assets for sale	750	494
Prepayments for the land related to the assets for sale	898	896
TOTAL ASSETS FOR SALE	1 648	1 390

NOTE 7. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS

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

Fixed assets are written off if the condition of the asset does not enable further usage for production purposes.
For the year ended 31 December the net balance sheet value of finance leases was 2 448 thousand kroons for 2006 and 4 283 thousand kroons for 2005.
Interest capitalised to fixed assets was 1 075 thousand kroons in 2005.

NOTE 8. SHORT-TERM AND LONG-TERM BORROWINGS

The Company's short-term and long-term debt obligations as of 31.12.2006 and the changes recorded during 2006 in the respective debts were as follows:

BANK LOANS	LOAN DATE	LOAN RECEIVED	RESIDUAL AMOUNT 31.12.2005	REPAYMENTS DURING 2006	RESIDUAL AMOUNT 31.12.2006	SHORT-TERM PORTION	LONG-TERM PORTION	INTEREST RATE %	MATURITY DATE
EBRD	12.2002	586 747	586 747	0	586 747	0	586 747	4,67	05.2015
EBRD loan costs	12.2002	-17 404	-7 985	848	-7 137	0	-7 137		05.2015
Nordea Bank	11.2005	586 747	586 747	0	586 747	0	586 747	6 kuu Euribor + 0,24	11.2015
Nordea Bank loan costs	11.2005	-290	-290	31	-259	0	-259		11.2015
TOTAL BANK LOANS		1 155 800	1 165 219	879	1 166 098	0	1 166 098		
FINANCE LEASE		15 905	1 755	-1 282	473	473	0	4,5 - 8,63	06.2007
TOTAL BORROWINGS		1 171 705	1 166 974	-403	1 166 571	473	1 166 098		

All short-term debts are recorded on the 'Balance sheet line 'Current portion of long term borrowings'.
The long-term part of the finance lease and loans are respectively recorded on the 'Balance sheet lines 'Borrowings'.
The collaterals of the loans are indicated in Note 23.

Name	Repayments period
EBRD	Loan repayments start in 2008. The repayments will be made twice a year in May and November in accordance with the repayment terms agreed in the loan agreement.
Nordea Bank	Loan repayments start in 2011. The repayments will be made twice a year in May and November in accordance with the repayment terms agreed in the loan agreement.
Finance lease	Repayments on a monthly or quarterly basis in accordance with the contracts.

The repayments, by due dates, are as follows:

	Less than 1 year	1-5 years	Over 5 years	Total	Repayment period
EBRD	0	377 195	209 552	586 747	8 years
Nordea Bank	0	234 699	352 048	586 747	8 years
Finance lease	473	0	0	473	0,5 years
TOTAL	473	611 894	561 600	1 173 967	

NOTE 9. TRADE AND OTHER PAYABLES

LIABILITIES	BALANCE AMOUNT 31.12.2005	BALANCE AMOUNT 31.12.2006	SHORT-TERM PORTION 31.12.2006	LONG-TERM PORTION 31.12.2006	MATURITY DATE
Accounts payable - operating expenditures	15 984	15 476	15 476	0	kuni 31.12.2007
Accounts payable - capital expenditures	19 318	52 555	52 555	0	kuni 31.12.2007
Factoring	0	270	270	0	kuni 31.12.2007
Payables to related parties	2 423	2 176	2 176	0	kuni 31.12.2007
Payables to employees	11 597	10 034	10 034	0	kuni 31.12.2007
Interest payable	4 131	4 681	4 681	0	kuni 31.12.2007
Other accrued expenses	54	58	58	0	kuni 31.12.2007
Long-term guarantee deposit*	100	100	0	100	04.2102
TOTAL	53 607	85 350	85 250	100	

NOTE 10. TAXES PAYABLE

	31.12.2006	31.12.2005	MOST COMMON TAX RATES
Income tax	1 719	1 515	23% (2005: 24%)
VAT	5 877	4 588	18%
Water usage tax	2 523	2 333	0,35 - 0,72 kr/m ³ (2005: 0,33 - 0,66 kr/m ³)
Pollution taxes*	16 558	11 259	3 409 - 21 540 kr/t (2005: 3 409 - 10 766 kr/t)
Social security tax	3 398	2 859	33%
Other	433	170	0,03 -23%
TOTAL	30 508	22 724	

* Within pollution taxes is an accrual for 13.3 mln kroons. This accrual is recorded in order to cover the full value of the taxes that the Company has been exempted up to 31 December 2006. This relates to tax on Nitrogen waived by the Ministry of the Environment in return for the upgrade of the Waste Water Treatment Works. At this moment in time the Company has not received a reply to the final report of Nitrogen removal improvement project from the Ministry of the Enviroment, therefore a liability has been recorded.

NOTE 11. SHORT-TERM PROVISIONS

Provisions include an estimate of the value of servitudes

	2006	2005
Servitudes	538	289

According to the management estimate there are no ongoing courtcase which will cause any extra cost that would need to be recorded as a provision or off-balance sheet liability. The provision recorded for servitudes is the management estimate of the expected cost of potential future payments to private land owners whose use of land has been restricted as a result of the Company's pipelines laid on their land.

NOTE 12. DEFERRED INCOME

	2006	2005
Operating revenues incl connection revenues	32 725	22 969
Prepayments for sale of fixed assets*	3 600	45 600
Total deferred income	36 325	68 569

*The Company received prepayments based on pre-agreements concluded for the sale of fixed assets, including properties. The actual revenue from the sales may vary depending upon the final agreements.

