



# ANNUAL REPORT 2007

*Tallinna Vesi*





### MARCH

- Ministry of Environment confirms the success of Paljassaare Wastewater Treatment Plant biological treatment reconstruction project



### MAY

- Open Door Days and RockFest at Paljassaare Wastewater Treatment Plant



### JULY

- the Company launches Veemees, a new trademark offering maintenance, emergency and construction services to private house owners, apartment associations, apartment owners, developers and construction companies



### AUGUST

- together with an Open Door Day a cross-country run around Lake Ülemiste takes place for the 35th time



### SEPTEMBER

- AS Tallinna Vesi is pronounced the Most Competitive Service Enterprise in Estonia at the Enterprise Award competition organised by Enterprise Estonia, the Estonian Chamber of Commerce and Industry and the Estonian Employers' Confederation



### OCTOBER

- in October the Company's efforts in ensuring a safe and healthy work environment are substantiated by an Occupational Health and Safety Accreditation System (OHSAS) certificate



### NOVEMBER

- on November 29th Ülemiste Water Treatment Plant celebrated its 80th anniversary. The plant was formally opened on November 29th, 1927
- amendments to the Services Agreement are concluded between the City of Tallinn and the Company, ensuring the completion of the public water supply and sewerage system by 2011



### DECEMBER

- a customer satisfaction survey carried out by independent research company TNS Emor demonstrates that the index denoting customer satisfaction has risen to 79 on a scale of 100, placing the Company in the top 10% in comparison with other utilities companies in the world.

# INTRODUCTION

Dear Reader,

This book provides an overview of the performance of AS Tallinna Vesi in 2007. However, in addition to practical information you will find in it some fabulous nature photos taken by our own employees. It is highly important to protect this blue home planet of ours, as we want our children and grandchildren to enjoy capturing similar moments and emotions in the future.

Even the tiniest step taken towards this goal makes a difference. Fortunately, this book in your hands has been produced from a recycled material. Although it might seem a minute step, it carries a truly significant meaning.

# 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.

# VALUES

COMMITMENT 

We work with passion, doing the maximum to achieve the objectives

CUSTOMER FOCUS 

Our actions help our customers and colleagues to find solutions

TEAMWORK 

We all form one team whose success depends on my and my colleagues' contribution

CREATIVITY 

We have the courage and the energy to seek for new opportunities and achieve better results

# TABLE OF CONTENT

CHAIRMAN'S STATEMENT 11

ACTIVITY REPORT 16

• CUSTOMERS 16

• ENVIRONMENT 32

• COMMUNITY 64

• EMPLOYEES 74

• SHAREHOLDERS 84

ANNUAL ACCOUNTS 88

KEY PERFORMANCE INDICATORS 5

AS TALLINNA VESI IN BRIEF 7

CHAIRMAN'S STATEMENT 11

CUSTOMERS 16

OUR CUSTOMERS 17

CUSTOMER SATISFACTION 18

DRINKING WATER QUALITY 21

ENVIRONMENT 32

ENVIRONMENT MANAGEMENT AND POLICY 33

COMPLIANCE WITH ENVIRONMENTAL  
REQUIREMENTS 34

USAGE OF WATER RESOURCES 36

WASTEWATER COLLECTION 41

WASTEWATER TREATMENT 44

CHEMICALS HANDLING 48

WASTE MANAGEMENT 52

CONSUMPTION OF ENERGY 56

AIR EMISSIONS 60

COMMUNITY 64

SOCIAL RESPONSIBILITY OF THE COMPANY 65

CRISIS PREVENTION AND PREPAREDNESS 66

INCREASING ENVIRONMENTAL AWARENESS 69

COMMUNICATION WITH STAKEHOLDERS 71

EMPLOYEES 74

ORGANISATION AND EMPLOYEES 75

HR STRATEGY AND POLICY 77

OCCUPATIONAL HEALTH AND SAFETY 79

EMPLOYEE INVOLMENT 80

EMPLOYEE COMMITMENT 81

SHAREHOLDERS 84

GROWING THE ACTIVITIES OF THE COMPANY 85

ANNUAL ACCOUNTS 88

# KEY PERFORMANCE INDICATORS

MILLION EEK	2007	2006	2005	2004	2003
Sales	820.8	693.2	592.0	548.5	504.0
Main operating activities	648.3	589.2	549.9	478.8	434.8
Other operating activities	172.4	104.0	42.1	69.7	69.2
Gross profit	445.9	375.6	351.6	286.9	249.3
Gross profit margin %	54.3	54.2	59.4	52.3	49.5
Operating profit	377.4	337.9	282.6	254.9	169.8
Operating profit margin %	46.0	48.7	47.7	46.5	33.7
Profit before taxes	333.1	294.9	209.7	199.2	119.8
Profit before taxes margin %	40.6	42.5	35.4	36.3	23.8
Net profit	277.8	248.0	174.4	173.0	104.5
ROA %	10.9	10.0	7.3	7.8	4.8
Debt to total capital employed %	51.8	53.4	55.3	55.1	58.4
ROE%	22.5	21.5	16.4	17.3	11.6
Current ratio	1.9	2.2	1.9	0.9	0.9
Average number of employees	315	322	337	351	348

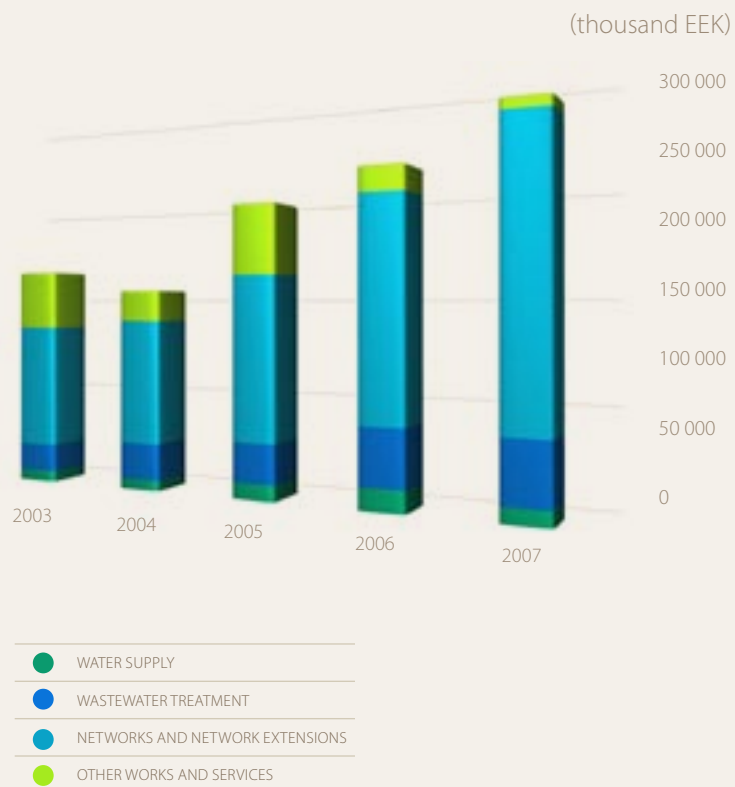
SALES BREAKDOWN	2007
Water supply service	39%
Wastewater disposal service	35%
Stormwater treatment and disposal service	5%
Other income ( in fire hydrants)	1%
Other operating activities	21%

EEK	2007	2006	2005	2004	2003
Share price at the end of the year	202.78	234.86	210.92	n/a	n/a
Share price, low	195.58	195.11	155.53	n/a	n/a
Share price, high	290.87	234.86	235.48	n/a	n/a
Share price, average	232.20	217.49	197.46	n/a	n/a
Earnings per share	13.89	12.40	8.72	8.65	5.23
Dividend per share	12.45*	9.80	7.85	5.60	3.75
P/E	14.60	18.94	24.19		

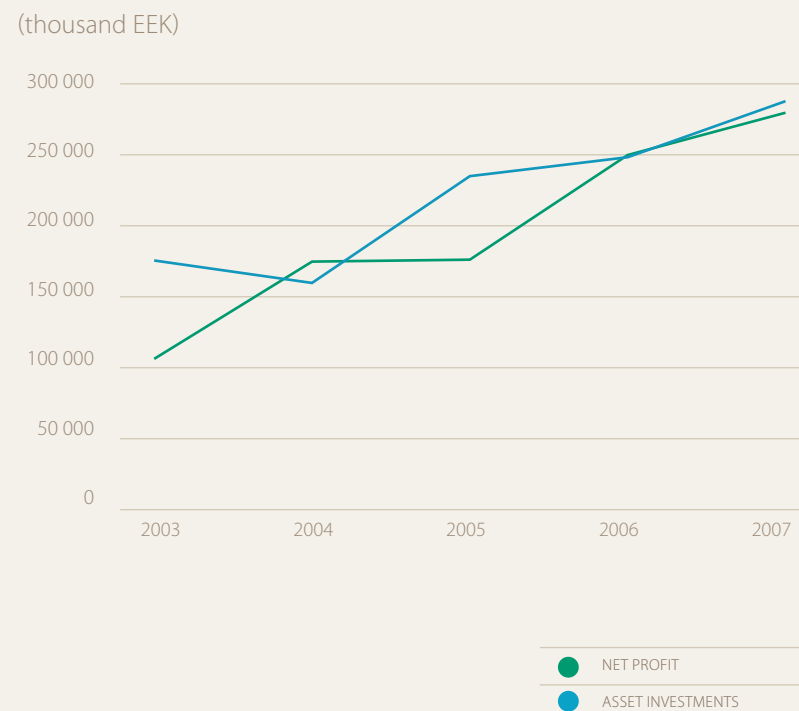
\*SUBJECT TO ANNUAL GENERAL MEETING APPROVAL

# KEY PERFORMANCE INDICATORS

## INVESTMENTS IN DIFFERENT FIELDS



## PROFIT AND INVESTMENTS 2003–2007





# AS TALLINNA VESI IN BRIEF

## GENERAL FACTS

- Largest water utility in Estonia, providing drinking water and wastewater disposal services to roughly 1/3 of Estonia's population
- The Company provides water- and wastewater disposal services to almost 20,000 customers and 400,000 end-consumers in Tallinn and its surrounding areas
- AS Tallinna Vesi has the exclusive right to provide water and sewerage services to the Tallinn service area until the year 2020
- A Services Agreement on 97 Levels of Service has been concluded between the City of Tallinn and the Company for providing the services
- The Company has two main treatment plants: Ülemiste Water Treatment Plant (WTP) and Paljassaare Wastewater Treatment Plant (WWTP)
- The first Ülemiste WTP started working in 1927, in addition the new water treatment plant was completed in 1979. The Water Treatment plant produces an average of 65,000 m<sup>3</sup> of water every day
- Almost 90% of the drinking water is produced from surface water at Ülemiste, 10% of the consumers use regional ground water
- Average water consumption in 2007 was 101 l per inhabitant
- Paljassaare WWTP started operating in 1980
- The treatment plant capacity is 350,000 m<sup>3</sup>/day
- A water laboratory, microbiology laboratory and wastewater laboratory operate in the Company, which conducted over 145,000 analyses in 2007



*Melisa Laado*  
WASTEWATER TREATMENT - SYSTEM SPECIALIST



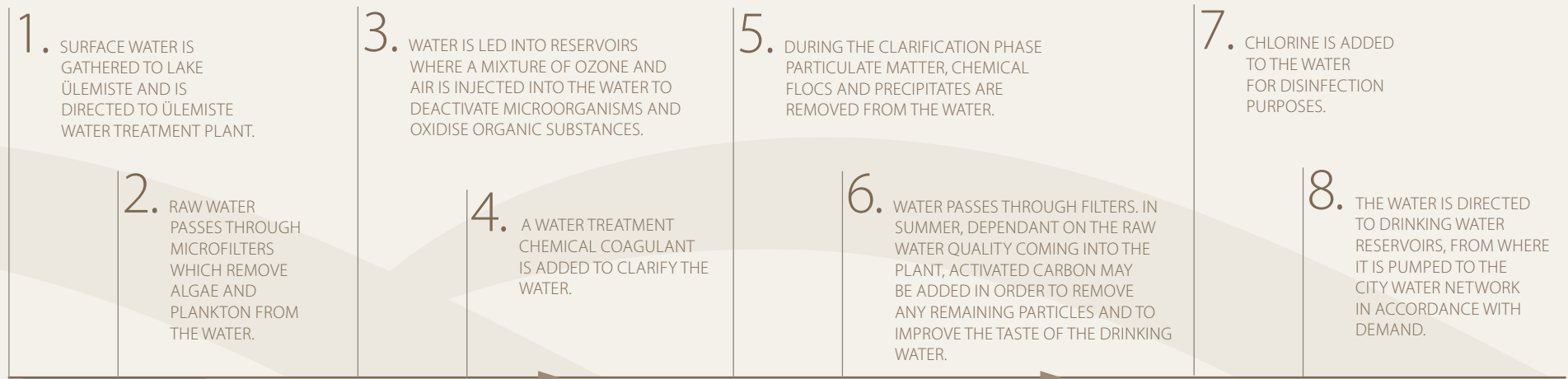
*Lare Niiberg*  
CATCHMENT CO-ORDINATOR

## OPERATIONAL SITES

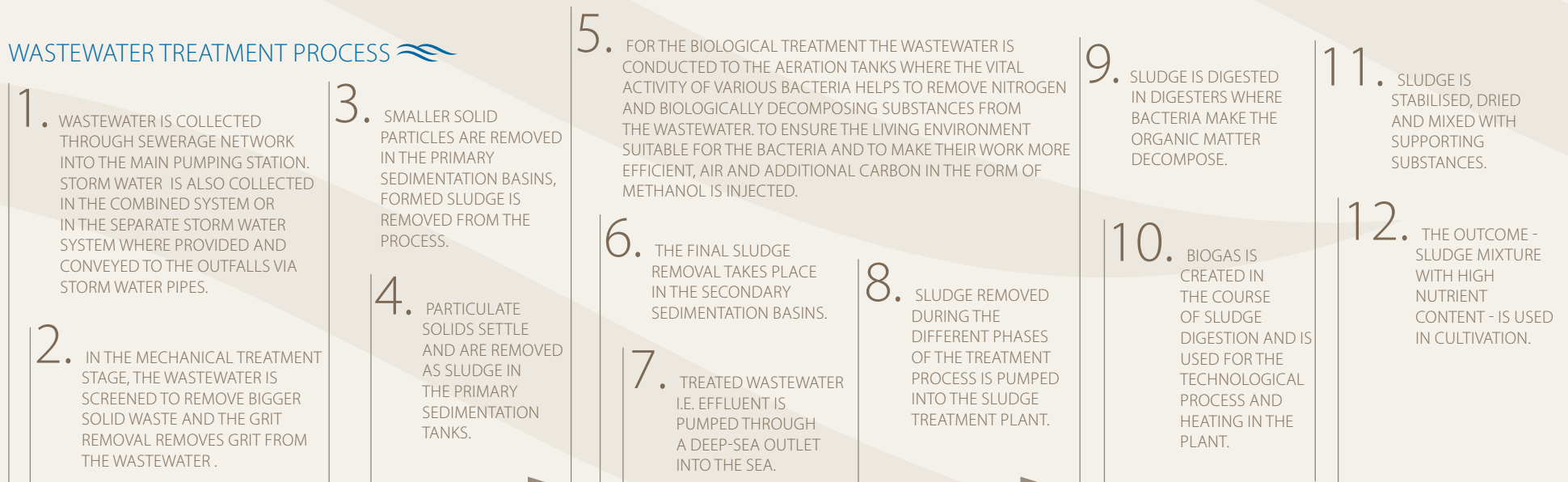
- The public water supply system comprises almost 900 km of water networks, 14 water pumping stations and 57 ground water borehole pumping stations with 87 boreholes
- The public sewerage system comprises ca 760 km of wastewater networks, over 300 km of storm water networks and over 80 sewerage pumping stations across the service area
- On average, the Company employed 315 people in 2007
- AS Tallinna Vesi shares are listed on the main list of Tallinn Stock Exchange
- Head office, Customer Service, Networks and support services in Ädala 10
- Ülemiste Water Treatment Plant, Water and Microbiological Laboratory in Järvevana Road 3
- Paljassaare Wastewater Treatment Plant, composting fields and Wastewater Laboratory in Paljassaare Road 14. Sludge composting and experimental site in Liikva village, Harju County
- Catchment area ca 1800 square kilometers in Harju and Järvamaa counties

# TREATMENT PROCESSES

## WATER TREATMENT PROCESS

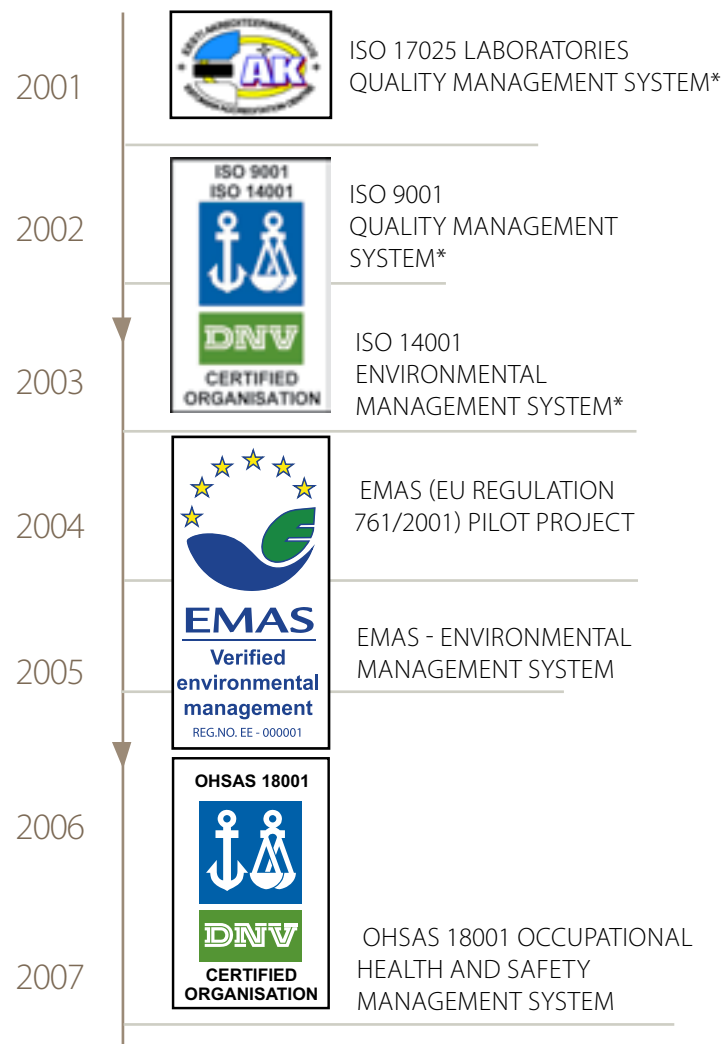


## WASTEWATER TREATMENT PROCESS

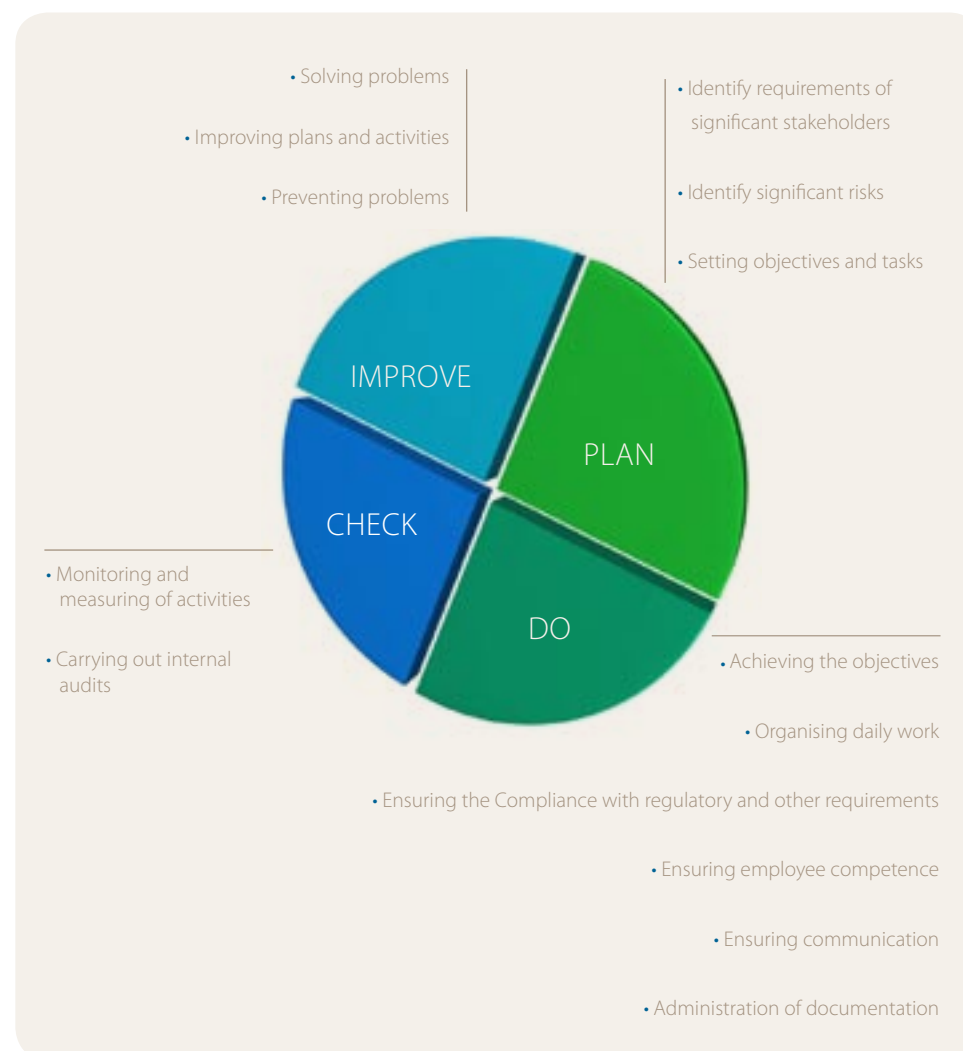




# MANAGEMENT SYSTEM

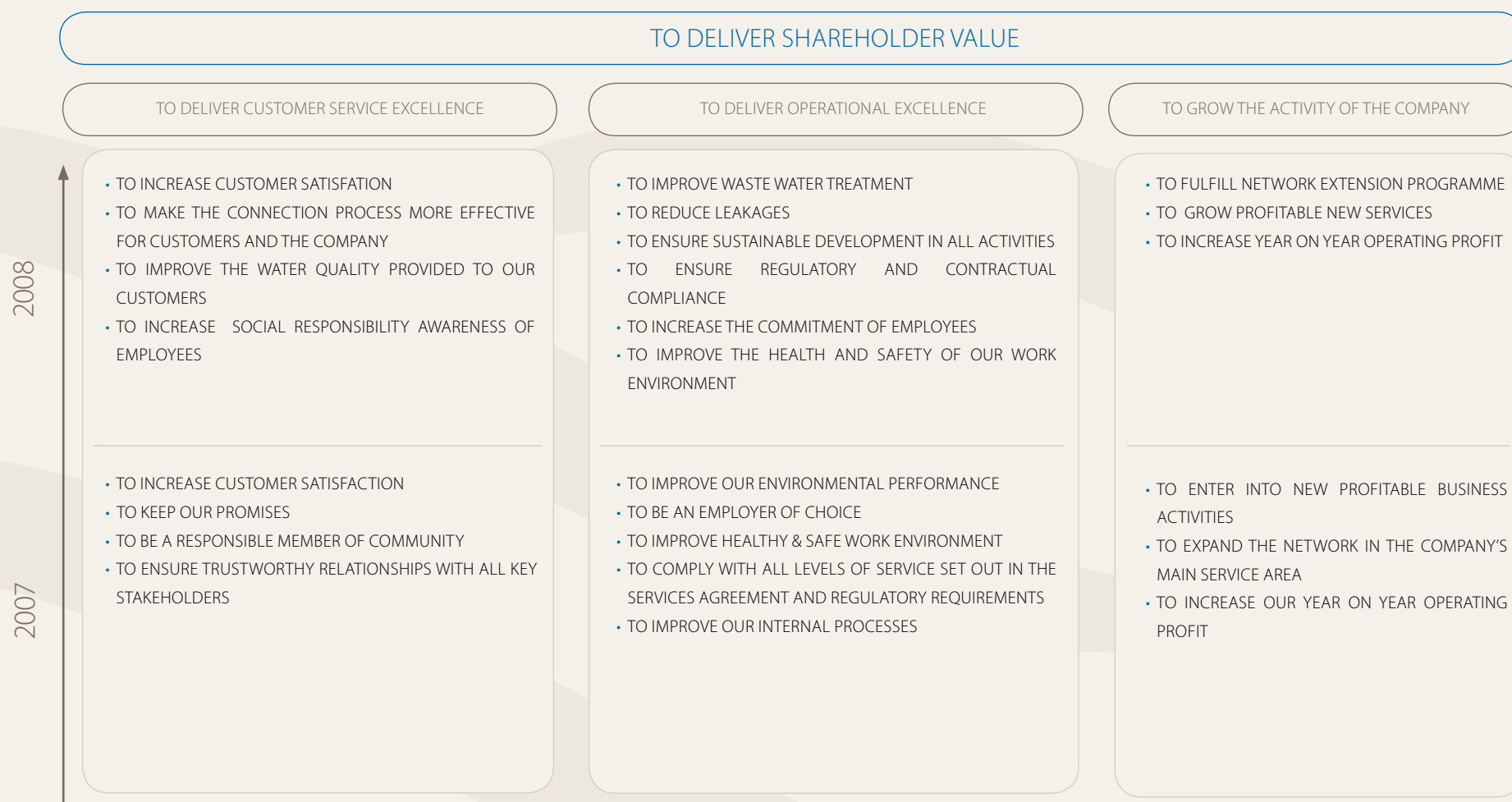


\* required by the Service Agreement concluded between the City of Tallinn and the Company



The requirements from various management system standards have been integrated into the management system of the Company, proceeding from the principle of continuous improvement.

# COMPANY OBJECTIVES



# CHAIRMAN'S STATEMENT

In 2007, Tallinna Vesi made steady progress on its route towards its strategic objectives and delivered good results. Customer service has improved as clearly demonstrated by the results of the independent satisfaction survey, operational efficiency has improved with the achievement of our best ever water and treated effluent quality, the Company has launched a new activity demonstrating its will to grow, and finally a solid set of financial results, with growth in turnover and profit.

## CUSTOMER SERVICE EXCELLENCE

Providing our Customers with excellent service is a prime objective for the Company. We are pleased that the customer satisfaction survey independently carried out by TNS Emor at the end of 2007 demonstrated a significant improvement regarding customer relationships. The index indicating customer satisfaction has increased from 73 to 79 on a scale of 100, this places the company in the top 10% of world utility companies.

A lot has been done to achieve this improvement. Beside the educational message continuously circulated across the Company about the need for customer focus, we have developed and implemented some additional tools and restructured our organization. Following the new Customer Management System that went live in 2006, we developed in early 2007 a web based interface, giving our clients more possibilities to easily manage their accounts. This interface, along with new billing functionalities (direct debit, e-invoice) has had tremendous success.

The internal organization has also been reviewed. Looking at our activities from a customer point of view, client related processes have been analysed and the customer and network management activities have been reorganized to better support these processes and deliver better customer service.

Being an environmental company and dealing with a product that impacts the life of one third of the Estonian population every day, we have a very special responsibility towards our clients, the Community and the Environment. Besides focusing on the quality of product and the quality of service, we have further engaged with the Community, supporting social and educational projects. We have this year completed 'Randur Tiik' a computer based educational game about water. This game will be distributed to all schools in Estonia with the aim to raise the environmental awareness of the younger generation.

## OPERATIONAL EXCELLENCE

The team greatly improved the quality and efficiency of operation and can be credited with several real successes.

The water quality delivered to our customers was the highest ever achieved. We know that this is one of the most important factors for the satisfaction of our clients. Each day, throughout the process: from catchment area to water network operation via water treatment plant in a joint effort the teams are looking for every possible way to improve the water quality even further.

The quality of the treated effluent was also the highest ever achieved. The large investments carried out during the last years in the wastewater treatment plant (particularly to treat nitrogen pollution and to improve sludge processing) coupled with the highly professional skills of the team enable us to treat the pollution of the Capital city and its surrounding municipalities to a level that is fully compliant with EU standards.

Health and Safety of our people is of paramount importance for us. In 2007, international occupational health and safety management system (OHSAS) certificate was awarded to the Company after a successful audit in May. This is great recognition for the work that has been done to improve the working conditions of our staff, but we are even more proud of the fact that in 2007 there were simply no work accidents.



ROCH CHÉROUX  
CHAIRMAN OF THE MANAGEMENT BOARD

*Providing our  
Customers with  
excellent service is a  
prime objective for  
the Company.*



ROCH CHÉROUX  
CHAIRMAN OF THE MANAGEMENT BOARD

*The water quality  
delivered to our  
customers was the  
highest ever  
achieved.*

## CHAIRMAN'S STATEMENT

Being able to improve our operation efficiency results from a combination of two factors: the commitment of our people and the large investment programme that we have carried out in 2007 and during the previous years. In 2007 we have continued to invest heavily (285 mln kroons) on water quality, with improvements made in the catchment area, the water treatment plant and continuous renewal of our distribution network. We have also invested in wastewater treatment with the completion of the nitrogen treatment project. This project received the final approval of the Ministry of Environment and together with the completion of the sludge treatment plant we are able to keep under control the quality of the treated effluent.

These investments give us the possibility to improve our operational efficiency and the quality of our product, and in addition they also help us to reduce our environmental impact. This is apparent in the high quality and fully compliant treated effluent discharged to Tallinn Bay, full reuse of sludge as soil conditioner and better use of the water resource with control of the amount of water lost in leakages. Taking care of the environment is something that we have included in our actions and will continue to do in the future.

### GROWING THE ACTIVITY OF THE COMPANY

One of our ambitions is to grow the activity of the Company by focussing on our core competences and developing our core business: management of water and wastewater assets. In 2007 we have launched the trademark 'Veemees' (Waterman). This activity is very closely linked to our core activity. Veemees is operating on the private side of the connection and proposes to our clients to take care of their plumbing problems, small pipe construction works inside their plots and houses. The volume of activity remained modest in 2007 but we expect it to grow because it corresponds to a real demand from clients.

Our work to bring public water and sewerage network to the citizens of Tallinn has continued in 2007, and we have laid down another 16.1 km of pipe. We have also continued to extend the stormwater network by an additional 11.5 km. This construction activity will improve the service to customers, enlarge our area of activity but also improve the protection of the environment.

Our cooperation with the municipalities surrounding Tallinn is an important component of our development activity. With spare capacity at our plants, we can provide the surrounding municipalities with a large quantity of good quality, EU compliant water and we can collect their effluent and treat it to EU standards. Physical connections have been built between our network and the territories of the municipalities, we are already providing water and receiving wastewater and we are ready to accompany the surrounding municipalities in their development during the following years.

### DELIVERING SHAREHOLDER VALUE

An important milestone was delivered in 2007 with the signing of the amendment to the Services Agreement which sets the rights and obligation of the Company and the City of Tallinn. The amendments shall significantly accelerate the construction of the sewerage network and ensure its provision for the City by March 2011 (currently 97% of the City is covered with sewerage network). The amendment to the Agreement places the responsibility for the delivery of the programme on the Company. This amendment ensures an excellent visibility for the revenue of the company until 2020, extended term of the agreement, and sustainability of the profitability level as the K-coefficient is fixed until the end of the contract period.

The financial results of 2007 have been good, in steady progress compared to 2006, with turnover increased by 18.4% and profit before tax increased by 12.9%.

# CHAIRMAN'S STATEMENT

In terms of revenue, the volumes sold to domestic customers were almost constant and a small decrease was registered from the commercial customers mainly due to one industrial consumer leaving Tallinn. The volumes from the surrounding municipalities have shown a good increase reflecting the intense development of these areas. The connection activity was also very dynamic generating a 65.7% increase in turnover. Overall the total revenue increased to 820.8 mln kroons.

The Company has been successful in managing its cost despite an inflationary environment. Cost of goods sold has decreased by 1.75%. When taking out the exceptional items, the underlying increase of cost of goods sold would have been 4.5%, which is a remarkable performance considering the inflationary situation of some items in Estonia. This was achieved by a strong cost control culture and a constant focus on efficient improvement.

In 2007, the Company increased its dividend payment to shareholder by 25%.

It was great that the Company was recognized by its peers and awarded the title of 'Most Competitive Service Company' in Estonia by the Estonian Chamber of Commerce and Industry and the Estonian Employer's Confederation.

The Company stays committed to achieve high standards of corporate governance. Our aim is to be transparent in our ways of working, corporate disclosures and relation with shareholders and stakeholders. Once again in 2007 this was recognized by the financial community as the Company was nominated by the OMX Baltic Stock Exchange for the quality of its investor relations.

## A TEAM EFFORT

All this has only been possible because of the fantastic effort the team has put into the Company and I want to pay tribute to them for their commitment. The employee opinion survey carried out in 2007 has seen the index increasing by 10%. This is a very positive result, and we will continue to work on our human resource strategy to improve further this result.

In 2007, we invested significant time and energy on our human resource strategy and policy and have developed a set of values:

COMMITMENT  
CUSTOMER FOCUS  
TEAMWORK  
CREATIVITY

We do believe that behaving according to these values will strongly support the achievement of our strategic objectives. A new remuneration system, based on performance achievement, will be implemented from the beginning of 2008. It includes an assessment on behaviour and how we live our values.

We have a clear vision for the future of the Company. To achieve this vision we have set clear long term strategic objectives. Each year we set the Company's annual objectives derived from the strategic objectives, and finally we cascade down these company's objectives into individual objectives. This is the heart of our performance management system and it has proven to be an efficient way to drive the Company towards success. We will continue to use this methodology in 2008.

All in all, in 2007, the Company performed well and delivered good results. This is another step in building a strong foundation for the future. In 2008, with our strategic objectives as a target, we will continue to stay focussed on delivering a high level of performance.




ROCH CHÉROUX  
CHAIRMAN OF THE MANAGEMENT BOARD

*The financial  
results of 2007  
have been good, in  
steady progress  
compared to  
2006, with  
turnover increased by  
18.4% and profit  
before  
tax increased by  
12.9%.*









*I captured this fox puppy on a picture one June evening in Oherpalu, a naturally picturesque place in Lääne-Virumaa. The lake there is circled by the most pleasant sand paths where I love to ride my bicycle.*

*Riding around on yet another evening I suddenly spotted several fox puppies crossing the path. I stopped, silently got off my bike and poised with curiosity on the side of the path.*

*Suddenly one of the pups popped its head out of the tall grass just a few feet away from me, as if to see who the curious creature tracking it was. Without wasting any time I managed to get a few shots of it a split second before my model decided to run.*

*Margus Maripuu*  
WATER TREATMENT - PROCESS MANAGER





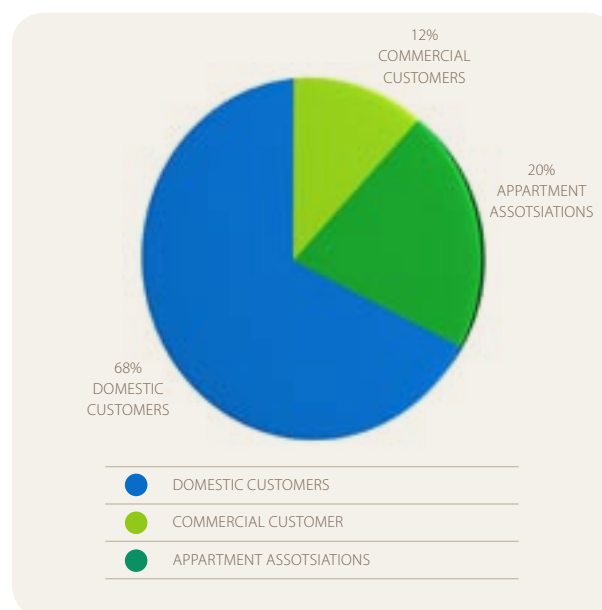
# OUR CUSTOMERS

## 2007 OBJECTIVES AND TASKS

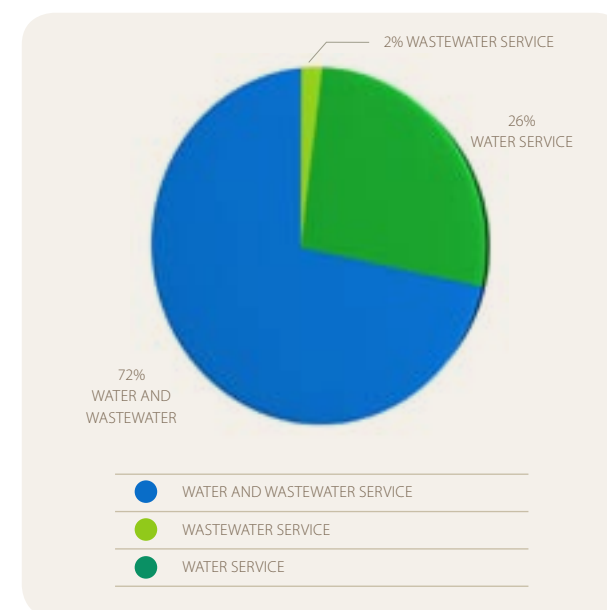
- Increase customer satisfaction
- Keep "Our promises"
- Improve customer contact management and reduce complaints

The largest share of the Company's 20,000 customers is formed of domestic customers and private households. There are ca 13,500 private households. The second larger customer group consists of apartment associations (close to 4,000 customers) and different commercial entities (ca 2,500 customers). The Company provides both water and sewerage services to the majority of customers, yet there is a certain proportion of customers using just the water or the sewerage service.

## PROPORTION BY TYPES OF CUSTOMERS 2007



## SERVICES PROVIDED TO CUSTOMERS 2007



# CUSTOMER SATISFACTION

## CUSTOMER SATISFACTION SURVEY

The overriding objective of the Company is to provide the best customer service of any utility company in the Baltic States and the results of the annual survey enable us to identify our position among peers.



*Kersti Põld*  
MICROBIOLOGIST

At the end of 2007 the independent research company TNS Emor carried out a customer satisfaction survey which included interviewing over 900 customers and end-users. The services provided by AS Tallinna Vesi were rated for quality and importance. Customer satisfaction is measured on the basis of the TRI\*M index developed by the research company, which characterises the strength of the customer relationship and also allows comparison with other companies.

The final result of the customer satisfaction survey TRI\*M index on a scale of 100 was 79 points as regards customers and 74 as regards end-users. In comparison with other utilities companies worldwide this result places the Company among the top 10% both as regards customers as well as end-users. The positive trend is characteristic across all customer segments. The slight drop in customer satisfaction among end-users, as compared to the 2006 results, is predominantly linked to the reduced satisfaction of end-users in Lasnamäe district.

A strengthened customer relationship within a customer target group denotes a higher recommending preparedness and a stronger wish to remain a customer of the Company also when alternatives exist or appear. Thanks to this the positive and the more critical assessment by customers has become more balanced.

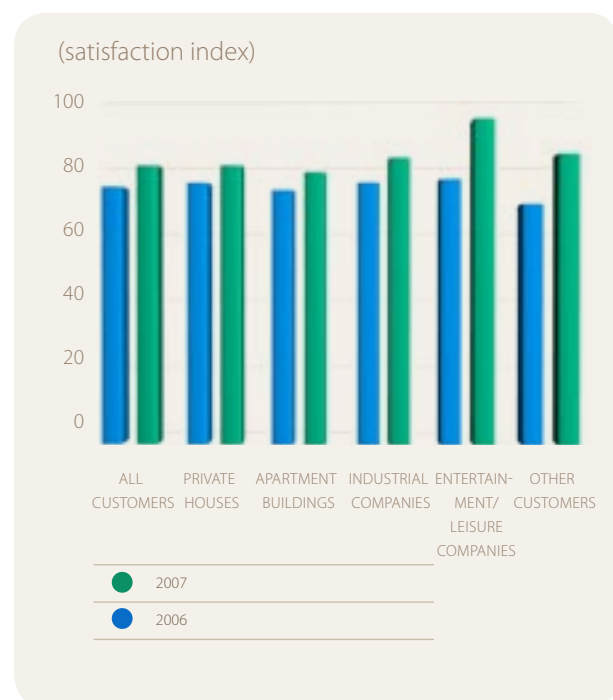
## CUSTOMER/END-USER SATISFACTION 2006-2007, TRI\*M INDEX



# CUSTOMER SATISFACTION

Compared to 2006, the positive trend in customer satisfaction is characteristic across all customer segments.

## CUSTOMER SATISFACTION BY CUSTOMER SEGMENT 2006-2007



The strength of customer relationships and customer satisfaction are influenced most of all by the quality of the service, primarily the quality of drinking water, the condition of the infrastructure, the service price and the Company's reputation, also the handling of problems and communication with service staff.

Compared to last year, customer satisfaction with the different aspects has in the most part slightly increased. According to customers the main strengths of the Company are predominantly linked to the competence of the service staff at the bureau and the keeping of promises as well as to the positive attitude of Company employees. Among active information channels preferences lie with the web-based environment and the web-based self-service. In the opinion of end-users the main strength of the Company is ensuring an uninterrupted water supply and the quick response time to disruptions which do occur.

Customers and end-users find that improvements to drinking water quality, competence of technical staff and workmen, communication via the emergency phone and e-mail, as well as communication of information on the development of the quality and price ratio should continue further.