NOTE 13. SHARE CAPITAL At 31 December 2006 the nominal value of the share capital is 200 001 000 (two hundred million one thousand) kroons, composed of 20 000 000 shares with nominal value of 10 kroons per share (A-share) and one preferred share with a nominal value of 1 000 kroons (B-share).

One B-share has been issued giving the right of veto to the shareholder when voting on the following issues: change in statute, increase and decrease of share capital, issuance of replacement bonds, termination of Company activities, joining, sharing and rearrangements, acquisition of own shares and, on demand of management or supervisory board, deciding other issues related to the activities of the Company that have not been placed in the sole competence of the General Meeting by law. The B-share grants the holder the preferential right to receive a dividend in an agreed sum of 10 thousand kroons. At the beginning of 2005 United

Utilities (Tallinn) B.V. owned 10 086 957 (50,4%) A- shares and the City of Tallinn owned 9 913 043 A-shares (49,6%) and 1 B- share. In May 2005 an initial public offering (hereinafter IPO) took place, with the existing shareholders selling down total 6 000 000 shares in direct proportion to their original shareholding.

The shares of the Company were listed on the Tallinn Stock Exchange on 1 June 2005. As of 31.12.2006 United Utilities (Tallinn) B.V. owns 7 060 870 (35,3%) A- shares, the City of Tallinn owns 6 939 130 (34,7%) A- shares, with 6 000 000 shares in free float. Morgan Stanley + Co International Equity customers owned 1 374 533 (6,87%) shares and Citigroup Global Markets Ltd. Owned 1 000 000 (5%) as of 31.12.2005. Other shareholders owned less than 5% of the shares as of 31.12.2006. From Supervisory and Management Board members only Ian John Alexander Plenderleith and Roch Jean Guy Antoine Chéroux owned 110 and 262 shares respectively, both proportion in shareholding was approximately 0 as of 31.12.2006.

NOTE 14. NET SALES

REVENUES FROM MAIN OPERATING ACTIVITIES	2006	2005
Water supply service	289 250	262 693
Waste water disposal service	259 727	232 852
Stormwater treatment and disposal service	30 052	46 574
Fire hydrants service	3 007	2 040
Other works and services	7 140	5 759
Total revenues from main operating activities	589 176	549 918
REVENUES FROM OTHER OPERATING ACTIVITIES		
Water, sewerage and storm water connections construction income	104 048	42 111
TOTAL NET SALES	693 224	592 029

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

NOTE 15. PERSONNEL EXPENSES

	2006	2005
Salaries and wages	-50 532	-52 949
Social security taxation	-16 832	-17 739
STAFF COSTS TOTAL	-67 364	-70 688
AVERAGE NUMBER OF EMPLOYEES DURING THE REPORTING PERIOD	322	337

NOTE 16. COSTS AND EXPENSES

	2006	2005
COST OF GOODS SOLD		
Tax on special use of water	-10 050	-9 049
Chemicals	-20 638	-13 477
Electricity	-24 594	-23 628
Pollution tax	-11 988	-6 905
Staff costs	-46 521	-45 692
Research & development	-129	-186
Depreciation and amortization	-73 278	-73 582
Other costs of goods sold	-33 339	-29 536
TOTAL COST OF GOODS SOLD	-220 537	-202 055
COST OF GOODS SOLD (OTHER OPERATING ACTIVITIES)		
Water, sewerage and storm water connections construction cost	-97 096	-38 338
MARKETING EXPENSES		
Staff costs	-4 710	-4 777
Depreciation and amortization	-2 453	-192
Other marketing expenses	-2 415	-1 809
TOTAL COST OF MARKETING EXPENSES	-9 578	-6 778
GENERAL ADMINISTRATION EXPENSES		
Staff costs	-16 133	-20 219
Depreciation and amortization	-5 316	-4 967
Other general administration expenses	-29 870	-39 071
TOTAL COST OF GENERAL ADMINISTRATION EXPENSES	-51 319	-64 257

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

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

NOTE 17. FINANCIAL INCOME AND EXPENSES

	2006	2005
Interest income	6 598	4 966
Interest expense	-49 479	-77 288
Other financial income / expenses (-)	-100	-516
TOTAL FINANCIAL INCOME / EXPENSES	-42 981	-72 838

NOTE 18. DIVIDENDS

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

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

NOTE 19. EARNINGS AND DIVIDENDS PER SHARE

	2006	2005
Earnings per share from continuing operations:		
Earnings for the purposes of basic earnings per share (net profit for the period minus B-share preference rights)	248 036	174 344
Weighted average number of ordinary shares for the purposes of basic earnings per share	20 000 000	20 000 000
Earnings per share in kroons	12,40	8,72
Dividends per A-share in kroons	7,85	5,60
Dividends per B-share in kroons	10 000,00	10 000,00

*Diluted earnings per share for the periods ended 31 December 2006 and 31 December 2005 are equal to the earnings per share figures stated above.

NOTE 20. NOTES TO THE CASH FLOW STATEMENT

NOTE 20A. PIPELINES FINANCED BY CONNECTION FEES

	2006	2005
REVENUE		
Connection fees from pipelines taken into use	104 048	42 111
Increase in prepayments for pipelines	9 481	7 750
Change in accounts receivable from pipelines	-867	3 340
Offset with liabilities	0	-707
CONNECTION FEES RECEIVED	112 662	52 494
Acquisition cost of pipelines taken into use	-97 096	-38 338

The connection fees from and the aquisition costs of pipelines taken into use are eliminated from “Cash flows of operating activies” as these are recorded within “Cash flows from investing activites”. The net amounts eliminated were respektively -7 972 thousand and -3 773 thousand kroons in 2006 and in 2005.