The main development priority for the Company is the handling of problems. Whilst the ratings of this aspect have improved, satisfaction with it is still the lowest. Customers and end-users attach high value to the positive attitude of our employees in the solving of problems as well as the friendliness and politeness of workmen, but improvements are needed as regards the speed of solving problems and the flexibility of communication with customers.

## CUSTOMER SATISFACTION WITH DIFFERENT ASPECTS OF SERVICES 2006-2007, ON A SCALE OF 5

	2006	2007	
Submitting readings	4,1	4,2	▲
Billing	4,0	4,2	▲
Readings phone	4,2	4,2	◀▶
TV web-page and self-service	4,0	4,1	▲
Service bureau	3,9	4,0	▲
Technicians	4,0	4,0	◀▶
Information phone	3,9	4,0	▲
Technical employees	3,8	4,0	▲
Water supply	3,9	3,9	◀▶
Contracts	3,8	3,9	▲
Service via e-mail	3,8	3,9	▲
Emergencies phone	3,7	3,8	▲
Water and sewerage equipment	3,7	3,8	▲
Water quality*	3,9	3,8	▼
Reputation	3,6	3,7	▲
Price	3,2	3,3	▲
Solving of problems	2,2	2,5	▲

\* ALTHOUGH CUSTOMERS SATISFACTION HAS BEEN SLIGHTLY LOWER IN 2007, ACTUAL SAMPLES SHOW THAT DRINKING WATER QUALITY HAS BEEN AT THE HIGHEST LEVEL EVER

# CUSTOMER SATISFACTION

## CUSTOMER DELIVERY CENTRE AND SERVICE DELIVERY CENTRE

In 2007 the customer service related processes and work organisation were analysed from the customers' perspective. Changes to the Company structure were introduced for achieving higher customer satisfaction and better problem handling as well as improving communication of information within the Company and two new units - the Customer Delivery Centre and the Service Delivery Centre - were created.

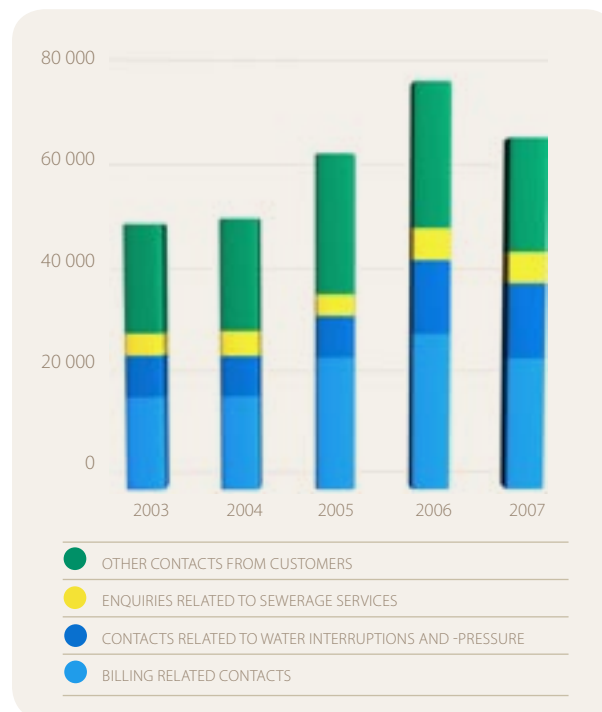
The Customer Delivery Centre consists of Customer Administrators focusing primarily on servicing new customers, customer contracts administration and offering auxiliary services.

The Service Delivery Centre was created by bringing together Water and Sewerage Networks staff and Customer Contact administrators, so as to improve cooperation between different units of the Company via joint management. The Service Delivery Centre has the main task of solving customers' problems and handling communication with customers.

## CONTACTS FROM CUSTOMER

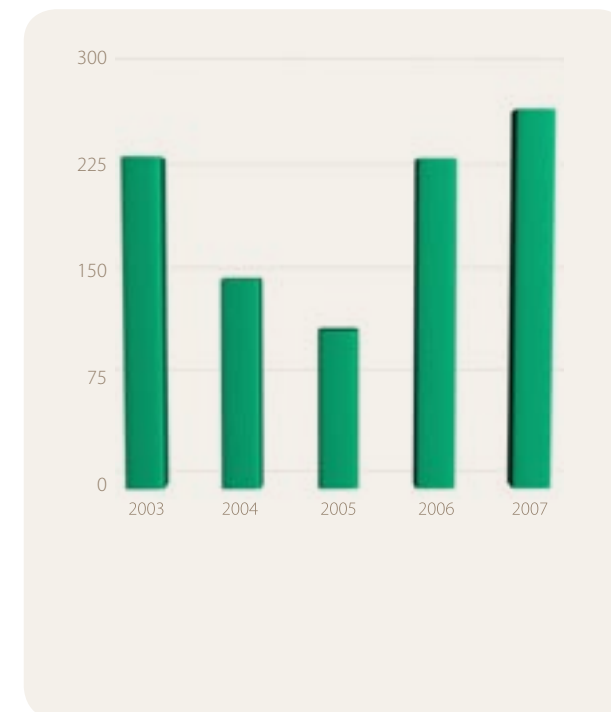
The Company has established a number of communication channels for the customers to send in their enquiries, complaints and also to provide information updates and proposals. In addition to the opportunity to seek information from the homepage, send e-mails and visit the Customer Service Front Office, the Company has its own Call Centre available to customers 24/7. The highest number of contacts is made via phone, a channel followed by e-mails and letters, including written complaints.

## CONTACTS FROM CUSTOMERS 2003-2007



AS Tallinna Vesi has implemented the Guaranteed Standard Scheme for its customers. This includes 22 standards and is called „Our Promises“ that are related to the services and daily communication of the Company with its customers. The promises can be divided into two groups in terms of their nature – the promises creating and maintaining quality of life and those ensuring timely and clear responses to customer contacts. In case the Company fails to keep those promises, the customer will be compensated for inconvenience caused.

## WRITTEN COMPLAINTS 2003-2007



# DRINKING WATER QUALITY



The customer satisfaction survey shows that drinking water quality is one of the factors having the greatest impact on customer satisfaction. Drinking water quality must comply with Minister of Social Affairs Decree no. 82 from 31 July 2001 "Potable Water Quality and Control Requirements and Analysis Methods" that originates from the Estonian Water Act and European Union Potable Water Directive 98/83/EC. In regard to some parameters (iron, manganese) that do not impose risk on human health a transition period was applied until the end of 2007 and the requirements of the Ministry of Social Affairs Decree No 82 will become effective as of 1 January 2008.

The Company has a detailed drinking water control programme for 2005-2010, which has been approved by the Harju County and Tallinn Health Protection Authority and which includes separate quality control for the water treatment plant, the ground water system, and the city network. The frequency of taking samples and the parameters to be checked are determined in the said programme.

Additional drinking water quality requirements are included in special use of water permits HR0549, HR0679, HR0960, HR0961 (for details please see page 37).

Drinking and raw water quality analyses are carried out by the Company's Water and Microbiology Laboratory, which is accredited on the basis of the internationally recognised ISO 17025 standard. In 2007 the Water and Microbiology Laboratory took a total of over 76,000 analyses. The results of the analyses show that in 2007 treated water quality at

Ülemiste Water Treatment Plant and in ground water boreholes was 100% compliant with all parameters set in the Minister of Social Affairs Decree no. 82 and 100% compliant with all microbiological parameters. Chemical compliance during 2007 was 97.5%, which is higher than the requirement of 95% set forth in the Decree no. 82. Also, the quality of the water in the network was very good, with only few deviations from the required standards.



*Dare Nisberg*  
CATCHMENT CO-ORDINATOR

# DRINKING WATER QUALITY

## TREATED WATER QUALITY AT ÜLEMISTE WATER TREATMENT PLANT

In 2007 the treated water quality at Ülemiste Water Treatment Plant was compliant with the requirements of Decree no. 82, as also shown in the table on page 24. The quality of drinking water is mostly ensured by the quality of surface water and the efficiency of the treatment process.

## SURFACE WATER QUALITY

In 2007 the quality of raw water taken into the treatment system complied with the class A2 requirements of the European Council Directive 75/440/EU requirements. To ensure compliance, the raw water quality indicators are checked once per day at the intake to the treatment system. Raw water pollution indicators, such as Ptot and Ntot, are checked once per week. Additionally, a detailed in-depth analysis of raw water is carried out once per month in accordance with the drinking water control programme.

Surface water quality is dependent on weather conditions – for example precipitation, thaw water, but also on the geographical conditions of the catchment area, moors, wetlands, areas of karst and forest, etc. In particular, the raw water quality is influenced by the content of certain natural organic substances – humic substances. Humic substances have a large impact on the colour, permanganate and chemical oxygen demand of water. The lower the permanganate oxygen demand, the lower the amount of chemicals spent on treating surface water. The clearer the drinking water, the lower is the colour of it. Colour and permanganate oxygen demand remained relatively stable over the year.

## PERMANGANATE OXYGEN DEMAND IN RAW WATER 2003–2007

mg/l	2003	2004	2005	2006	2007
PHT	8.1	10.3	10.6	9.3	9.3

In order to improve raw water quality, a biomanipulation project was carried out from 2001 to 2006 with the purpose of improving water quality by manipulating and balancing the water ecosystem and establishing the classical food chain:

Piscivorous fish – benthic- and planktivorous fish – zooplankton – phytoplankton.

The main manipulation factor was the catching of benthivorous fish like bream and roach and the facilitation of growth in the number of piscivorous fish such as pikeperch and pike. This way the phytoplankton biomass in Lake Ülemiste is decreased, whilst the Ptot and Ntot indicators as well as water transparency improve.

In 2007 the Limnology Centre of the Estonian University of Life Sciences studied the impact of the project on the condition of Lake Ülemiste. Monitoring catches were carried out and it was found that although the amount of fish fauna has decreased by 50%, the balance between piscivorous fish and planktivorous fish has not yet reached the desired level. To ensure larger scale changes in the lake ecosystem the number of piscivorous fish in the lake needs to be increased and additional mass catches need to be carried out to decrease the number of planktivorous fish. Surveys and studies will continue in 2008.

## RAW WATER COLOUR 2003–2007

degrees	2003	2004	2005	2006	2007
Colour	46	61	58	45	43

## EFFICIENCY OF THE WATER TREATMENT PROCESS

The basis for the design of the treatment process are the requirements established as regards to raw water quality. Based on lake Ülemiste raw water quality the use of physicochemical treatment – prechlorination, coagulation, sedimentation, filtering and disinfection – is foreseen by legislative acts for ensuring drinking water quality. The Ülemiste Water Treatment Plant treatment process is even more efficient than the requirements foresee, as ozonation, which ensures the high quality of drinking water more effectively, is used instead of prechlorination and preliminary filtration.

Over the recent years activated carbon has been used during the summer for improving drinking water odour and taste as well as for reducing organic matter content. No significant change in the organic matter content has been noted, but a positive shift was observed as regards the functioning of the technological process – the odour accompanying flushing of sedimentation tanks was not as strong as usually.



# DRINKING WATER QUALITY

The treated water reservoir and filters of the old plant (constructed in 1927 and reconstructed in the 1960s) were renovated and reconstructed in 2007 in order to increase water quality. This allowed to decrease the load in the new plant, constructed in 1979.

Lower loads meant decreased water flow rates resulting in an improvement in water turbidity and other quality indicators. Also a new version of the automated control system, allowing better optimisation of the production system and consequent resource savings, was employed.



*Lia Hamm*  
COMMUNICATIONS SPECIALIST

## GROUND WATER QUALITY

The districts of Nõmme, Pirita, Merivälja, Laagri and Tiskre are supplied with water produced from the Cambrian-Vendi or Cambrian-Ordovician aquifers. Ground water is also used in Saue Town and Harku Rural Municipality.

In 2007 the quality of treated ground water at borehole pumping stations complied with the requirements of Decree no. 82, as shown in the table on page 26. There were no cases of ground water pollution or potential pollution in 2007 demanding notification to the City and Tallinn Health Protection Authority.

Pursuant to the requirements established in the special use of water permits and to the drinking water control programme we monitor all quality parameters which are of decisive importance in evaluating the situation.

Water samples are taken from all boreholes in use in order to carry out an in-depth chemical analysis. In addition to the full chemical analysis required by the water permit the company also studies the content of 12 microcomponents and makes analyses of the water both from the Cambrian-Vendi as well as the Cambrian-Ordovician aquifer. In addition, the substances listed as dangerous to the water environment in the Water Act are tested for in ground water, e.g. mercury, antimony, arsenic, cadmium, boron, barium and others.

According to the Water Policy Framework Directive, the qualitative or chemical condition of ground water is considered good if the concentration of pollutants does not indicate inflow of salty water or other water and does not exceed the respective quality standards.

## GROUND WATER TREATMENT

The ground water used for producing drinking water is of quality classes I-III. Quality class I water needs no treatment – all Cambrian-Ordovician aquifer boreholes in Nõmme fall under this category. Ground water from the Cambrian-Vendi aquifer, which forms the main part of ground water used as a source of drinking water, mostly falls under quality classes II and III and needs treatment. Water quality classes II and III are usually caused by an excessive iron, manganese and ammonium content and the non-compliance of colour with the raw water requirements.

The Company uses filtering and aeration as ground water treatment methods to ensure drinking water complies with the requirements. Pressure filters have been installed to ground water borehole-pumping station for the removal of excess iron and manganese. Raw ground water is aerated and filtered in the pressure filters, no chemicals are used. Water samples taken show that treatment reduces water turbidity, iron and manganese content, improves colour and the stability index and increases the content of oxygen in the water.

The mixing of water from the two aquifers is also used for improving water quality. The Company's ground water monitoring data are used in national ground water monitoring when evaluating the quality condition of the ground water of the region of Tallinn.

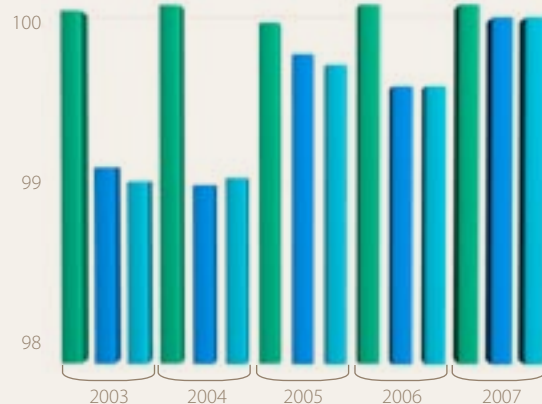
# DRINKING WATER QUALITY

## DRINKING WATER QUALITY IN THE WATER NETWORK AND AT CUSTOMER'S PREMISES

In 2007 water quality in the network and at customer's premises was once again high. Considering the requirements in force, the overall compliance of the 2,880 samples taken from the water network was 99.93%, which is the highest figure in recent years.

## DRINKING WATER COMPLIANCE WITH REQUIREMENTS 2003–2007

(% of samples)

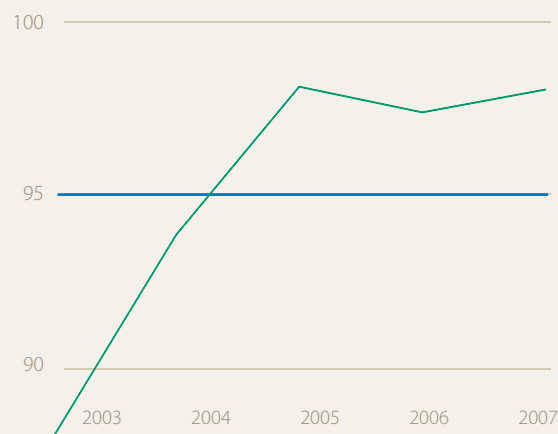


- MICROBIOLOGICAL COMPLIANCE
- CHEMICAL COMPLIANCE
- OVERALL COMPLIANCE

Drinking water quality is also compliant with the parameters (iron, manganese) coming into force on January 1st, 2008. If we take into account the iron content limit value of 0.2 mg/l, then the over 95% compliance with these requirements, as foreseen by the Services Agreement, was reached three years prior to the deadline, that is by the end of 2004 already.

## QUALITY COMPLIANCE IN 2003-2007 WITH THE DECREE NO. 82 REQUIREMENTS COMING INTO FORCE IN 2008

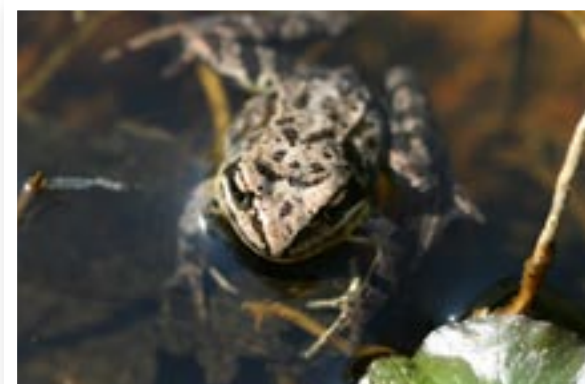
(%)



- ACTUAL COMPLIANCE
- SERVICES AGREEMENT REQUIREMENT

## WATER NETWORKS MAINTENANCE

Preventive works in the form of networks flushing and water supply network reconstructions are used to maintain and improve the quality of drinking water used in the homes of customers and consumers. The use of a new water treatment chemical, polyaluminiumchloride, at Ülemiste Water Treatment Plant since 2003 has also had a positive impact on water quality, lowering the iron content and regulating the pH-level of the water.



*Kristi Ojanurm*  
MICROBIOLOGY LABORATORY MANAGER

# DRINKING WATER QUALITY

## FLUSHING OF WATER NETWORKS

Pressure washing and flushing of water network pipelines helps to remove the sediment from the walls of water pipes and improves water quality at customer's premises. The amount of water used for flushing (ca 256,000 m<sup>3</sup> in 2007) is negligible compared to the benefit arising from improved quality. The Company achieved its target to carry out the flushing of 225 km, although this falls slightly short of the results of previous years.

## FLUSHED WATER NETWORK 2003–2007

	2003	2004	2005	2006	2007
km	201	195	236	238	227

## WATER NETWORK RECONSTRUCTION AND NETWORK EXTENSIONS

Investments into replacements of old water pipes and network extensions have facilitated both improvements in water quality as well as more efficient usage of water resources. In 2007 most of the construction works were carried out in the City Centre District.

## WATER NETWORK RECONSTRUCTION AND NETWORK EXTENSIONS 2003–2007

km	2003	2004	2005	2006	2007
Reconstructions	6.2	9.0	15.8	6.4	6.9
Network extensions	1.5	2.3	0.3	0.8	3.1

## WATER INTERRUPTIONS

To ensure the constant availability of running water the Company must carry out network maintenance and construction, which may, in certain cases, also lead to planned water supply interruptions. Customers are notified five working days in advance of planned water supply interruptions. Where possible, the water supply interruptions necessary for construction and maintenance works are planned for night time in order to disrupt the customers' daily life as little as possible.

In the case of water emergencies, i.e. unplanned interruptions, the Company must ensure the quick liquidation of the water emergencies, the latest within 12 hours, in order not to cause a decline in the quality of life or a danger to public health and in order to meet the required LoS. To decrease water supply interruptions caused by unplanned interruptions, the Company liquidates water network leakages immediately after they are localised. A 24 hour coverage with shifts and subcontracting arrangements for specialised equipment, ensuring the quick availability of equipment in water leakages liquidation, were put in place for this purpose.

In the case of each water supply interruption exceeding five hours, which is caused by an emergency, repair or maintenance works on the public water supply network, the Company guarantees alternative water supply by a water tank lorry or trailers. Should the need for a water supply interruption exceeding 12 hours become apparent upon planning repair works, then a connection to an alternative water supply is constructed for the customer if possible. The possibilities for constructing a temporary water supply depend on the weather conditions and the technical indicators of the mains, thus it has happened, that instead of constructing a temporary water supply the repair works are sped up instead.

The duration of an average water interruption was 4.5 hours in 2007. Despite all the measures taken, water interruptions caused by repair works on the water network exceeded 12 hours in three cases in 2007. The long-term water interruptions were caused by the combined effect of the technical, traffic organisation and geological conditions. The Company has analysed each case and implemented possible corrective actions.



*Sven Müller*

WATER CATCHMENT - TECHNICAL SPECIALIST

# DRINKING WATER QUALITY

## GROUND WATER QUALITY IN PUMPING STATIONS 2004–2007

PARAMETER	UNIT	AVERAGE RESULTS				DECREE NO 82 AND EU DIRECTIVE 98/83/EC
		2004	2005	2006	2007	
Odour	points	1	1	1.1	1.1	Acceptable to consumer
Taste	points	1	1	1	1	Acceptable to consumer
Temperature	°C	9.1	9.1	9.03	8.9	
Colour	mg Pt/l	7.6	7.2	4.98	4.56	Acceptable to consumer
Turbidity	NTU	1.88	1.38	0.95	0.46	Acceptable to consumer
Dissolved O <sub>2</sub>	mg/l	4.6	4.6	5.24	5.3	
pH	pH unit	8.09	8.03	8.02	8	>6.5 ja <9.5
Conductivity	µS/cm	590	583	578	568	2500
Permanganate index	O <sub>2</sub> mg/l	1.12	1.02	0.7	0.7	5
Alkalinity	mg-ekv/l	2.58	2.57	2.55	2.51	
Total hardness	mg-ekv/l	3.38	3.33	3.37	3.27	
Temporary hardness	mg-ekv/l	2.54	2.53	2.51	2.49	
Permanent hardness	mg-ekv/l	0.84	0.8	0.87	0.78	
Free CO <sub>2</sub>	mg/l	2.7	3	2.84	3.11	
Total iron Fe	mg/l	0.18	0.13	0.08	0.05	0.2
Fluoride	mg/l	0.66	0.69	0.58	0.58	1.5
Manganese Mn	mg/l	0.043	0.039	0.034	0.024	0.05
Ammonium NH <sub>4</sub>	mg/l	0.288	0.273	0.202	0.143	0.5
Nitrites NO <sub>2</sub>	mg/l	0.009	0.012	0.014	0.012	0.5
Nitrates NO <sub>3</sub>	mg/l	0.5	0.54	0.55	0.73	50
Stability index		0.24	0.18	0.19	0.15	
Total organic carbon	mg/l	1.3	1.3	1.2	1.03	Without unusual changes

# DRINKING WATER QUALITY

## GROUND WATER QUALITY IN PUMPING STATIONS 2004–2007

PARAMETER	UNIT	AVERAGE RESULTS				DECREE NO 82 AND EU DIRECTIVE 98/83/EC
		2004	2005	2006	2007	
Sulfides, S2-	mg/l	0.006	0.006	0.005	0.004	
Dry residue	mg/l	280	286	300	307	
Calcium, Ca2+	mg/l	48	48	48	47	
Magnesium, Mg2+	mg/l	13	13	13	12	
Sodium, Na+	mg/l	32	32	45	42	200
Potassium, K+	mg/l	6.5	6.3	6.8	6.7	
Sulfates SO42-	mg/l	21	23	29	14	250
Bicarbonates, HCO3-	mg/l	155.1	155.9	155.5	152.9	
Chlorides, Cl-	mg/l	100	95.8	90.4	90.1	250
Boron	mg/l	0.23	0.18	0.15	0.17	1
Aluminium	µg/l	2.53	2.25	1.14	0.91	200
Arsenic	µg/l	0.25	0.11	0.09	0.09	10
Cadmium	µg/l	<0.09	<0.01	<0.01	<0.01	5
Chromium	µg/l	0.76	0.47	0.51	0.45	50
Copper	mg/l	0.0033	0.0041	0.003	0.005	2
Mercury	µg/l	<0.01	<0.01	<0.02	<0.02	1
Nickel	µg/l	2.35	2.86	1.59	1.81	20
Lead	µg/l	0.49	0.37	0.12	0.13	10
Antimony	µg/l	0.03	0.03	0.01	0.009	5
Selenium	µg/l	1.31	1.17	0.54	0.44	10

# DRINKING WATER QUALITY

## DRINKING WATER QUALITY IN ÜLEMISTE WTP 2004–2007

PARAMETER	UNIT	AVERAGE RESULTS				DECREE NO 82 AND EU DIRECTIVE 98/83/EC
		2004	2005	2006	2007	
Odour	points	1	1	1	1	Acceptable to consumer
Taste	points	1	1	1	1	Acceptable to consumer
Turbidity	NTU	0.15	0.17	0.11	0.10	1
Colour	Pt mg/l	3	3	2	2	Acceptable to consumer
Dry residue	mg/l	291	286	287	276	
pH		7.27	7.30	7.37	7.36	6.5 - 9.5
Conductivity	µS/cm	447	441	443	438	2500
Alkalinity	mg-ekv/l	2.9	2.9	3.05	2.72	
Total hardness	mg-ekv/l	4.3	4.2	4.3	4.15	
Temporary hardness	mg-ekv/l	2.9	2.9	3.1	2.72	
Permanent hardness	mg-ekv/l	1.4	1.3	1.2	1.44	
Permanganate index (COD Mn)	mg O <sub>2</sub> /l	3.3	3.5	3.1	3.2	5.0
Total organic carbon (TOC)	mg/l	6.7	6.9	6.3	6.2	Without unusual changes
Free CO <sub>2</sub>	mg/l	16.9	17.8	18	14	
Carbonates CO <sub>3</sub>	mg/l	0	0	0	0	
Bicarbonates HCO <sub>3</sub>	mg/l	176.9	178.0	188	165	
Chlorides Cl <sup>-</sup>	mg/l	26.8	26.1	24	25.5	250
Sulphates SO <sub>4</sub>	mg/l	41.5	38.2	37	46.2	250
Orthophosphates PO <sub>4</sub>	mg/l	0	0	0	0	
Fluoride	mg/l	0.14	0.15	0.1	0.10	1.5
Nitrates NO <sub>3</sub>	mg/l	3.6	2.5	2.4	3.4	50


# DRINKING WATER QUALITY

## DRINKING WATER QUALITY IN ÜLEMISTE WTP 2004–2007

PARAMETER	UNIT	AVERAGE RESULTS				DECREE NO 82 AND EU DIRECTIVE 98/83/EC
		2004	2005	2006	2007	
Ammonium NH <sub>4</sub>	mg/l	0.002	0.003	0.003	0.003	0.50
Calcium Ca	mg/l	72	69.9	71.9	67.3	
Magnesium Mg	mg/l	8.0	7.6	8.7	8.5	
Total iron Fe	µg/l	0	0	0	<10	200
Manganese Mn	µg/l	4.8	7.5	5.1	3.0	50
Aluminium Al	µg/l	108	132	88	82	200
Sodium Na	mg/l	6.7	6.3	6.7	6.7	200
Potassium K	mg/l	2.5	2.6	2.7	2.6	
Chromium Cr	µg/l	0.61	0.56	0.53	0.50	50
Copper Cu	µg/l	0.6	0.6	0.38	0.67	2000
Mercury Hg	µg/l	0.02	0.045	0.02	0.02	1
Lead Pb	µg/l	0.03	0.02	0.01	0.03	10
Selenium Se	µg/l	0.00	0.09	0.28	<0.4	10
Zinc Zn	µg/l	0.5	0.3	0.26	0.41	
Acrylic Amide	µg/l	0.036	0.028	0.015	0.014	0.10
Chloroform	µg/l	23.2	21.6	20	20	
THM	µg/l	25.6	26.0	25	25	150
Enterococh	PMÜ/100ml	0	0	0	0	0
No of nests at 22 C	PMÜ/ml	0	2	2	3	100
Coli bacteria	PMÜ/100ml	0	0	0	0	0
Escherichia coli	PMÜ/100ml	0	0	0	0	0
Clostridium perfringens	PMÜ/100ml	0	0	0	0	0







*It was on an early September morning,  
several years ago already, that I found this  
daisy.  
We had driven to the countryside the previous  
evening together with my partner and gone  
to sleep rather early so as to wake at sunrise.  
True, getting up in the morning is rather  
painless for me in the countryside, plus the  
morning was beautiful and warm.  
After a light breakfast we went on a  
walk to Laiuse hill, which is in  
Jõgeva County and it was there,  
wondering around in the  
grass still wet with  
dew, that I  
discovered the  
daisy.*

*Kristi Oisnarm*

MICROBIOLOGY LABORATORY MANAGER

# ENVIRONMENT



# ENVIRONMENTAL MANAGEMENT SYSTEM AND POLICY

## OUR CONTRIBUTION TO CUSTOMERS AND THE COMMUNITY

Our customers always have pure drinking water and the possibility to discharge and treat wastewater and storm water environmentally wisely.

We understand and take responsibility for our impact on the health and quality of life of our clients and residents.

Our customers can communicate with us conveniently.

By open communication we will shape the environmentally conscious way of thinking of our customers and consumers.

We use natural resources sparingly.

We ensure our compliance with all applicable legal acts and other requirements acknowledged by the Company.

To increase customer satisfaction and avoid environmental pollution we are actively seeking for better solutions and continuously improve our work.

## ENVIRONMENTAL POLICY

The quality and environmental policy approved by the Company's senior management expresses the Company's principles in organising environmental activities.

## ENVIRONMENTAL MANAGEMENT SYSTEM

The environmental management system forms a part of the Company's management system (for details please refer to page 9). The objective of the environmental management system based on both the ISO 14001 as well as the EMAS (Eco Management and Audit Scheme) standards is to avoid or at very least minimise environmental pollution via integrating the environmental management system elements into the daily activities of the Company.

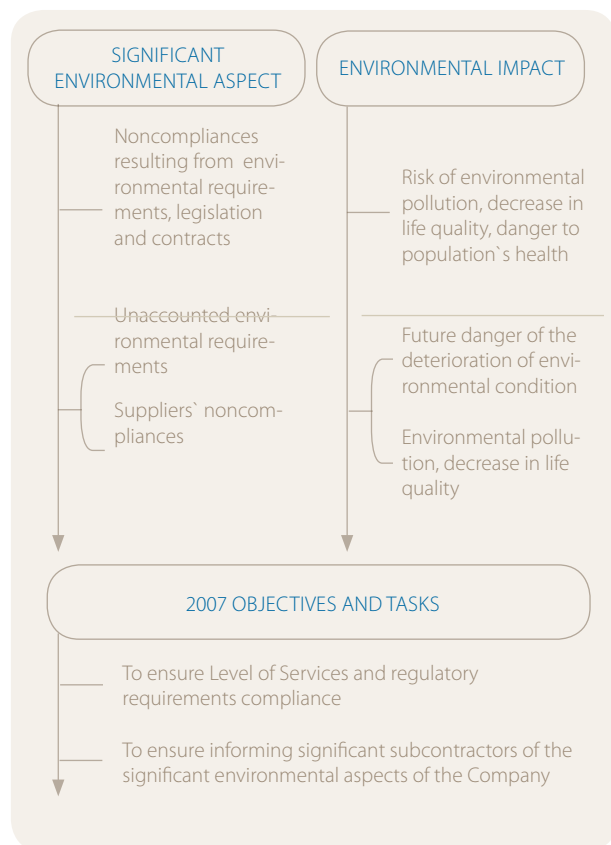
The basis for the environmental management system is the identification of both the negative as well as positive environmental aspects and impacts on the basis of which the Company will determine the environmental objectives and tasks for improving performance. Significant aspects are those different facets of the Company's activities, which, in contact with the surrounding environment, cause the most serious consequences to the natural environment, quality of life and the Company's business activities.

An overview of the significant environmental aspects of the Company, their actual or potential environmental impact, the accompanying environmental objectives and tasks and progress against the objectives is presented in the chapters of this Annual Report.



*Lisa Kamm*  
COMMUNICATIONS SPECIALIST

# COMPLIANCE WITH ENVIRONMENTAL REQUIREMENTS



The minimum requirement of the environmental management system is compliance with the environmental legal acts. All improvements to the environmental management system have to be in accordance with the requirements and restrictions set out in applicable legal acts as well.

To a large extent the Company's environmental activities are regulated by requirements arising from EU, national and local government legislative acts. Different national environmental legal acts apply to everyday operations of the Company, of which the Water Act, Public Water Supply and Sewerage Act, Waste Act, Chemicals Act, Ambient Air Protection Act and regulations adopted on the basis thereof have the most significant impact on the Company.

In order to meet the minimum requirement, the Company systematically monitors the relevant environmental legislation and amendments thereto since 2005. On a monthly basis it is determined which area of the Company's activities is affected and each month changes in environmental legislation are being identified, sorted on the basis of impacted areas of Company's activities and reported to the managers responsible for the particular areas. Managers of the respective areas ensure that the required changes are carried out.

The main licensing authority for the Company is the Harju County Environmental Service, who has issued the following environmental permits to the Company:

- 4 special use of water permits (details on page 37);
- 2 waste permits (details on page 55);
- 2 ambient air pollution permits and 1 special permit for ambient air pollution (details on page 60).



*Sven Müller*

WATER CATCHMENT - TECHNICAL SPECIALIST

# COMPLIANCE WITH ENVIRONMENTAL REQUIREMENTS

In 2007 the Company operated in accordance with the conditions established in environmental permits. Matters related to environmental permits were solved in cooperation with the Harju County Environmental Service.

Besides legislation, the activities of the Company are also regulated by the Services Agreement. Performance of the Services Agreement is supervised by the Supervisory Foundation for the Water Companies in Tallinn, appointed by the local government, to whom the Company annually submits a thorough report on compliance with the requirements of the Services Agreement. All 97 Levels of Service, except water supply interruptions exceeding 12 hours, were met in 2007 (for details please refer to page 25).

Considering the requirements set for the Company, we also ensure that our suppliers will meet environmental and work environment requirements.



*Olga Chislova*  
CHEMIST

To ensure the above, the Company has established environmental and work environment criteria for the qualification of suppliers in its procurement procedures. The environmental and work environment related compliance of bidders is assessed on the basis of questionnaires filled by bidders in the course of the tendering procedure. Bidders for construction works must additionally confirm that they apply health and safety and environmental protection measures at the construction sites.

Construction supervision staff of the Company monitors the health and safety and environmental activities of subcontractors. After the term of the contract the supervision staff assess the activities of suppliers in compliance with the requirements as regards bigger contracts (EEK 200 000 and above). In 2007 the assessment given to suppliers was good.

Compliance with environmental legislation and Services Agreement requirements, as well as with other intra-Company requirements is also checked in the course of internal and external audits.

In the course of internal audits carried out in 2007 the internal auditors presented a total of 78 non-conformities and proposals, which form a good source for the managers to improve the management system.

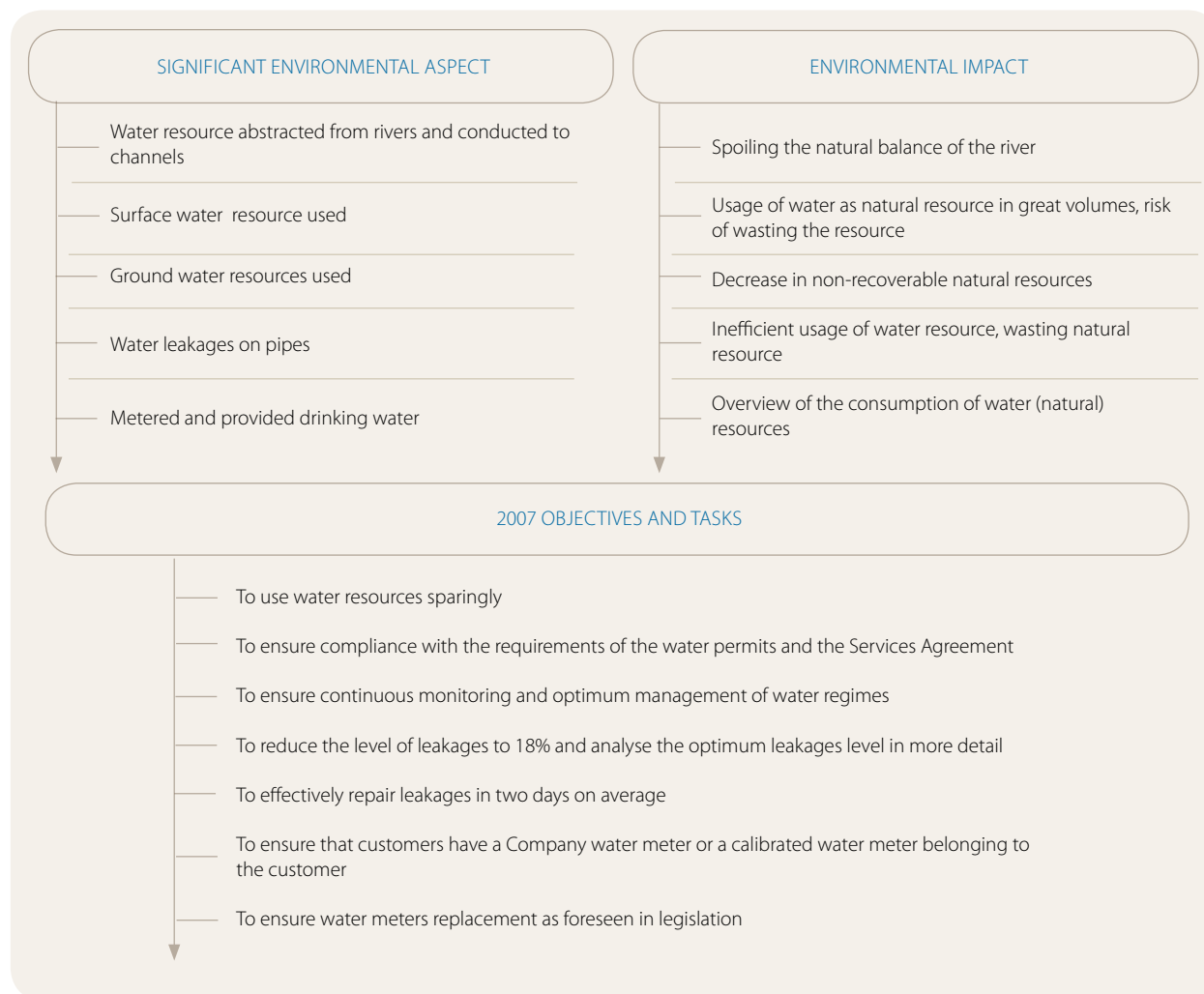
A regular external audit was carried out in the Company in 2007 by accredited certifier Det Norske Veritas in order to evaluate the compliance of the quality and environmental management system with the ISO 9001, ISO 14001 standard requirements and with the EU (EMAS) Regulation 761/2001 requirements.



*Margus Maripuu*  
WATER TREATMENT - PROCESS MANAGER

As a result of the external audit an audit report was prepared in which Det Norske Veritas confirmed the validity of the certificates. Three nonconformities were discovered, related to occupational safety and construction supervision, and all three have been corrected. A number of observations were also made in connection with the fact that compliance with the occupational health and safety requirements of OHSAS 18001 was assessed for the first time and these have been taken into account in improving the management system.

# USAGE OF WATER RESOURCES



## SPECIAL USE OF WATER

The activities of a water undertaking in using water resources are regulated by the Water Act and its implementing provisions. For operating, a water company must have a permit for special use of water and pay a charge for the water resource used.

The permit for special use of water defines different activities, for instance the amount of water that the Company may extract, water quality monitoring requirements, requirements set for accounting for water extracted, the permitted limits of pollutants contained in effluent, pollutants monitoring requirements, and measures reducing the impact of special use of water.

All the requirements established in permits for special use of water were met in 2007.

The fee for special use of water is paid for the amount of water taken into Ülemiste Water Treatment Plant and the water pumped out of ground water aquifers. In 2007 the fee for special use of water amounted to 3.5% of the operating costs.



# USAGE OF WATER RESOURCES

## VALID WATER PERMITS OF AS TALLINNA VESI

PERMIT	VALID UNTIL	DESCRIPTION OF SPECIAL USE OF WATER
Water Permit no. HR0679 (L.VV.HA-19537)	31.10.2008	SAUE TOWN, HARJU COUNTY Extraction of ground water from boreholes opening Cambrian-Vendi and Ordovician-Cambrian aquifers. Supplying Saue town with domestic and industrial water across the entire licensed operating area. Collection of wastewater and directing wastewater to Paljassaare Wastewater Treatment Plant.
Water Permit no. HR0549 (L.VV.HA-13579)	31.03.2008*	TALLINN PUBLIC WATER SUPPLY AND SEWERAGE SYSTEM MAIN LICENSED OPERATING AREA, TALLINN SURFACE WATER CATCHMENT SYSTEM FACILITIES AREA IN HARJU AND JÄRVA COUNTY. The usage of surface water as well as ground water from the Ordovician-Cambrian and Cambrian-Vendi aquifers, discharging storm and drainage water into Tallinn Bay and Kopli Bay, Mustjõe stream and Männiku wetland, discharging biologically treated effluent into Tallinn Bay.
Water Permit no HR0960 (L.VV.HA-138048)	31.12.2011	TISKRE VILLAGE, HARKU BOROUGH, HARJU COUNTY Extraction of ground water from borehole, over 5 m <sup>3</sup> /day. Directing all wastewater to Paljassaare Waste Water Treatment Plant.
Water Permit no HR0961 (L.VV.HA-138050)	31.10.2011	HARKU VILLAGE, HARKU BOROUGH, HARJU COUNTY Extraction of ground water from borehole, over 5 m <sup>3</sup> /day. Directing all wastewater to Paljassaare Waste Water Treatment Plant.