NOTE 20B. CHANGE IN CURRENT ASSETS AND LIABILITIES

In addition to changes in the balance sheet, current assets and liabilities are changed as follows:

	2006	2005
CURRENT ASSETS		
Change in balance sheet	-46 813	-122 154
Adjustments:		
Change in money balance	42 346	106 067
Changes between fixed assets and current assets	76	-229
Assets sold from assets for sale	-1 107	0
Change in deferred interests	489	-101
Offset of debts	0	-26
Change in construction income debt	867	-3 340
Cash from/to long-term deposit	0	77 537
TOTAL CHANGE IN CURRENT ASSETS	-4 142	57 754
CURRENT LIABILITIES		
Change in balance sheet	6 665	-39 048
Adjustments:		
Change in finance lease and loan costs	317	96 994
Change in payables for capital investments	-33 507	1 818
Prepayments for the sale of fixed assets	42 000	-45 600
Change in construction income prepayments	-9 481	-7 750
TOTAL CHANGE IN CURRENT LIABILITIES	5 994	6 414

NOTE 20C. PAYMENTS FOR FIXED ASSETS

	2006	2005
ACQUISITION OF FIXED ASSETS	-246 476	-223 145
Adjustments:		
Change in accounts payable related to investments	33 507	-1 818
Offsetting of payments for investments	0	733
Interest capitalization	0	1 075
Capitalization of operating expenses	20 921	23 280
TOTAL PAYMENTS FOR FIXED ASSETS	-192 048	-199 875

NOTE 21. COMMITMENTS

LEASED ASSETS	2006	2005
TOTAL OPERATING LEASE EXPENSE FOR COMPUTERS AND VEHICLES	5 355	4 804
MINIMUM OPERATING LEASE PAYMENTS ARE AS FOLLOWS:		
Less than 1 year	4 881	
1-5 years	5 704	
TOTAL MINIMUM LEASE PAYMENTS	10 585	

As of 31.12.2006 the Company had taken commitments for capital investments, i.e. concluded contracts and requested works with purchase orders to the value of 68 384 thousand kroons.

NOTE 22. CONTINGENT INCOME TAX ON DIVIDENDS

According to the Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to tax, as tax is charged only on dividend distributions. Pursuant to the Income Tax Act Section 50, effective since 1 January 2003, resident legal entities are liable to income tax on all dividends paid and other profit distributions irrespective of the recipient. The tax rate applicable is 23/77 on the amount of the dividends payable in 2006, in 2005 the rate was 24/76. Since 1 January 2007 the rate is 22/78.

The potential tax liability that may occur if all distributable retained earnings should be paid out as dividends is not reported on the Balance Sheet. The income tax due on dividend distribution is recorded as a tax cost within the Income Statement during the same period as the dividend is paid.

The Company’s distributable retained earnings as at 31 December 2006 amounted to 545 489 thousand kroons. Consequently, the maximum possible tax liability which would become payable if retained earnings were fully distributed is 153 856 thousand kroons.

NOTES 23. COLLATERAL OF LOANS AND PLEDGED ASSETS

In connection with the loan agreements concluded between the EBRD and the Company and between the Estonian affiliate of Nordea Bank Plc (hereinafter Nordea Bank) and the Company, the following guarantee contracts were concluded, which concern the assets of the Company :

- a. Commercial Pledge Agreement in favour of EBRD to the value of 1 877 592 thousand kroons;
- b. Separate Mortgage Agreements in favour of EBRD regarding the

properties of Ülemiste water treatment plant and Paljassaare waste water treatment plant whereby both pledges are to the value of 293 374 thousand kroons;

- c. Combined Mortgage Agreement in favour of Nordea Bank regarding the properties of Ülemiste water treatment plant and Paljassaare waste water treatment plant to the value of 586 748 thousand kroons.

The mortgages in favour of Nordea Bank and EBRD have the same ranking.

- d. A Security Sharing Agreement is concluded between EBRD and Nordea Bank.

NOTE 24. 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 shareholder having the significant influence. Dividend payments are indicated in the Statement of Changes in Equity. The transactions with related parties in 2005 and 2006 and respective balances as of 31.12.2005 and 31.12.2006 are recorded as follows:

	Tallinn City Government and related boards	The companies belonging to the same group with the United Utilities (Tallinn) B.V.
2005		
TRANSACTIONS RECORDED IN WORKING CAPITAL ON THE BALANCE SHEET OF AS TALLINNA VESI		
Deferred income	71	0
Accounts payable - short-term trade and other payables	0	2 423
TRANSACTIONS RECORDED TO THE INCOME STATEMENT OF AS TALLINNA VESI		
Net sales	77 465	0
General administration expenses	0	12 990
Other income (-)/ expenses	0	504
TRANSACTIONS RECORDED TO OTHER ACCOUNTS ON THE BALANCE SHEET OF AS TALLINNA VESI		
Non-current assets incl unfinished assets and new connections	0	13 480
2006		
TRANSACTIONS RECORDED IN WORKING CAPITAL ON THE BALANCE SHEET OF AS TALLINNA VESI		
Accounts payable - short-term trade and other payables	0	2 176
TRANSACTIONS RECORDED TO THE INCOME STATEMENT OF AS TALLINNA VESI		
Net sales	65 275	0
General administration expenses	0	14 729
Other income (-)/ expenses	0	10
TRANSACTIONS RECORDED TO OTHER ACCOUNTS ON THE BALANCE SHEET OF AS TALLINNA VESI		
Non-current assets incl unfinished assets and new connections	0	11 593
	2006	2005
Management Board fees excluding social tax	2 097	2 121
Supervisory Board fees excluding social tax	500	70

The fees disclosed above are contractual payments made by the Company to the management board members. In addition to this the board members have also received direct compensations from the companies belonging to the group of United Utilities (Tallinn) B.V. as overseas secondees. The information about AS Tallinna Vesi shares belonging to the related parties is disclosed in note 13.