\* Renewed



*Kristi Ojanurm*  
MICROBIOLOGY LABORATORY MANAGER

# USAGE OF WATER RESOURCES

## USAGE OF SURFACE WATER RESOURCES



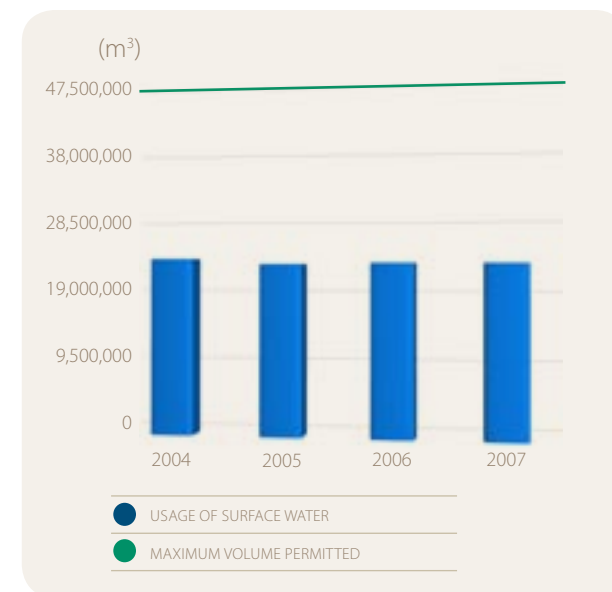
The Company receives surface water from an extensive water catchment system encompassing the river basins of Pirita, Jägala and Soodla River with a total area of ca 1,800 km<sup>2</sup>, covering mostly the Harju sub-basin.

The water catchment system consists of hydropoints constructed on rivers and of water reservoirs and the connecting canals. The most significant water reservoir of the system is Lake Ülemiste with a net volume of 15.8 million m<sup>3</sup>. Additional water reserves for dry periods have been accumulated to Paunküla water reservoir on the headwaters of River Pirita (9.9 million m<sup>3</sup>) and to Soodla water reservoir on River Soodla (7.4 million m<sup>3</sup>).

The size of the water resource in Tallinn's surface water catchment system primarily depends on the amount of precipitation and its distribution over the year. In a year of average rainfall approximately 50% of the possible water resource in the system is used up.

2007 was characterised by a dry May and June and thus the flow amounts in rivers at the end of June were below the long-term average. Also in the third quarter the flow amounts in rivers remained below the average. Thus it was necessary to use the water resources of Paunküla and Soodla water reservoirs in the respective amounts of 1.8 mln m<sup>3</sup> and 1.2 mln m<sup>3</sup> to supplement the water resources in Lake Ülemiste.

## USAGE OF SURFACE WATER FROM LAKE ÜLEMISTE AND COMPLIANCE WITH SPECIAL USE OF WATER PERMIT HR0549



In order to regulate water resources in an optimal and precise manner, water metering points have been constructed to all hydropoints, allowing the measurement of both the flow amounts directed into canals as well as the so-called sanitary flow amounts remaining in rivers. Measuring is carried out on a regular basis, following the requirements of the special use of a water permit. A continuous overview of the flow amounts makes it possible to use water resources in a more sustainable way.

# USAGE OF WATER RESOURCES

Reconstruction works were carried out on Kaunissaare dam in 2007, further facilitating the sustainable use of water resources in the future. The bottom seals of water gates were replaced and an emergency closing solution for the dam openings was constructed, thus it will in the future be possible to carry out repairs on water gates without lowering the reservoir headwater level. The water gates are used for regulating the level of water in the river.

## USAGE OF GROUND WATER

Ground water is mostly extracted from the Cambrian-Vendi aquifer and to a lesser degree from the Ordovician-Cambrian aquifer.

The Company regularly measures ground water levels in order to continuously control the state of Tallinn's ground water resources. In all the operating ground water facilities belonging to the Company, automatic hydrostatic pressure sensors have been installed, which enable the measurement of the level of ground water. Measurement of the water level in boreholes shows an increase of the pressure level of the aquifers in use, thus also the recovery of the ground water resources.

Conditions of groundwater usage have been determined in the permits for special use of water HR0549, HR0679, HR0960 and HR0961, issued to the Company. Although the usage of ground water is limited by the water permits, it is possible to cover the ground water demand and still have sufficient reserves to replace some of the surface water supply in case of a problem of supply from Ülemiste Water Treatment Plant

The Company met all the requirements of the special use of water permits in 2007.

## USAGE OF GROUND WATER AND COMPLIANCE WITH SPECIAL USE OF WATER PERMITS HR0549, HR0679, HR0960 JA HR0961

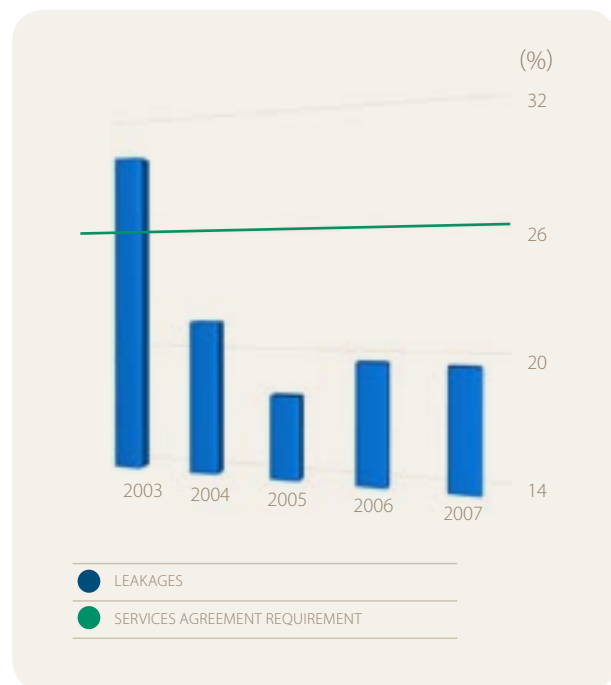
(m <sup>3</sup> )	2003	2004	2005	2006	2007
ACTUAL USAGE BY TALLINN	3,026,800	2,736,157	2,532,519	2,447,792	2,457,784
Incl. from Cambrian-Vendi aquifer	2,693,109	2,395,645	2,246,809	2,130,310	2,134,427
MAXIMUM VOLUME PERMITTED	6,880,250	6,880,250	6,880,250	6,880,250	6,880,250
ACTUAL USAGE BY SAUE	244,889	213,124	207,102	249,298	247,553
Incl. from Cambrian-Vendi aquifer	225,938	196,790	183,261	221,389	233,682
MAXIMUM VOLUME PERMITTED	460,250	460,250	460,250	460,250	460,250
ACTUAL USAGE BY TISKRE			5,720	33,266	40,813
MAXIMUM VOLUME PERMITTED			65,700	65,700	65,700
ACTUAL USAGE BY HARKU SETTLEMENT				20,810	32,308
MAXIMUM VOLUME PERMITTED				21,850	51,100

# USAGE OF WATER RESOURCES

## LEAKAGES

Another significant aspect of water usage is the reduction of water losses on the network. On the basis of the Services Agreement the Company had for 2005 the objective was to reduce the annual leakages level to 26%. This objective was exceeded and by the end of 2007 the Company reached a leakages level of 19.58%.

## LEAKAGES LEVEL 2003–2007



Quick discovery and liquidation of leakages are instrumental in retaining the leakages level reached and in reducing it further. In 2007 the average time for liquidating a leakage was 1.8 days, in 2006 the same took 2.2 days.

Daily work is supported by an updated water supply network information system, leakage specialists are provided with special equipment for finding the leakages and together with the network zoning system and the distance reading system this makes it possible to discover possible water leakages on the network more quickly.

Although the contractual requirement has been exceeded, the Company did not reach the internally set objective of reducing the annual average leakages level to 18%. There were some changes to the staff of the leakages group in 2007 and the recruitment and training of new specialists took longer than planned thus leakages group did not work with full capacity.

Thus work continues on retaining and further reducing the leakages level in order to achieve the optimum level. The optimum leakages level is considered to be the level where the further reduction of leakages would cost more than water production. Factors such as the cost of finding and repairing leakages and the cost of water production are taken into account in calculating the optimum leakages level.

The optimum leakages level calculation made for Tallinn shows that the suitable indicator in our conditions falls in the range of 15-18%. Company specialists have also studied the leakages related experience of our close neighbour Helsingin Vesi OY whose leakages level is ca 17%.

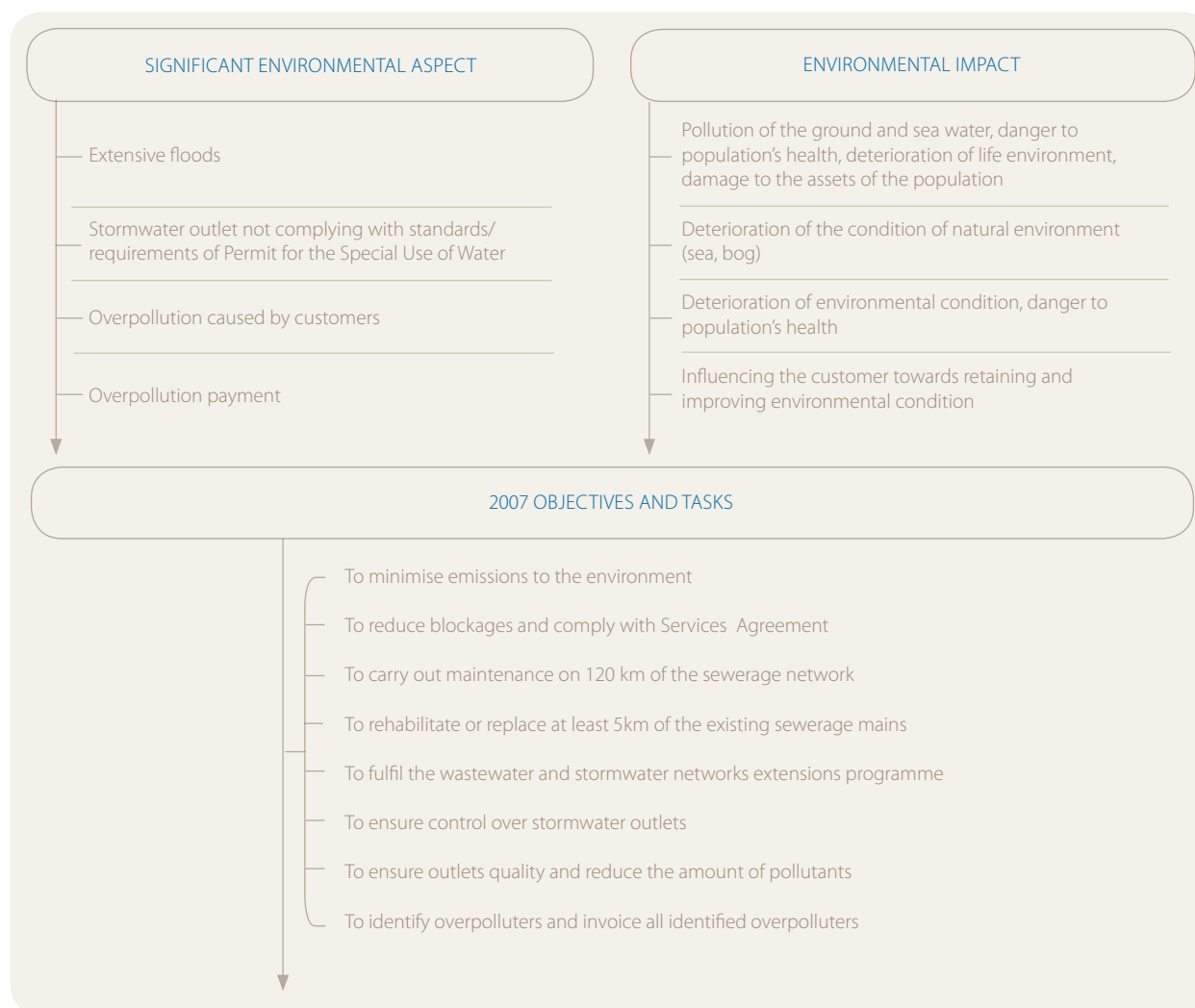
## WATER METERING

In total, over 19,700 water meters have been installed to customers' connection points, facilitating the reaching of more accurate accounting for the usage of water resources. Starting from 2005 we have taken into use more reliable and accurate single jet class C water meters. The Company has the obligation to recalibrate water meters every two years and the replacement of water meters takes place on the basis of a respective programme. The 2007 objective was to replace 8,700 water meters, which was reached to the extent of 96%.



*Urula Sildvask*  
SENIOR ENGINEER

# WASTEWATER COLLECTION



## SEWERAGE NETWORK MAINTENANCE

The main improvements for ensuring disposal of wastewater are linked to the flushing of wastewater networks as well as sewerage and stormwater networks reconstructions and extensions.



*Sven Müller*

WATER CATCHMENT - TECHNICAL SPECIALIST

# WASTEWATER COLLECTION

## CLEANING OF THE WASTEWATER NETWORK

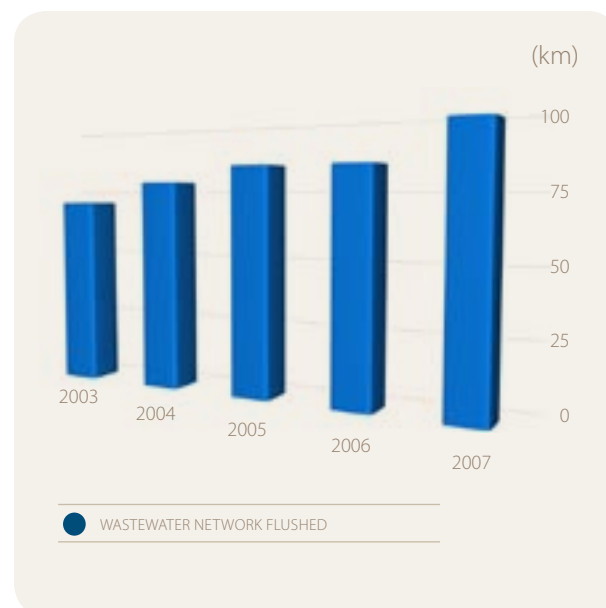
The purpose of wastewater network cleaning is preventive maintenance in order to avoid floodings and reduce blockages. Blockages are mainly caused by the sediment settling in the wastewater pipes. The lower consumption of recent years has resulted in decreased flow amounts and flow speeds, which in turn increases the risk of blockages.

The Company employs three jetting and suction tanks for flushing the network. The newest of them is a reuse cycle based combined jetting and suction tank, unique in Estonia, which was taken into operation in 2007. For flushing the network a flow speed is first created with high pressure that flushes all sediment into a cesspit. Thereafter the sediment is collected into the jetting and suction tank and transported to the wastewater treatment plant. The reuse cycle based jetting and suction tank allows the repeated use of the water necessary for flushing.

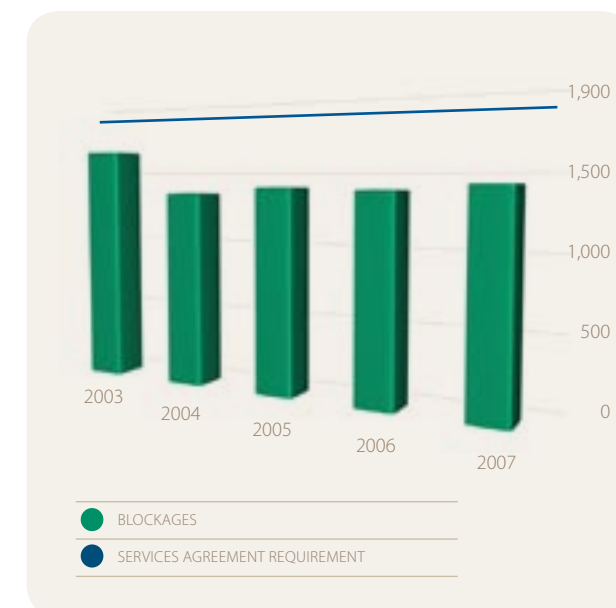
The volume of network flushed has been increased each year and in 2007 considerable more flushing was carried out, covering 99 km. Regardless of this the Company's internal objective of 120 km was not reached due to temporary technical problems.

Although pressure washing has yielded good results, it does not directly guarantee a reduction in the number of blockages. In 2007 the number of blockages increased to a small degree, but wastewater network extensions must also be taken into account here.

## WASTEWATER NETWORK FLUSHED 2003–2007



## NUMBER OF BLOCKAGES 2003–2007



# WASTEWATER COLLECTION

## WASTEWATER AND STORMWATER NETWORKS RECONSTRUCTION AND NETWORK EXTENSIONS

In 2007 the Company renovated the existing wastewater network and constructed new sewerage and storm water systems. In 2007 the majority of wastewater network extensions were carried out in the districts of Raku, City Centre, Lilleküla and Veskimetsa. As regards stormwater, the bulk of construction activities took place in City Centre, Lilleküla and Veskimetsa.

## WASTEWATER AND STORMWATER NETWORKS RECONSTRUCTION AND NETWORK EXTENSIONS 2003–2007

km	2003	2004	2005	2006	2007
Reconstructions	5.1	5.2	5.3	5.6	5.2
Wastewater network extensions	13.7	7.5	18.5	6.8	13
Stormwater network extensions	5.6	1.9	10.8	6.3	11.5

## CONTROLLING OVERPOLLUTION CAUSED BY CUSTOMERS

In order to ensure acceptable concentrations of pollution in the wastewater reaching the wastewater treatment plant, the Wastewater Inspectorate of the Company regularly monitors and checks compliance with regulatory requirements at commercial sites where wastewater is discharged into the public sewerage system. The main part of the industrial wastewater in the sewerage system is comprised of wastewater from the food processing industry.

The Wastewater Inspectorate has the right to take wastewater samples Based on the results of wastewater sampling the pollution group is determined, providing the Company with the right to charge the customer for over pollution fee.

In 2007 109 customers were identified who had caused overpollution and 1,135 overpollution invoices were submitted to them.

Information on the average pollution indicators is also regularly submitted to Harju County Environmental Service.

## STORMWATER OUTLETS

In 2007 the Company monitored, pursuant to the requirements set forth in the water permit, 16 stormwater outlets, the largest of which are the Lasnamäe, Harku and Mustoja outlets.

Samples for determining pollutants are taken regularly from stormwater outlets pursuant to the sampling procedure determined in the special use of water permit HR0549.

Upon agreement with local government four storm water outlets have been equipped with local treatment facilities such as sand- and oil traps, in order to further improve the treatment process.

The requirements set with the water permit were met in 2007.

In total 5,180,175 m<sup>3</sup> of storm water was discharged through these outlets in 2007 (compared to 3,032,757 m<sup>3</sup> in 2006).

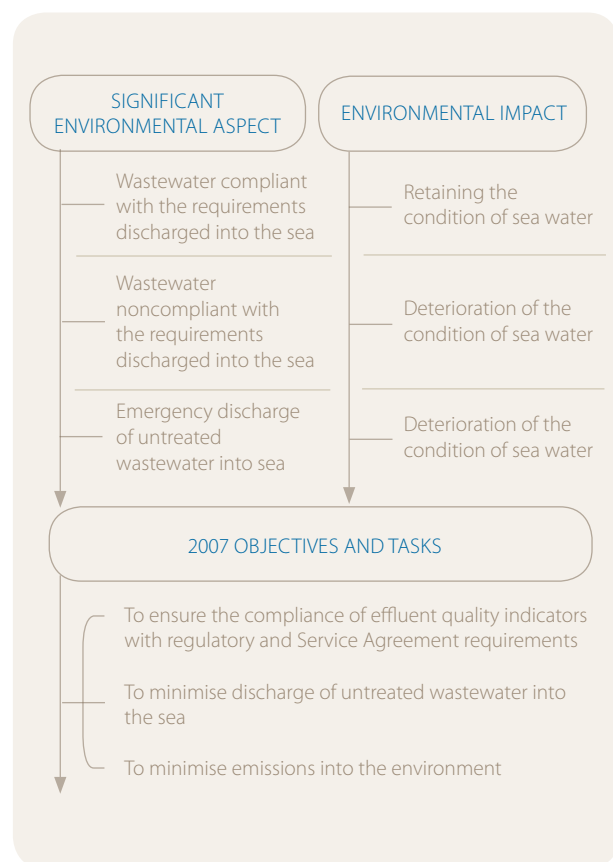
## POLLUTANTS FROM THE MAIN OUTLETS 2004–2007

(tonnes)	2004	2005	2006	2007
Suspended solids	91	60	43	89
Oil products	7.2	4.8	3.4	3.6



*Sven Moller*  
WATER CATCHMENT - TECHNICAL SPECIALIST

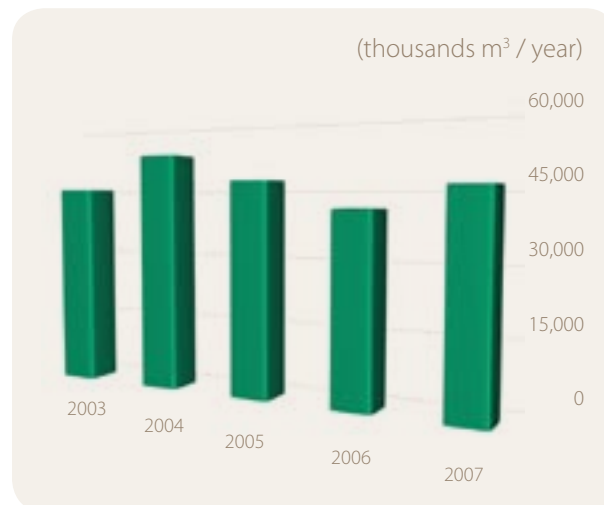
# WASTEWATER TREATMENT



## WASTEWATER TREATMENT RESULTS

46,593,120 m<sup>3</sup> of wastewater was treated at Paljassaare Wastewater Treatment Plant in 2007. Compared to 2006 the wastewater volume increased on account of precipitation, as the reference year was unusually dry.

## TREATED WASTEWATER VOLUME 2003–2007



The quality of the water discharged to the sea is set by legal acts and a permit for the special use of water HR0549. To assess wastewater quality, the concentration of pollutants in the sewage received by the treatment plant and in the wastewater coming from treatment, as well as the efficiency of treatment process are monitored. The following are the more significant indicators monitored:

- Biological oxygen demand (BOD<sub>7</sub>) shows the amount of oxygen required for the defined biological decomposition of organic matter in water in the course of 7 days;
- Total phosphorus (P<sub>tot</sub>) and total nitrogen (N<sub>tot</sub>) are elements included in nutrients that increase the growth of plankton in water. If the content of nutrients is too high, such growth can be so strong that the oxygen is used up and a shortage of oxygen arises;
- Suspended solids (SS) shows the volume of solid matter in water which is caught in a filter with a defined mesh size;
- Oil products show the amount of light (like petroleum) and heavy (like black oil) oil products.

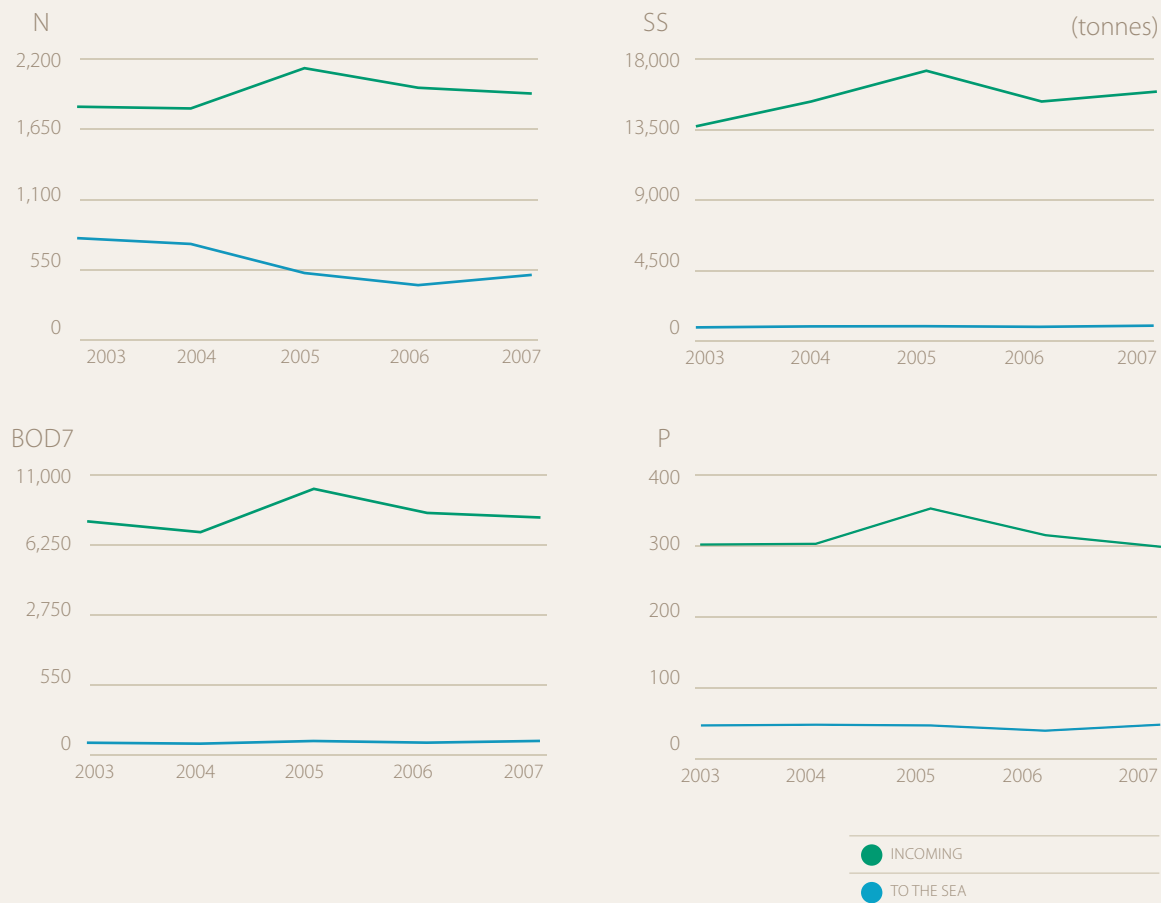
The concentration of pollutants of incoming wastewater has increased during recent years. In 2007 the pollution amounts increased somewhat on account of suspended solids and oil products, which is probably caused by the even distribution of precipitation over the year, which also „washed“ pollutants into the wastewater network together with stormwater. The growth trend has stopped as regards BOD, phosphorus compounds and nitrogen compounds, and the levels remain similar to those of 2006.

The 2007 treatment results were broadly similar to those of previous years, particularly good results have been reached in nitrogen removal. All requirements set with the special use of water permit were met.



# WASTEWATER TREATMENT

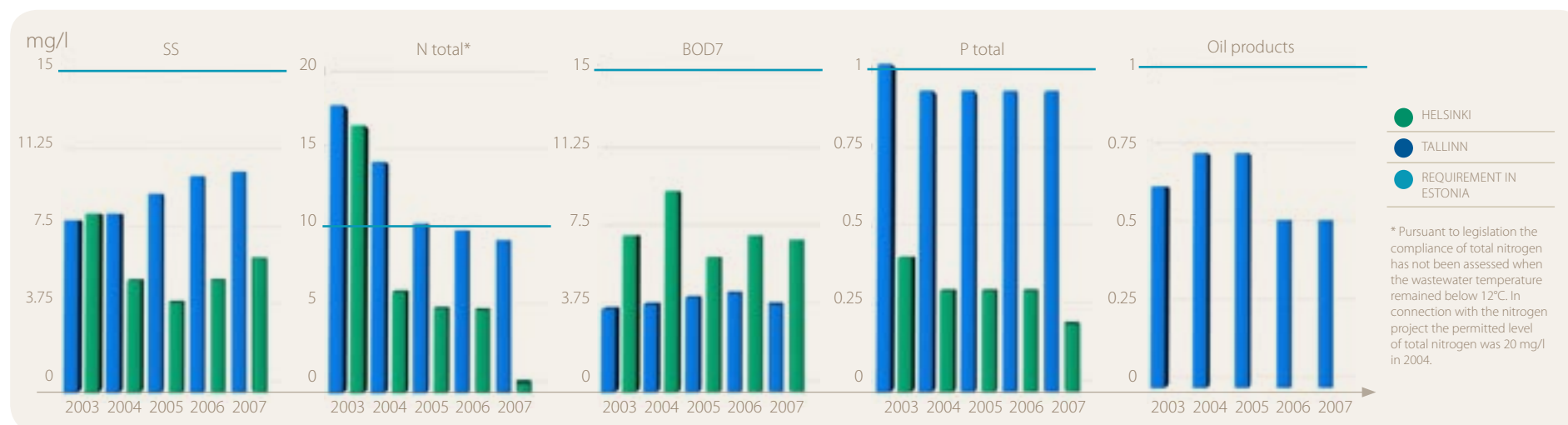
AMOUNTS OF POLLUTANTS COMING INTO THE TREATMENT PLANT  
AND DISCHARGED INTO THE SEA 2003–2007



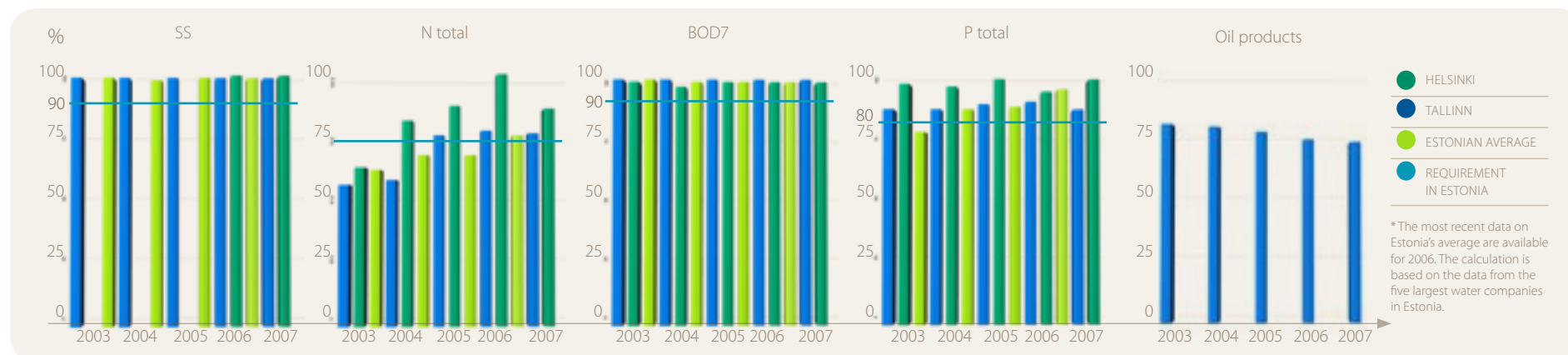
*Olga Chikova*  
CHEMIST

# WASTEWATER TREATMENT

AVERAGE POLLUTION INDICATORS IN EFFLUENT WASTEWATER 2003–2007 COMPARED TO REGULATORY REQUIREMENTS AND THE RESULTS OF HELSINKI WATER 



WASTEWATER TREATMENT PLANT TREATMENT EFFICIENCY 2003–2007 IN PERCENTAGE TERMS, COMPARED TO THE REGULATORY REQUIREMENTS, ESTONIA'S AVERAGE RESULTS\* AND THE RESULTS OF HELSINKI WATER 



# WASTEWATER TREATMENT

In 2007 we continued to acquire experience in working with the nitrogen removal process and increased the efficiency of the interoperability between the treatment process stages. The objective was to operate as sparingly as possible, using an optimum amount of chemicals and electricity, but without lowering the quality of the treatment results. Despite a range of technically complex investment projects and a wastewater amount which grew by ca 12% compared to 2006, we managed to achieve savings of chemicals and electricity per unit of production.

The treatment results are also comparable to the ones of larger Estonian water companies and our close neighbour Helsingin Vesi OY, although differences in both the conditions of the creation of pollution in settlements as well as treatment technology and, in the case of Helsinki, also in the regulatory environment must be taken into account.

In connection with wastewater network extensions in Tallinn, the connecting of new areas and the growing pollution trend we can assume that the amounts of wastewater, the pollution loads and concentrations will also increase in the coming years. In order to ensure the quality of treated effluent we started in 2007 to look for new technologies which would remove pollutants more effectively, such as a bio filter for example, and this will also continue in 2008.

## OUTLETS TO THE SEA

In 2007 no untreated wastewater was discharged to the sea as no extraordinary weather conditions, which could have caused wastewater appearing on city streets, occurred.

Due to loads exceeding the Wastewater Treatment Plant biological treatment capacity 395,810 m<sup>3</sup> of mechanically treated wastewater, strongly diluted with stormwater, was discharged into the sea via the deep-sea outlet.

The bulk of partly treated wastewater was discharged into the sea during heavy downpours on single days in August, September and October, i.e. under extraordinary weather conditions. The larger part of the remaining volume was discharged in July when the volume of wastewater reaching the plant exceeded the treatment plant capacity due to planned repairs of an aeration tank which reduced the biological treatment capacity by 20 percent.

## WASTEWATER TREATMENT PLANT OVERFLOWS 2004–2007

m <sup>3</sup> /year	2004	2005	2006	2007
Untreated wastewater discharged to the sea	43,000	131,000	0	0
Partly treated wastewater discharged to the sea	1,564,000	42,000	66,000	395,810

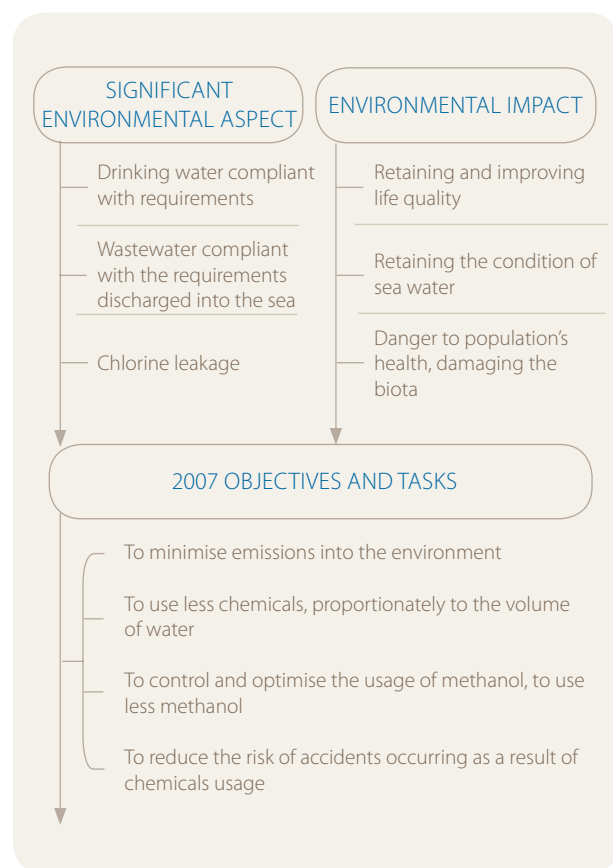
## ENVIRONMENTAL CHARGES

The Company is obliged to pay a environmental charge for pollutants discharged to the water bodies. Taxable pollutants contained in treated effluent and storm water, which are established for the specific outlet in the special use of water permit, are included in the environmental charge calculations.

Both the receiving water coefficient of the specific outlet as well as compliance with the pollutant limit value in effluent are taken into account in pollution charge calculations. In case the limit value is exceeded, a ten-fold pollution charge is set for the exceeding amounts of pollutants; if the pollutant levels remain below the limit value or are equal to it, legislation foresees a possibility to apply for a 50% reduction of the environmental charge. A reduction of the environmental charge is only possible when the results of all outlets comply with the water permit requirements.

Since all regulatory and special use of water permit requirements were met on all outlets in 2007, Harju County Environmental Service reduced the Company's environmental charge by 50%. In 2007 the environmental charge amounted to 2.4% of operating expenses compared to 4.2% in 2006.

# CHEMICALS HANDLING



The Company uses approximately 450 hazardous and less hazardous chemicals in its operating activities. Chemicals become hazardous first and foremost due to their characteristics which pose a danger to the population and the environment, on the other hand the level of hazardousness depends on the amount of chemical used.

Larger amounts of chemicals and more hazardous chemicals are used at the treatment plants. The amounts of chemicals used at the treatment plants depend predominantly on the volume and characteristics of the water reaching the plants, which in turn, are dependant on weather conditions in the case of surface water and on the level of pollution in the case of wastewater.

## WATER TREATMENT CHEMICALS

### CHLORINE

Pursuant to the Chemicals Act AS Tallinna Vesi has been classified as a category B company with a risk of a major accident due to the large amounts of chlorine used in the water treatment process.

In the water treatment process water is disinfected, so that the water would be safe to human health. The most common disinfectant in use is chlorine, which is effective and has a longer-term effect in the water distribution network. As a chemical chlorine is a heavier than air poisonous gas causing irritation and having a corrosive effect, which affects mucous membranes both internally and externally. Thus in the case of a chlorine emergency the people in the affected area may suffer serious damage to health or die.

The likelihood of accidents involving chlorine has been taken to a minimum by applying all necessary safety requirements. A new chlorine storage building, which is among the most modern in Europe, was completed at the end of 2003. Since no requirements were established in Estonia for the construction of a chlorine storage building, the chlorine storage technology is compliant with German design and Finnish construction standards.



*Olga Chikolova*  
CHEMIST

A crisis action plan has been put in place in order to be able to liquidate an unlikely but still possible chlorine emergency. In addition, a practical training of chlorine emergency liquidation is carried out annually in cooperation with the Rescue Centre (please also see page 68)

### OZONE

The usage of chlorine has decreased considerably over the past decade. If in 1996, for example, the Company used 251 tonnes of chlorine per year, then the chlorine usage in 2007 was 45 tonnes. The main reason behind the reduction is the replacement of water prechlorination with ozonation. Ozone effectively breaks down organic matter and disinfects the water. Ozone is produced locally in the Company and only in amounts needed. Thanks to the closed process and the fact that no stock is kept, the risk for the environment is minimum.

# CHEMICALS HANDLING

The ambient air pollution permit has been issued to the Company for limiting the residual ozone emissions (see more details on page 60). A thermic destructor of residual ozone has been integrated into the process in order to meet the requirements of the ozone plant pollution permit. As temperature increases, residual ozone emitted from the system is in turn broken down into oxygen and thus no ozone is emitted into ambient air. 100% of the residual ozone was broken down in 2007.

## COAGULANTS AND POLYMERS

In addition to chlorine, significant amounts of coagulants and polymers are used in the treatment process, which help to remove the particulate matter, suspended solids, etc. from water. Both coagulants and polymers are used in liquid form. These do not possess as toxic characteristics as chlorine and provided that the safety requirements are met, they do not pose a danger to the environment or the population.

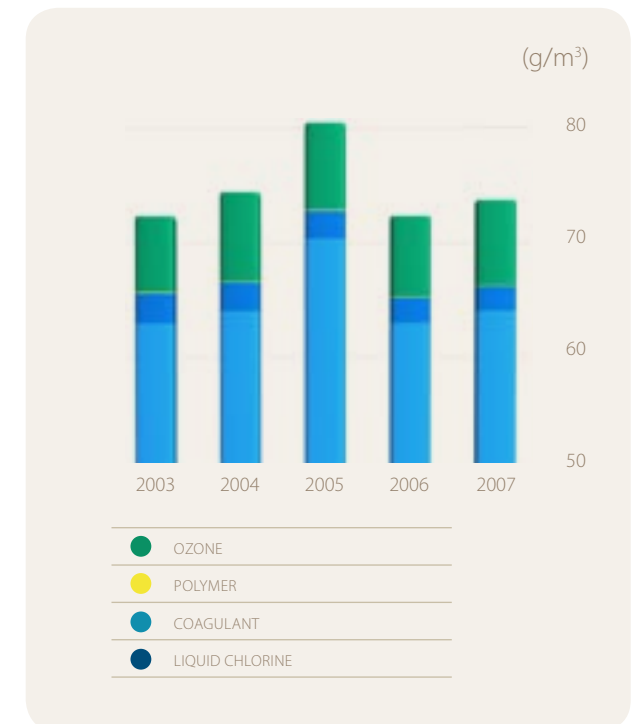
## USAGE OF WATER TREATMENT CHEMICALS

Despite the very different characteristics of water and the highly variable weather conditions the usage of chemicals has remained relatively stable. Chemicals usage is directly dependent on the surface water quality. In order to guarantee the drinking water quality under the 2007 surface water characteristics a significantly higher amount of ozone had to be used.

## USAGE OF WATER TREATMENT CHEMICALS 2003–2007



## USAGE OF WATER TREATMENT CHEMICALS PER UNIT OF PRODUCTION 2003–2007



# CHEMICALS HANDLING

## WASTEWATER TREATMENT CHEMICALS

### METHANOL

Due to the methanol used in wastewater treatment, the Company has been classified as a hazardous company on the basis of the chemicals legislation. Methanol usage was started in 2005 in connection with the nitrogen project in order to increase the efficiency of the nitrogen removal activities of the bacteria participating in the biological treatment process.