NOTE 25. FINANCIAL RISK MANAGEMENT

The Company operates only in Estonia and the number of international transactions is limited to specific purchases and loan transactions. The Company still seeks to minimise potential adverse effects on the financial performance of the Company. A Treasury Department under instructions given by the Management Board carries out risk management.

The Company's international transactions are mainly in euros, which rate is fixed against Estonian kroons, all transactions in other currencies may be considered immaterial. Therefore, the likelihood of being exposed to foreign risk arising from currency exposures is low and as such no specific activities for foreign exchange management are needed at this moment in time.

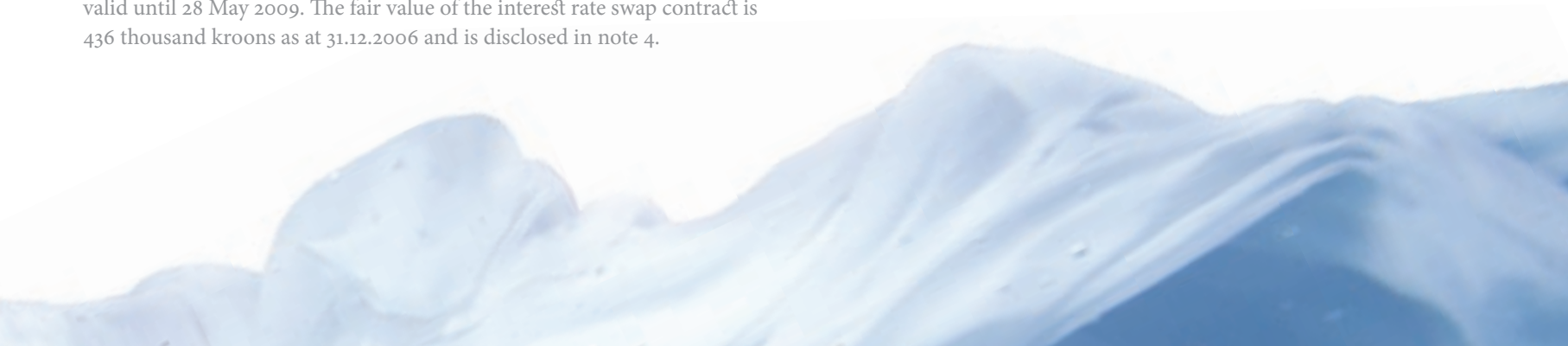
The Company has no significant concentrations of credit risk. The Company has procedures in place to ensure that sales of products and services and purchases are only made in accordance with the Company's policies. The debt management group participates in the determination of payment terms and schedules to facilitate the collection of debt and controls the payment discipline of customers as part of a daily routine, for example by sending out invoice reminders, making debt follow up phone calls and other debt management tools.

In management of liquidity risk the Company has taken a prudent view, maintaining sufficient cash and marketable securities funding availability through an adequate amount of committed credit facilities. Continuous cash flow forecasting and control are essential tools in the day-to-day liquidity risk management of the Company.

TALLINNA VESI ADMINISTERS MORE THAN 2000 KM OF WATER, SEWERAGE AND STORM WATER PIPELINES IN THE CITY OF TALLINN.

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company has no significant interest-bearing assets. The Company has two loans, from which the first is at a fixed interest rate, the second loan is calculated by reference to the Euribor 6 Months rate. A proportion of the second loan is supported by an interest rate swap contract with an upper and lower cap for the interest rate to limit exposure. The contract with Nordea Bank Finland plc is for a notional amount of 347 128 thousand kroons and is valid until 28 May 2009. The fair value of the interest rate swap contract is 436 thousand kroons as at 31.12.2006 and is disclosed in note 4.

The Company is insured against sudden and unexpected physical loss, damage or destruction, business interruption and extra expenses, third party claims against the Company including sudden and unexpected environment pollution damages, Company crime risks, liability of D&O (management board, supervisory board and members of senior management), accident insurance of personnel, motor vehicle accidents, theft, vandalism etc.



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS Tallinna Vesi:

We have audited the accompanying annual accounts (page 43 to 63) of AS Tallinna Vesi, which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Annual Accounts

Management Board is responsible for the preparation and fair presentation of these annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error: selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the annual accounts present fairly, in all material respects, the financial position of AS Tallinna Vesi as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



Sander Kallasmaa
Certified Auditor
15 February 2007




AS Deloitte Audit Eesti

CONFIRMATION OF THE MANAGEMENT AND SUPERVISORY BOARDS

The Management Board has prepared the management report and the annual accounts of AS Tallinna Vesi on 15 February 2007. The Supervisory Board of AS Tallinna Vesi has reviewed the annual report, prepared by

the Management Board, consisting of the Address by the Chairman of the Management Board and the annual accounts, the Management Board’s proposal for profit distribution and the independent auditors’ report, and has approved the annual report for presentation on the Shareholders’ General Meeting. The annual report has been signed by all the members of the Management Board and Supervisory Board.

NIMI	AMETINIMETUS	ALLKIRI	KUUPÄEV
ROCH JEAN GUY ANTOINE CHÉROUX	Chairman of the Management Board		15.02.07
DAVID NIGEL HETHERINGTON	Member of the Management Board		15-2-07
IAN JOHN ALEXANDER PLENDERLEITH	Member of the Management Board	I.J.A. Plenderleith	15/2/07
ROBERT JOHN GALLIENNE	Head of the Supervisory Board		14/3/07
DAVID JOHN KILGOUR	Member of the Supervisory Board		14/3/07
HENRY EMANUEL RUSSELL	Member of the Supervisory Board		14/3/07
JOANNE BREAM	Member of the Supervisory Board		14/03/07
TOIVO TOOTSEN	Member of the Supervisory Board		14/03/07
REIN RATAS	Member of the Supervisory Board		14.03.07.
ELMAR SEPP	Member of the Supervisory Board		14.03.07
HELO MEIGAS	Member of the Supervisory Board		14.03.07
VALDUR LAID	Member of the Supervisory Board		14.03.07

USEFUL INFORMATION FOR SHAREHOLDERS

INVESTOR CALENDAR FOR 2007	DATE
PRELIMINARY ANNUAL REPORT 2006	31 January 2007
AUDITED ANNUAL REPORT 2006	15 March 2007
GENERAL ANNUAL MEETING OF SHAREHOLDERS	26 March 2007
1ST QUARTER FINANCIAL RESULTS FOR 2007	27 April 2007
2ND QUARTER FINANCIAL RESULTS FOR 2007	19 July 2007
3RD QUARTER FINANCIAL RESULTS FOR 2007	01 November 2006

for which the Management Board and Supervisory Board are accountable to shareholders. The Company endeavors to be transparent in its ways of working, corporate disclosures and relations with Shareholders and this was recognised in 2006 when the Company was nominated by Baltic Stock Exchanges for the quality of its investor relations programme.

The Company has regular dialogue with major shareholders with general presentations made bi-annually - a list of meetings and the presentations are available on the Company's website. The Company also uses the Annual General Meeting to keep shareholders informed and there is an opportunity

74% OF THE WATER THAT'S CONSUMED IN THE WORLD IS USED FOR IRRIGATION. IN DEVELOPING COUNTRIES THIS FIGURE CAN BE 90%.

CORPORATE GOVERNANCE REPORT

The Background

Starting from January 1, 2006 the companies whose shares have been admitted to trading on the regulated market operating in Estonia shall describe, in accordance with the 'Comply or Explain' principle, their management practices in a Corporate Governance report and confirm their compliance or not with the Corporate Governance recommendations. If the issuer does not comply with the Corporate Governance Recommendations, it shall explain in the report the reasons for its non-compliance.

AS Tallinna Vesi is committed to high standards of corporate governance

for individual shareholders to ask questions of the Management Board and Supervisory Council within the meeting

Declaration of Conformity by AS Tallinna Vesi

AS Tallinna Vesi complies with the vast majority of the non-mandatory Corporate Governance recommendations. However it does not comply with some regulations, which are listed below, together with the reasons for current non-compliance:

'2.2.3. The basis for Management Board remuneration shall be clear and transparent. The Supervisory Board shall discuss and review regularly the basis for Management Board remuneration. Upon determination of the Management Board remuneration, the Supervisory Board shall be guided by evaluation of the work of the Management Board members. Upon

evaluation of the work the Management Board members, the Supervisory Board shall above all take into consideration the duties of each member of the Management Board, their activities, the activities of the entire Management Board, the economic condition of the Issuer, the actual state and future prediction and direction of the business in comparison with the same indicators of companies in the same economic sector. ‘

The arrangements concluded in connection with the privatisation of the Company in 2001 provided that, in return for certain fees, United Utilities International Ltd would provide the Company with certain technical and asset management services and would make certain of its personnel available to the Company in connection with its operation and management. All the members of the Management Board of the Company are currently appointed by United Utilities International Ltd.

According to the agreement, the working hours, rates of compensation,

and changes in it to the General Meeting. If the remuneration of some of the Management Board members has occurred on a different base, then the General Meeting shall be presented the differences together with the reasons therefore.’

The Company does not comply with the recommendation to show payments to the Management Board members individually. The Company does disclose the overall management board remuneration, but considers that individual remuneration is sensitive and private information and disclosing it would bring no benefit to the shareholders.

‘3.2.2. At least half of the members of the Supervisory Board of the Issuer shall be independent. If the Supervisory Board has an odd number of members, then there may be one independent member less than the number of dependent members.’

Pursuant to the Articles of Association, the Supervisory Board consists

WATER HASN'T ALWAYS BEEN AS ACCESSIBLE AS IT IS TODAY. IN THE MIDDLE AGES PEOPLE WERE ABLE TO USE LESS THAN 20 L PER DAY.

manner of performance, and all other matters relating to the employment of these individuals are to be determined solely by United Utilities International Ltd, the Supervisory Board does not regularly review the principles of Management Board remuneration.