*Olga Chislova*  
CHEMIST

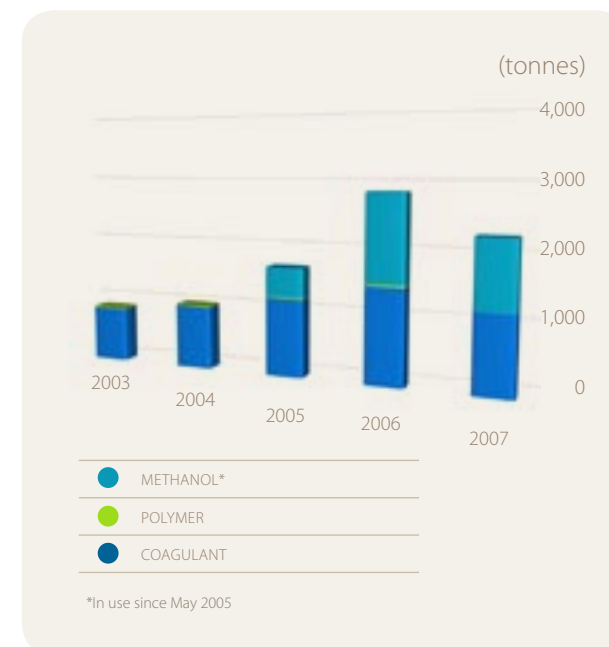
## COAGULANTS AND POLYMERS

In addition to methanol, significant amounts of coagulants and polymers are used in the wastewater treatment processes. Coagulant is used for the chemical processing of wastewater with the aim to remove phosphorus. Polymers are used to change the qualities of sediment and as a result of adding these water is more easily removed from the sludge. Provided that safety requirements are followed, these are not hazardous to the environment or the population.

## USAGE OF WASTEWATER TREATMENT CHEMICALS

If in the earlier years the amount of chemicals used in wastewater treatment has increased, then in 2007 it decreased considerably. Since the Company acquired the first experiences in operating the new technological process, the objective for 2007 was to use chemicals as efficiently as possible. The reduction in the use of chemicals was in turn aided by the significantly larger share of stormwater in wastewater, which resulted in decreased shock loads and lower incoming concentrations.

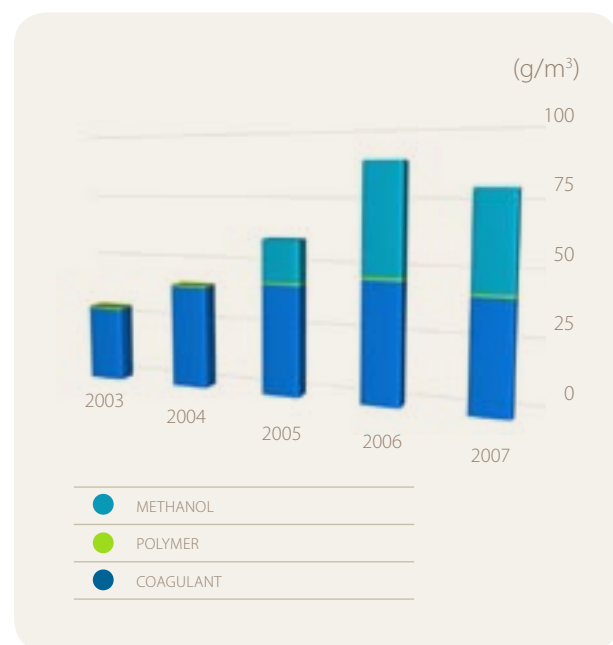
## USAGE OF WASTEWATER TREATMENT CHEMICALS 2003–2007





# CHEMICALS HANDLING

## USAGE OF WASTEWATER TREATMENT CHEMICALS PER UNIT OF PRODUCTION 2003–2007



## ENSURING CHEMICALS SAFETY

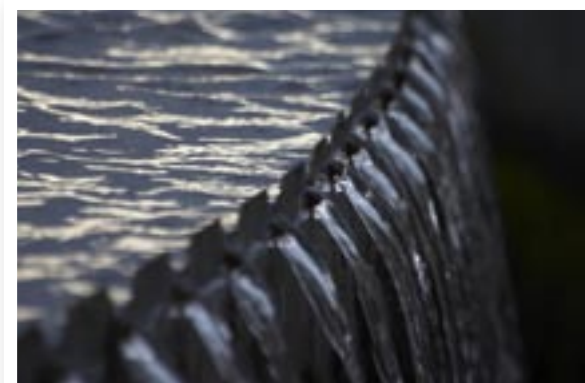
The likelihood of accidents involving chemicals has been taken to a minimum, as the chemical handling systems are compliant with the security and safety requirements.

The necessary conditions for the storage and use of all chemicals have been created, also the information from the chemical safety cards, the regulatory requirements and the safety instructions are followed. Chemical safety cards are available in the Company both electronically as well as in hard copy at the handling sites of the given chemical.

Absorbents and personal protective equipment are also available at the chemical handling sites. The sites for handling hazardous chemicals are equipped with automated alarm and degassing systems for the early detection and liquidation of possible leakages.

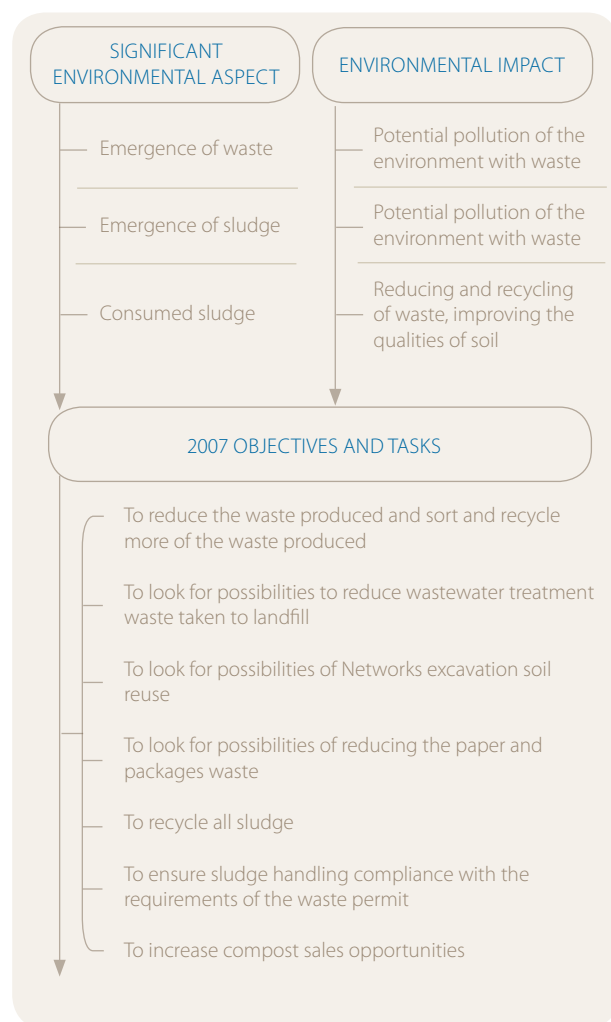
The Company has established procedures for ensuring the training of employees and the liquidation of emergencies. Provided that the security and safety requirements are followed, the likelihood of chemical emergencies (for more information see also pages 48, 58, 68) with serious consequences to human health and the environment is small. As a rule, chemical emergencies constitute smaller leakages that do not escape the purposefully adapted production premises and do not damage the environment or people.

There were no chemical accidents with serious consequences in 2007, which would have caused damage to people or the environment.



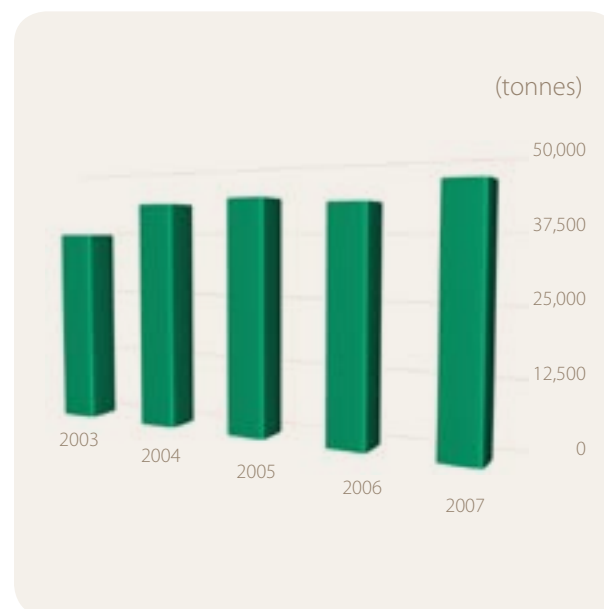
*Erik Sui*  
HEAD OF INFORMATION SERVICES

# WASTE MANAGEMENT



The largest amount of waste in the Company is created at the Wastewater Treatment Plant, followed by Networks, the Water Treatment Plant and Asset Management. Most of the waste produced is ordinary waste. A total of 46,211 tons of waste, which is more than during the previous years, was produced in the Company in 2007.

## WASTE PRODUCED 2003–2007



## ORDINARY WASTE

The increase in the amount of waste in 2007 is first and foremost linked to the increase in the amount of excavated soil, stones and asphalt produced in networks construction and repair works. Due to shortfalls in gathering data from subcontractors we have been able to determine the amount of excavated soil, which forms the bulk of construction waste, only approximately and thus the comparison with the data of the past two years is approximate. Starting from 2007 the Company has two stable partners for managing construction waste, organising the further treatment of waste and its reuse at different construction sites as well as submitting data on the waste.

The largest share, i.e. over 70% of ordinary waste is made up of wastewater sludge as a by-product from the sludge treatment process. All sludge is reused (please see page 54), the Company stopped depositing it to landfill in 2003.

Also other treatment process related waste such as waste from screens and sand traps' sludge is produced in significant amounts. The amount of sludge, but also of waste from screens and sand traps' sludge depends directly on the amount of incoming wastewater, the weather conditions and the efficiency of the city cleaning services. The amount of sand reaching treatment facilities has more than doubled compared to previous year, demonstrating shortfalls in the condition of streets and paved squares.

# WASTE MANAGEMENT

In 2007 steps were taken to find opportunities for additional treatment of waste created in wastewater treatment and reduction of waste going to landfill. We are considering the possibility of washing screen waste and sandtraps' sludge prior to transportation to landfill. In this regard one screen waste press with a washer will be installed in 2008 for tests to the screens intended for the removal of larger waste. In 2007 a new sludge screen was installed to the reconstructed sludge treatment building, allowing for the removal of finer waste from the sludge. Should the screen prove to be useful, it is also possible to add a waste washer to it.



*Medla Rando*

WASTEWATER TREATMENT - SYSTEM SPECIALIST

## TYPES AND AMOUNTS OF THE MORE SIGNIFICANT ORDINARY WASTE 2003–2007

(tonnes)	2003	2004	2005	2006	2007
Mixed municipal waste	221	151	156	149	134
Paper and cardboard	2.6	12	11	11	14
Packages	0.6	1.7	1	1.4	2
Waste from screens	107	174	273	280	275
WWTP wastewater sludge	27,952	35,770	36,404	35,434	33,834
Sandtraps' sludge	413	715	319	288	957
Excavated stones and soil	7861	6126	6000*	6000*	10,432
Asphalt waste	156	83	81	301	489
Mineral waste	303	44	492	113	0
Mixed building waste	56	1	8	209	31
Concrete and bricks	33	17	34	36	8
Metal scrap	11	0	118	39	28
Other waste	39	2	25	2	3
<b>TOTAL</b>	<b>37,155</b>	<b>43,097</b>	<b>43,922</b>	<b>42,863</b>	<b>46,207</b>

\* estimated volumes

Since the innovations linked to reducing the amount of waste are connected to the review of the entire mechanical wastewater treatment process, the entire project is both large scale and long term and entails a predesign phase. Predesign is planned to be started in 2008.

In 2007 the Company continued to separate paper and cardboard, as well as packages from mixed municipal waste, in order to allow further

recycling and reuse. The proportion of electronic bills to customers was increased and double-sided printing was made automatic, where possible, in order to reduce the amount of paper used.

Taking into account both sludge reuse and reusable waste delivered to partners, the proportion of reusable waste of ordinary waste is over 90%.

# WASTE MANAGEMENT

## HAZARDOUS WASTE

The amounts of hazardous waste have remained stable over recent years, their share of all waste being small, below 1%. A significant proportion of hazardous waste created in 2007 was made up of old oil, which is the result of maintenance works on machinery and equipment.

### TYPES AND AMOUNTS OF THE MORE SIGNIFICANT HAZARDOUS WASTE 2003–2007

(tonnes)	2003	2004	2005	2006	2007
Old oil	1.4	1.2	1.5	1.0	2.1
Lead-plate batteries	1.4	0.5	1.2	0.8	0.5
Fluorescent lamps and articles containing mercury	0.2	0.3	0.2	0.3	0.1
Paints – varnished	2.7	0.5	0.1	0.1	0.2
Devices containing PCB	0.7	0	0.2	0.2	0
Packages containing or contaminated with hazardous substances				0.3	0.4
Other	6.0	1.8	0.4	1.0	0.3
<b>TOTAL</b>	<b>14.5</b>	<b>4.3</b>	<b>3.7</b>	<b>3.7</b>	<b>3.6</b>

## SLUDGE REUSAGE

The main part of recycled waste was made up of sludge. Sludge mixed with peat, i.e. the sludge mixture, can be used for landscaping and greening. The Wastewater Laboratory monitors the sludge mixture quality on a regular basis. Analyses results confirmed the compliance of the sludge mixture with regulatory requirements in force. 19,231 tons of sludge mixture was sold to customers in 2007.

Two important projects undertaken for improving the sludge treatment were completed in 2007.

Over the period of 2004–2007 a total of 14ha of new composting fields, which are now in use, were constructed on the territory of the wastewater treatment plant.

Also the sludge treatment plant reconstruction for increasing the sludge removal and processing capacity, which was started in 2005, was finalised.

### RESEARCH INTO SLUDGE REUSAGE POSSIBILITIES

In 2002, a study of different possibilities for the use of wastewater sludge was initiated. The main purpose of this study, which was completed in 2006 was to evaluate the different options for the use of sludge in afforestation and in recultivation of exhausted and closed quarries and in afforestation of alvars. Also, any environmental impact to surface water and ground water, due to the use of sludge in afforestation, was being studied.



*AS Tallinna Vesi*  
COMPOST FIELDS

Different checks and analyses were carried out in 2007 in order to assess the situation after the study. Both the earlier and the 2007 results demonstrated that the conditions for the growth of trees improved both on the alvars as well as the bogs treated with sludge.

Based on the studies to date the peat soils of bogs are the most suitable soil for afforestation. The tolerance of different tree species against the amount of sludge used differs being higher among bigger plants with a strong root system. The main factors hindering tree growth in bogs are an insufficient air content of the soil, an excess amount of sludge and also wild animals, for whom the trees in the areas processed with sludge serve as a tasty forage.

# WASTE MANAGEMENT

The results of the study show a minimum environmental impact to surface water and ground water involved in using wastewater sludge for afforestation.

A study into alternative possibilities for sludge usage was started in 2007 as a continuation of the forest experiments project. In addition to afforestation, another possible area for sludge usage is the process of peat bogs recultivation. In 2007 the potential peat excavation sites in the vicinity were mapped, also the preliminary negotiations on terms and conditions have taken place with the peat bog users. Works in the area of peat bogs recultivation will continue in 2008, including potential proposals for amendments to legislative acts.

## WASTE PERMITS

Since sludge usage qualifies as waste processing and reusage, the Company has obtained waste permits in accordance with the requirements of the Waste Act.

First waste qualifying as domestic wastewater treatment sludge is created, which will be processed, i.e. stabilised in the digesters. After processing stabilised waste is created, which in turn will be reused – composted on the composting fields. Thus the wastewater treatment sludge is processed into a sludge mixture via two reusage processes.

The conditions of waste permits related to sludge recycling were met in 2007.

PERMIT	VALID UNTIL	DESCRIPTION OF WASTE PERMIT
Waste permit no. LJÄ.HA-31326	08.09.2009	Issued for recycling of stabilised waste in Paljassaare in the part of stabilised waste, domestic wastewater sludge and biodegradable waste.
Waste permit no. LJÄ.HA-34941	30.12.2009	Issued for recycling of stabilised waste and for transporting waste to Liikva as well as for recycling of biodegradable waste.

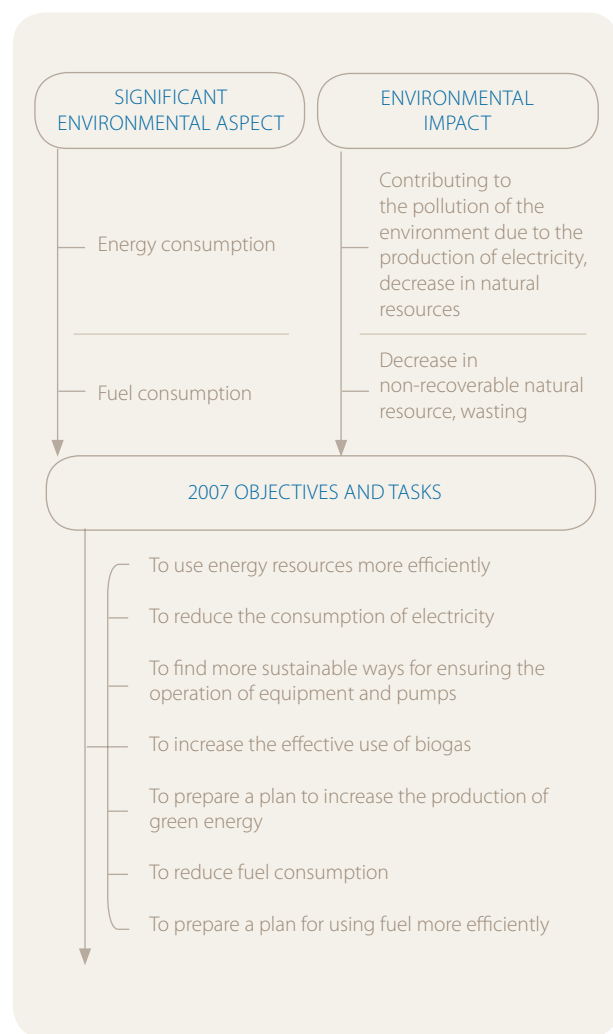
## COMPLIANCE WITH PALJASSAARE WASTE PERMIT LJÄ.HA-31326

tonnes	PERMITTED	ACTUAL			
		2004	2005	2006	2007
Stabilised waste	40,000	30,244	24,547	25,935	24,429
Domestic wastewater treatment sludge	300,000	35,770	36,404	35,434	33,834
Biodegradable waste	10,000	0	0	0	0

## COMPLIANCE WITH LIIKVA WASTE PERMIT LJÄ.HA-34941

tonnes	PERMITTED	ACTUAL			
		2004	2005	2006	2007
Stabilised waste	15,000	5,526	8,857	9,499	9,405
Domestic wastewater treatment sludge	3,000	0	0	0	0

# CONSUMPTION OF ENERGY



## CONSUMPTION OF ELECTRICITY

The bulk of electricity consumed is used for running the core processes of the Company - in the Water and Wastewater Treatment Plants, and in Networks to operate pumping stations and other equipment.

The total consumption of electricity by the Company has increased over recent years, mostly due to the need to modernise the technological process of wastewater treatment and to ensure the 24/7 operation of equipment necessary for achieving the needed LoS. To a certain degree the usage of network electricity is compensated by the electricity produced from biogas.

The increase in energy demand linked to the new technology used in wastewater treatment is also illustrated by electricity consumption per unit of wastewater treated, which has been significantly higher than before over the two last years. The 2007 figures are, however, slightly lower as the water amounts were higher and more stable than in 2006 and electricity consumption was partly controlled manually in order to increase the smoothness of operation.

Less electricity is needed for operating the water treatment process, although also here the consumption increased in 2007, first and foremost due to the production of a higher amount of ozone. Consumption per unit of production was, however, stable.

With electricity usage efficiency in mind the managers of the Operations Division analysed the opportunities for savings and better usage of green energy and established a further action plan for the following years.



*Marina Prigask*  
DESIGNER

Other intra-Company electricity consumers such as the head office, support services, asset management workshops, etc. are mostly located on the Ädala site territory. One of the reasons behind the increased consumption by them may be the fact that new air conditioning and ventilation systems were taken into use in 2007.

In order to monitor and reduce energy consumption in offices, it was decided that the head office will take part in the 2007–2008 European energy saving competition Energy Trophy+, led in Estonia by the Tallinn Centre of the Stockholm Energy Institute. The objective of the competition is to reduce energy consumption via non-monetary means, i.e. predominantly by changing the behavioural habits of employees and work organisation. The preliminary results demonstrate savings compared to the same time last period.