‘2.2.7. Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure. The Chairman of the Supervisory Board shall present the essential aspects of the management board remuneration

of nine members. Under the Shareholders’ Agreement, United Utilities (Tallinn) B.V. (hereinafter UUTBV) and the City of Tallinn have agreed that the division of seats in the Supervisory Board shall be such that UUTBV shall have four seats, the City of Tallinn shall have three seats and two seats shall be for independent members of the Supervisory Board as described by the Tallinn Stock Exchange. The Shareholders’ Agreement provides that this division of seats is subject to change if the City of Tallinn acquires additional shares from UUTBV.

Information Disclosure

‘2.2.2. The member of the Management Board shall not be at the same time a member of more than two management boards of an Issuer and shall not be the Chairman of the Supervisory Board of another Issuer. A member of

the Management Board can be the Chairman of the Supervisory Board in company belonging to same group as the Issuer. Roch Chéroux, CEO, is a member of the Supervisory Board of the following companies belonging to United Utilities group: United Utilities BV, United Utilities Investment BV, United Utilities (Tallinn) BV, United Utilities (Luxembourg) sarl, United Utilities (Luxembourg) No. 2 sarl and also in Eești Vee-ettevõtete Liit (Estonian Water Companies Association). Ian Plenderleith, CFO, and David Hetherington, COO, are not in the Supervisory Boards of other companies.

3.2.5. The amount of remuneration of a member of the Supervisory Board shall be published in the Corporate Governance Recommendations Report, indicating separately basic and additional payment (incl. compensation for termination of contract and other payable benefits). According to the decision of shareholders meeting that the payments for Supervisory Board

SCIENTISTS BELIEVE THAT THE MAJORITY OF THE WATER FOUND IN THE UNIVERSE IS A BY-PRODUCT OF THE FORMATION OF STARS.

members is set at 100,000 kroons per year. The fee is subject to deduction and payment of taxes set out by laws and would be payable monthly.

3.2.6. If a member of the Supervisory Board has attended less than half of the meeting of the Supervisory Board, this shall be indicated separately in the Corporate Governance Recommendations Report. Robert John Gallienne attended all the Supervisory Board meetings since his nomination on 02.07.2006. Karl Olof Joakim Forsberg attended in one Supervisory Board meeting and missed two, until recalled from Board on 22.05.2006.

Throughout 2006 the management of the Company was organized according to good governance principles. An annual General Meeting of Shareholders was convened to approve the annual report, distribution of dividend, appointment of auditors and recalling/election of Supervisory Board members.

Five Supervisory Board meetings were held. The Supervisory Board organized the Management of the Company and supervised the activity of the Management Board. The Supervisory Board approved the 2005 annual report presented at the Annual General Meeting, approved the 2007 budget and Company's business plan. At each meeting, an internal audit report was presented to the Board.

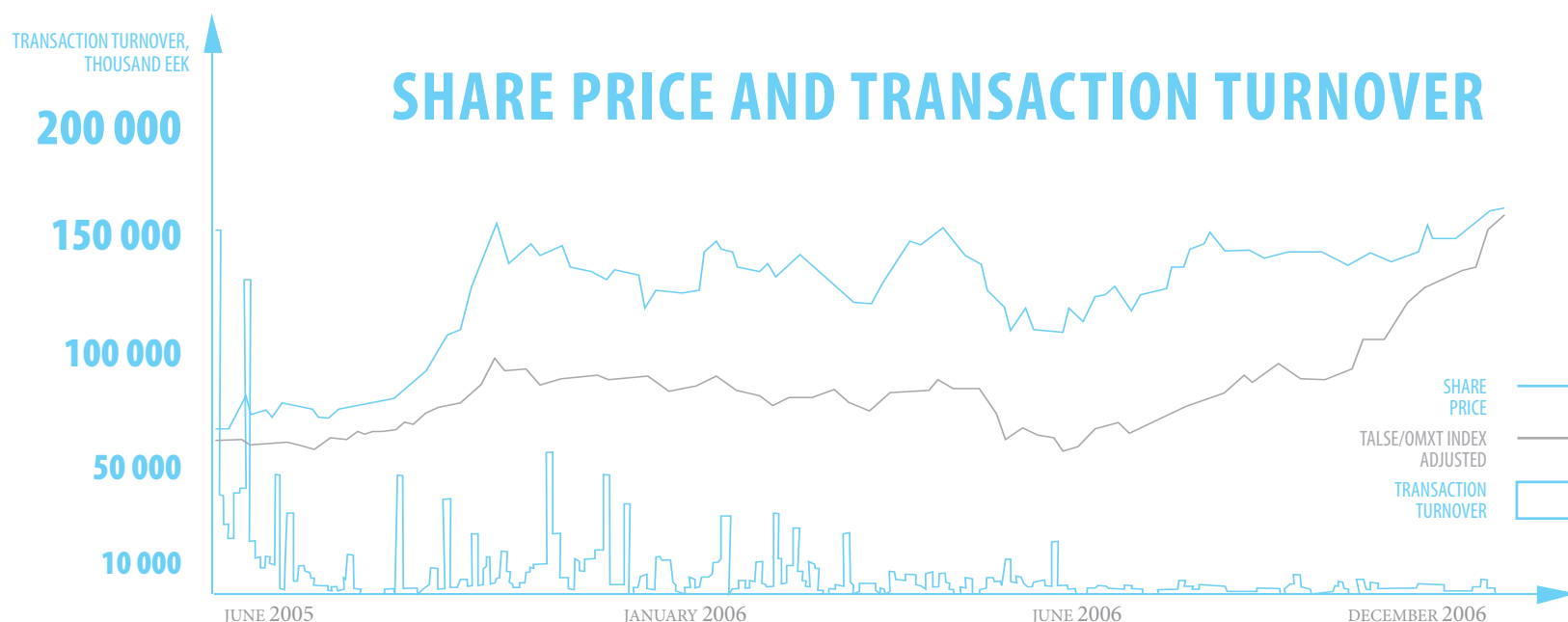
The internal auditor of the Company reports directly to David Kilgour, Board Member responsible for auditing function. The Management Board of the Company managed the activity of the Company. The Management Board is composed of three members, all seconded by United Utilities International Ltd.

DIVIDENDS AND SHARE PERFORMANCE

Based on the results of the 2005 financial year, the Company paid 157 mln kroons dividends in June 2006. As of 31 December 2006 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	6.87%
CITYGROUP GLOBAL MARKETS LTD	5.00%

At the end of the reporting period, 31 December 2006, the closing price of the AS Tallinna Vesi share was 234.86 kroons (15.01 EUR).



(KROONS/ %)	2006	2005	2004	2003	2002
Share price, at the end of the year	234,86	210,92	n/a	n/a	n/a
Share price, low	195,11	155,53	n/a	n/a	n/a
Share price, high	234,86	235,48	n/a	n/a	n/a
Share price, average	217,49	197,46	n/a	n/a	n/a
Earnings per share	12,40	8,72	8,65	5,23	1,75
Dividend per share	n/a	7,85	5,60	3,75	2,25
P/E	18,94	24,19			
P/BV	4,1	4,0			

P/E = share price at the end of the year / earnings per share

P/BV = share price at the end of the year / bookvalue per share

KEEPING YOU IN THE PICTURE

You can find more information about Tallinna Vesi quickly and easily on the Tallinn Water website. In addition to the annual report and interim reports, key company announcements, environmental reports and company presentations are also published on the web site. www.tallinnavesi.ee. Investors can also join the regular investor mailing list by contacting the Head of Treasury and Investor Relations.

ADDITIONAL INFORMATION TO THE SHAREHOLDERS:

Eteri Harring
Head of Treasury and Investor Relations
Telephone: (+372) 6262 225
E-mail: eteri.harring@tvesi.ee

AS TALLINNA VESI MANAGEMENT BOARD 2006

The Management Board represents the Company in its relations with third parties and manages the Company's daily activities and organises its accounting. The Management Board reports to and is instructed by the Supervisory Council. According to the Articles of Association the Management Board of AS Tallinna Vesi consists of two (2) to five (5) members who are elected for three (3) years.

DAVID HETHERINGTON

Member of the Management Board, Chief Operating Officer (COO)

David Hetherington, British, joined the company in May 2006 as Chief Operating Officer. He has extensive experience within the water business both in the UK and overseas with major experience in capital investment programme management, water and wastewater process engineering and operations. He has BSc in Environmental Science and MBA from Lancaster University.

ON AVERAGE WE USE 8 L OF WATER BRUSH OUR TEETH, 25 L IN GOING TO THE TOILET AND UP TO 200 L HAVING A SHOWER.

The members of AS Tallinna Vesi Management Board are:

ROCH JEAN GUY ANTOINE CHÉROUX

Chairman of the Management Board, Chief Executive Officer (CEO)

Roch Chéroux, French, Chief Executive since 1st July 2006, previously joined the Company 1st April 2002 in the position of Chief Operating Officer.. He graduated from one of the French "Grandes Ecoles" in engineering and management. He has more than 15 years experience, and has held successive positions in design, construction, operation and general management in the water and waste water sector in France.

IAN JOHN ALEXANDER PLENDERLEITH

Member of the Management Board, Chief Financial Officer (CFO)

Ian Plenderleith, British, joined the company in October 2004 as Chief Commercial Officer of the Company. He has over 15 years experience in a variety of financial roles within the utilities sector both in the UK and internationally.

Prior to joining the Company he was employed as Financial Controller for United Utilities Networks in the UK. He is a member of the Chartered Institute of Management Accountants.

AS TALLINNA VESI SUPERVISORY COUNCIL

The Supervisory Council has the ultimate responsibility for the organisation of work of the Company, plans the activities of the Company and supervises the activities of the Management Board. The Council consists of nine (9) members whose term lasts two (2) years. Council members are elected and appointed in accordance with the following principles:

- **Five (5)** members of the Council are elected and removed by the shareholders' general meeting, whereas the person who receives the most of votes shall be considered elected. A Council member who is elected by the shareholders' general meeting may be removed before the end of his/her term, provided that at least 2/3 of the votes represented by the shares at the shareholders' general meeting vote in favour of the removal.

Members of the Council elect from among themselves the Chairman of the Council who will organise the activities of the Council and chair Council meetings.

The members of AS Tallinna Vesi Supervisory Council are:

ROBERT JOHN GALLIENNE

the Chairman of the Supervisory Council

Nominated by United Utilities Group, and elected at the AGM on May 23rd 2006. Has served as the CEO and Chairman of the Management Board of the Company between 1st April 2002 and 30th June 2006. Prior to this

THE EGYPTIANS PURIFIED WATER FROM THE NILE ALLOWING THE STILT IN WATER TO SETTLE BEFORE THEY USED IT.

- **Two (2)** members of the Council are appointed and removed by the holder of the B-Share or by a shareholder whose shares represent at least 34% of the votes granted by the A-Shares, provided however that no single shareholder may appoint or remove more than two members of the Council.

The Tallinn Stock Exchange Rules require that if more than 30 per cent of the share capital of a company listed on the Tallinn Stock Exchange is held by a single shareholder, then at least two (2) members of the supervisory council of the relevant company must be independent.

Thus, AS Tallinna Vesi held an Extraordinary General Meeting of shareholders on 22 November 2005 where two independent Council members were elected.

Mr. Gallienne held the position of Managing Director in Sofyiska Voda and Group Customer Services Director of Manila Water in the Philippines. He has over 25 years experience in senior management positions in the water industry both in England and overseas.

JOANNE BREAM

Nominated by United Utilities Group since 19 January 2007. Joanne Bream has worked as a legal counsel in the UK water and electricity industry for 10 years. She has extensive experience of the sector gained from within United Utilities, one of the largest water companies in the UK, and from other water utilities worldwide via United Utilities outsourcing arm Contract Solutions. Joanne is currently on the board of United Utilities Contract Solutions. Joanne graduated with a law degree from Cambridge University, England.

DAVID JOHN KILGOUR

Nominated by United Utilities group, since 3 September 2002. David Kilgour is the Finance Director of United Utilities PLC's international operations. He qualified as a Chartered Accountant in 1986, while working for PricewaterhouseCoopers. Between 1989 and 1993, he held the position of Group Financial Controller with an international engineering group. Since joining the United Utilities group in 1993, he has held various senior financial posts within the company.

He sits on the boards of a number of United Utilities' international operational businesses. Mr. Kilgour graduated from Leeds University with a BSc. in metallurgy.

HENRY RUSSELL

Nominated by the European Bank of Reconstruction and Development (EBRD), and elected at the AGM on May 23rd 2006. Henry Russell has

ELMAR SEPP

Nominated by the City of Tallinn, since 7 December 2005. Elmar Sepp is the Deputy Chairman of the Tallinn City Council, Chairman of the Tallinn City Council's Centre Party Faction since autumn 2005.

During the periods of 2003-2005 and 1999-2002 he was a Member of Tallinn City Council. Mr. Sepp was also employed by AS Tallinna Soojus (Tallinn Heat Generating Company) as the Chairman of the Management Board for 1 year. Prior working in

Tallinna Soojus, he was Tallinn City Centre District elder. Elmar Sepp has a law degree from the University of Tartu.

TOIVO TOOTSEN

Nominated by the City of Tallinn, since 6 April 2005 (and previously from 21 December 2001 to 17 November 2004). Mr. Tootsen has been a Member

AN EXPECTANT MOTHER SHOULD DRINK A LOT OF WATER TO DELIVER A HEALTHY BABY: 80% OF A NEWBORN'S BODY IS H₂O.

extensive investment experience in Eastern Europe and Asia including project finance, loan and equity investments in private joint venture and domestic companies and public and municipal infrastructure.

Board member for investee companies providing strategic guidance and corporate governance. Senior management experience in major International Financial Institution.

Henry Russell has an B.A. in Economics and Political Science from Yale University, New Haven, CT and is M.Sc. in Economics from London School of Economics, U.K.

Tallinn City representatives:

of the Parliament of Estonia since 1999.

He has belonged to the Tallinn City Council for 11 years as a member of both the Finance and City Economy Committees. Between 1996 and 1999 Mr. Tootsen held the positions of Chairman and Vice-Chairman of the Estonian Journalists' Association. He has 29 years' experience in journalism having served as a Senior Editor for Estonian National Radio.

Mr. Tootsen graduated from the University of Tartu, majoring in Estonian language and literature and also graduated from Tallinn Pedagogical University as a stage manager-producer.

REIN RATAS

Rein Ratas was elected the member of the Supervisory Council in 22 November 2005. Since 1999 Mr. Ratas has been employed by AS Tallmac

as the Head of Environmental Department and an environmental expert.

Simultaneously Rein Ratas has been teaching at the Estonian Agricultural University in Environmental Protection Institute.

Prior to that Mr. Ratas was the Secretary General in the Environmental Ministry for 7 years. Rein Ratas has PhD in the field of biology from the University of Tartu.

Independent Members:

HELO MEIGAS

Helo Meigas was elected the independent member of the Supervisory Council in 22 November 2005. Since September 2004 Helo Meigas has been working as

He joined Elion in 2002 as the CFO and Member of the Management Board. Prior Elion, Valdur Laid was employed by the Bank of Estonia holding different managerial positions for 8 years. In 1999 – 2000 he served as an Executive Director and Member of the Management Board of the Bank of Estonia.

Valdur Laid has MBA degree from International Institute of Management Development in Lausanne, Switzerland.

THE EARTH IS A CLOSED SYSTEM, WHICH IS WHY OUR PLANET'S WATER RESOURCE IS AS LARGE TODAY AS IT WAS MILLIONS OF YEARS AGO.

the Managing Director of the Investment Management Division in Hansabank, the largest bank of Estonia.

Prior Hansabank she was employed by McKinsey & Co in Finland as an Engagement Manager for three years and by the Bank of Estonia as the Deputy Governor for two years. She was also the Chief Executive Officer of Tallinn Stock Exchange in 1995 – 1998. Helo Meigas holds an M.A.L.D from Fletcher School, Tufts University, USA

VALDUR LAID

Valdur Laid was elected the independent member of the Supervisory Council in 22 November 2005. Since February 2004 Valdur Laid holds the position of CEO in Elion, the largest telecom company in Estonia.





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DESIGN: Ecwador Advertising
PHOTOS: Kaido Haagen