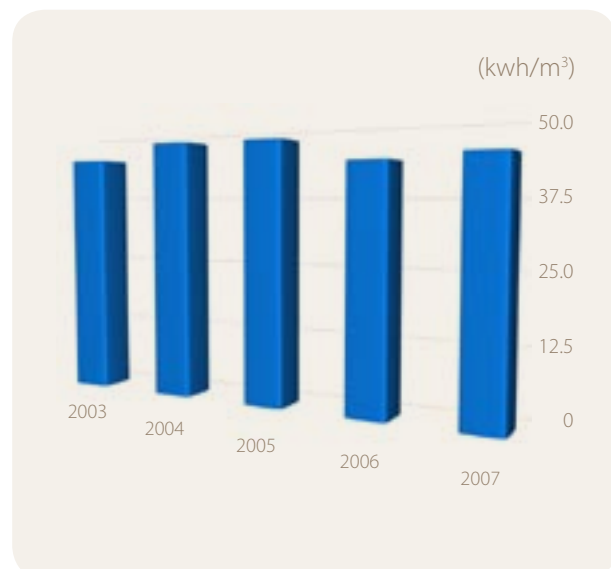


# CONSUMPTION OF ENERGY

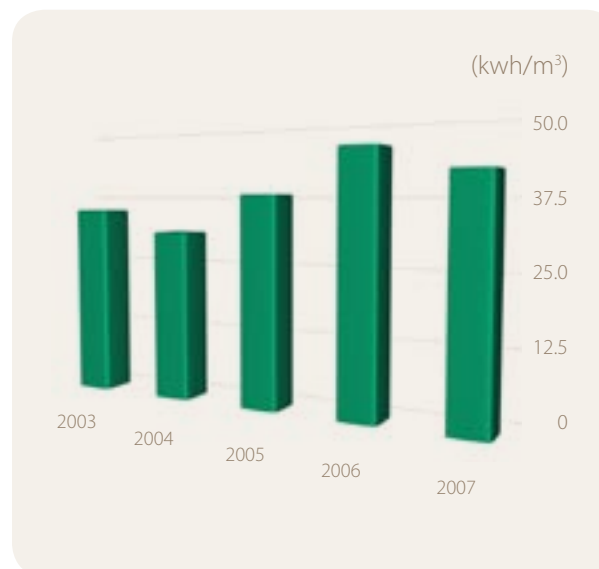
## ELECTRICITY CONSUMPTION 2003–2007

kwh	2003	2004	2005	2006	2007
Water Treatment	12,182,867	11,206,594	10,968,383	10,173,744	10,389,547
Wastewater Treatment	16,826,160	16,478,684	17,599,611	18,803,680	19,443,371
Incl electricity from biogas	1,250,223	889,560	2,330,691	1,190,978	1,159,057
Networks pumping station	6,126,094	6,000,153	5,554,768	5,636,745	5,624,797
Other	717,319	870,376	981,480	982,193	994,502
<b>TOTAL</b>	<b>35,852,440</b>	<b>34,555,807</b>	<b>35,104,242</b>	<b>35,596,362</b>	<b>36,452,217</b>

## ELECTRICITY CONSUMPTION PER UNIT PRODUCED AT THE WATER TREATMENT PLANT 2003–2007



## ELECTRICITY CONSUMPTION PER UNIT OF WASTEWATER TREATED 2003–2007



*Olga Chislova*  
CHEMIST

# CONSUMPTION OF ENERGY

## GREEN ENERGY

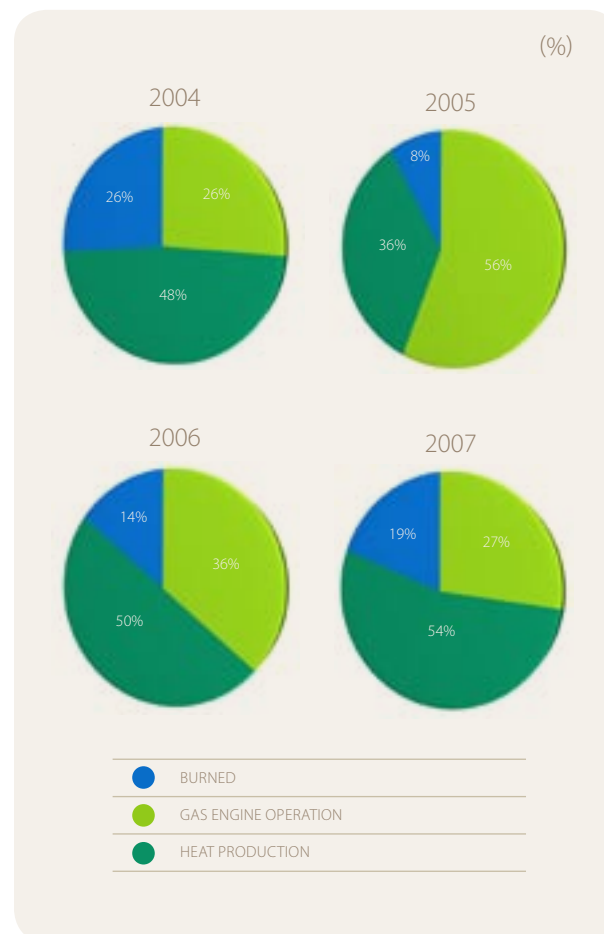
### BIOGAS REUSAGE

One good opportunity for reducing damages to the environment is the usage of green energy. For the Company this means the maximum usage in other processes of the biogas created as a result of sludge fermentation in sludge handling.

In 2007 a total of 2,306,764 m<sup>3</sup> of biogas was produced in Paljassaare Wastewater Treatment Plant digesters. Biogas is redirected into the treatment process via operating the gas engine powering the air blower producing the air necessary for the biological treatment bacteria or via heat production.

Over recent winters the production of biogas has been hindered by wastewater collected from the streets, which has mixed with a snow clearing chemicals and causes disruptions in the digesters' fermentation process. The 2007 conditions were somewhat more favourable for the production of biogas and thanks to an operating tactic reducing the disruptions we managed to keep the biogas production process more stable.

## BIOGAS USAGE 2004–2007



## BIOGAS PRODUCTION 2004–2007, m<sup>3</sup>

2004	1,883,000
2005	2,234,000
2006	1,811,161
2007	2,306,764

In 2007 81% (~ 1,862,000 m<sup>3</sup>) of the biogas was used for operating the gas engine or for heat production. A part of the biogas was burned both due to long-term emergency repairs of the gas engine and the length of the heating season.

Biogas contains about 70% of methane. The methane contained in biogas is explosive and it is one of the gases recognised as having a negative impact on the ozone layer. No biogas related accidents took place in 2007.

## OPPORTUNITIES FOR PRODUCING HYDROENERGY

Regulating the water regime of the catchment system (please also see page 38), the damming up of rivers and the availability of excess water resources in years of average precipitation have created the conditions for producing hydroenergy. Since 2003 a hydropower plant is in use on Kaunissaare dam, operated by OÜ Kaunissaare Hüdrolektrijaam. In 2007 a contract was concluded with OÜ Uus Energia for making it possible to construct a hydropower plant on Soodla water reservoir dam and for the subsequent operating on the plant. Construction works were started at the end of 2007.

# CONSUMPTION OF ENERGY

## FUEL CONSUMPTION

Altogether the Company has close to 140 vehicles for the purpose of carrying out different operating tasks, over half of them use petrol for fuel. The biggest group of vehicles is passenger cars and operating vehicles, which include minivans and team vans. A smaller group of vehicles includes special purpose vehicles such as jetting and suction trucks, water tank lorries, tractors, trailers, water tanks and trucks.

Although the consumption of fuel has somewhat increased compared to the previous year, it is still roughly the same as the consumption of previous years. The increase in consumption is caused by increased petrol consumption due to more frequent trips. The usage of more environmentally friendly fuel has decreased compared to last year, the consumption is first and foremost influenced by the higher prices of such fuel.

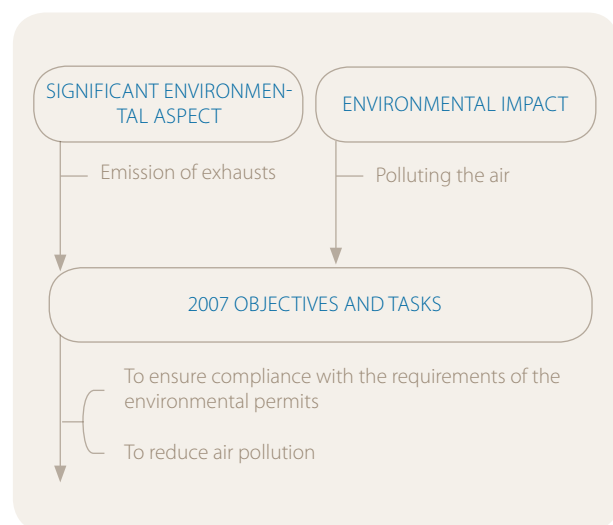
## FUEL CONSUMPTION, 2004–2007

IN LITRES	2004	2005	2006	2007
Petrol	117,932	117,483	123,868	135,251
Including more environment friendly fuel	3,721	10,557	10,202	8,885
Diesel	248,899	229,224	216,604	210,827
TOTAL FUEL	366,831	346,707	340,472	346,078
TOTAL NUMBER OF VEHICLES	134	146	147	135



*Andrus Palumäe*  
FOREMAN

# AIR EMISSIONS



In order to reduce ambient air pollution the Company primarily limits the amount of pollutants emitted from Ülemiste and Paljassaare boiler houses, particularly the pollutants of primary importance, such as nitrogen dioxide, carbon monoxide, carbon dioxide and volatile organic compounds as well as CO<sub>2</sub> greenhouse gas emissions.

The permits issued to the Company also regulate the emissions of ozone produced for drinking water treatment (please see also page 49).

The Company pays a pollution charge for pollutants emitted into ambient air. In 2007 this made up 1.3% of the total pollution charge paid.

All conditions imposed on plants with ambient air pollution permits were met in 2007.

## AMBIENT AIR POLLUTION PERMITS

PERMIT	VALID UNTIL	DESCRIPTION OF AMBIENT AIR POLLUTION PERMIT
Pollution Permit no. LÕV.HA-21334	31.12.2010	Valid for Ülemiste Water Treatment Plant pollution sources – the chimney of the boiler house and the exhaust pipe of the diesel generator. Establishes the list of pollutants emitted into ambient air and the annual permitted emission amounts thereof.
Pollution Permit no. LÕV.HA-48701	termless	Valid for Paljassaare Wastewater Treatment Plant pollution sources – the chimney of the boiler house, exhaust pipes, the chimney of the combined heat plant. Establishes the list of pollutants emitted into ambient air and the annual permitted emission amounts thereof.
Pollution Permit no. LÕV.HA-21490	31.12.2010	Valid for a pollution source at Ülemiste Water Treatment Plant - the ventilation system of the ozone production plant. Establishes the list of pollutants emitted into ambient air and the annual permitted emission amounts thereof.

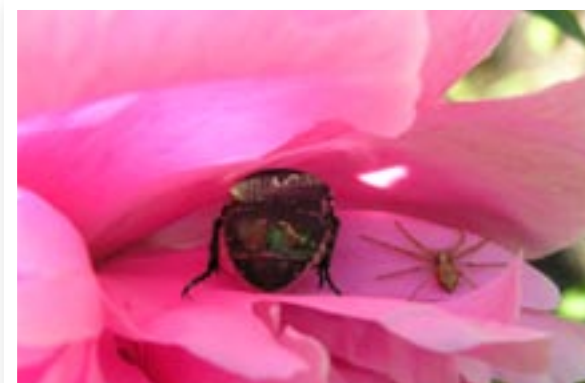
## AMBIENT AIR POLLUTION FROM WATER TREATMENT PLANT POLLUTION SOURCES 2004–2007

tonnes	2004		2005		2006		2007	
	PERMITTED	ACTUAL	PERMITTED	ACTUAL	PERMITTED	ACTUAL	PERMITTED	ACTUAL
Nitrogen dioxide	2.4	1.6	2.4	1.6	2.4	1.9	2.4	1.5
Carbon monoxide	1.9	1.6	1.9	1.6	1.9	1.8	1.9	1.5
Volatile organic compounds	0.17	0.1	0.17	0.1	0.17	0.12	0.17	0.1
Carbon dioxide	1,691	1,483	1,691	1,490	1,691	1,660	1,690	1,360

# AIR EMISSIONS

## AMBIENT AIR POLLUTION FROM WASTEWATER TREATMENT PLANT POLLUTION SOURCES 2004–2007

tonnes	2004		2005		2006		2007	
	PERMITTED	ACTUAL	PERMITTED	ACTUAL	PERMITTED	ACTUAL	PERMITTED	ACTUAL
Nitrogen dioxide	31.6	11.3	31.6	26.5	29.8	14.2	29.8	14.9
Carbon monoxide	216.4	73.7	216.4	190.1	210.1	97.9	210	96.5
Volatile organic compounds	14.4	4.9	14.4	12.7	14	6.8	14	6.4
Carbon dioxide	6,439	3,484	6,439	4,480	4,440	3,438	4,440	3,470




*Kersti Pitts*  
MICROBIOLOGIST







A man with short brown hair and a friendly smile is wearing a blue V-neck sweater over a light blue collared shirt. He is pointing his right index finger upwards. The background is a clear, bright blue sky. The text is written in a white, cursive font on the left side of the image.

*This picture came about one early January morning. The sun had only just risen, thus painting the world in colours very different from the ones we are normally used to. I am usually rather a night creature, but work duties made me get up early that morning - I had to check on the condition of our sanitary protection zone on Lake Vemiste.*

*Taking the picture was not actually particularly easy. Whilst I did notice that the reed would look quite pretty from next to the shore, the ice was too weak for me to dare to step on it. I finally got the picture by placing the camera on the ice and reaching from the shore to push the button. And it worked.*

*Soen Miller*

WATER CATCHMENT - TECHNICAL SPECIALIST



# SOCIAL RESPONSIBILITY OF THE COMPANY

## SOCIAL RESPONSIBILITY OF THE COMPANY

Tallinna Vesi has a very close connection with almost a third of Estonia's population, thus we perceive our responsibility most clearly and are aware of the impact our activities have on the health and quality of life of our customers and the entire population.

The Company has taken a serious approach to implementing the principles of socially responsible business. In 2007 a respective seminar was organised for the Company management by the Responsible Business Forum in Estonia with the purpose of raising the management's attention towards responsible business. The Company also considers it important to increase employee awareness and activeness in order to identify opportunities for involving the community and increase environmental awareness.

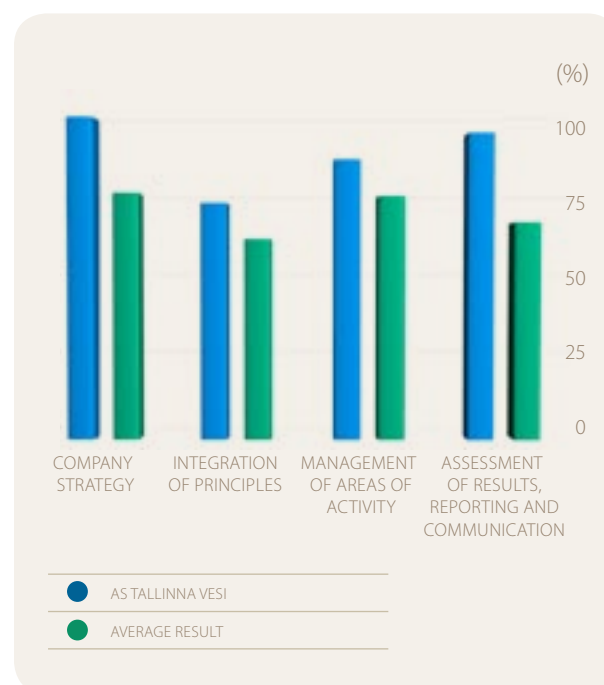
In Autumn 2007 the Company participated in the formation of the first Responsible Business Index with the purpose of assessing the economic, social and environmental impact of its activities and pass the respective information to its stakeholders and other interested parties.

14 companies successfully passed the first Responsible Business Index evaluation process in Estonia, among them enterprises of different size and area of activity, based on both domestic as well as foreign company. Experts from the business daily Äripäev, ESB Ethics Centre, the Good Deed Foundation and the Responsible Forum Foundation took part in the evaluation commission.

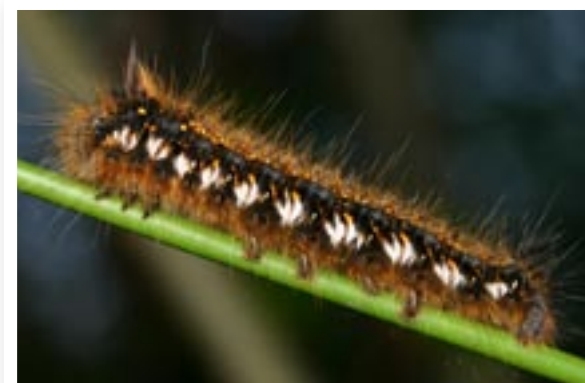
In 2007 the total score of the companies participating in the responsible business index amounted to 72% of the 100 per cent reflecting the ideal situation. The total score of AS Tallinna Vesi amounted to 85%.

The total score was based on a questionnaire consisting of four parts: company strategy, integration of principles, management of different areas and results assessment, reporting and communication. The Company's area-by-area results considerably exceeded the average indicators of Estonian companies.

## RESPONSIBLE BUSINESS INDEX RESULTS IN COMPARISON WITH THE AVERAGE OF OTHER COMPANIES



The implementation and integration into the Company's management will continue in 2008.



*Kristi Oksurm*  
MICROBIOLOGY LABORATORY MANAGER

# CRISIS PREVENTION AND PREPAREDNESS

## CRISIS PREVENTION

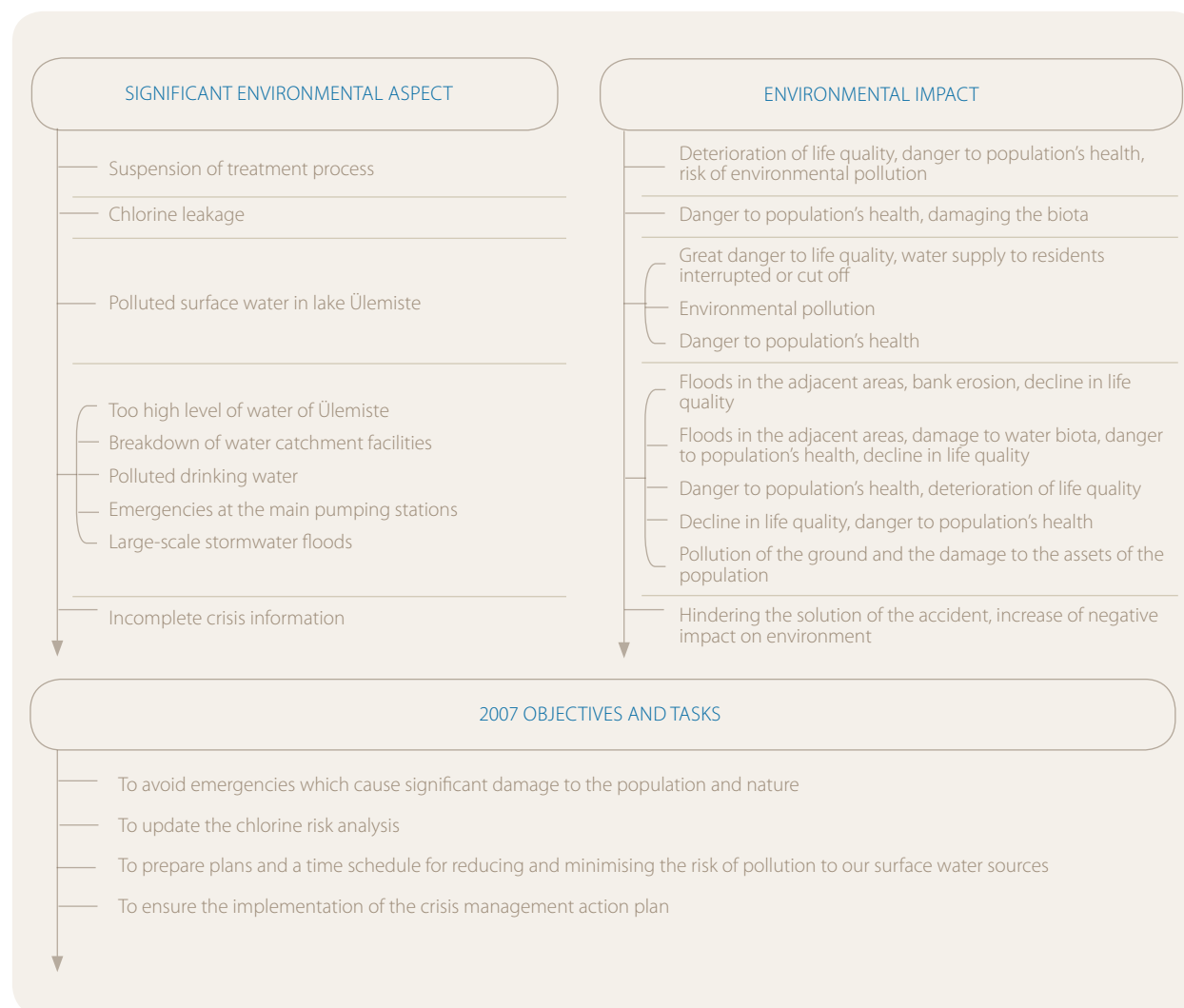
The Company's ability to provide a 24/7 service without long-term interruptions is of critical importance in ensuring the quality of life and health of the population. The Company uses doubling of core activity and process management systems, regular maintenance and renewal of equipment, meeting of safety requirements, security of territories and assets, as well as training for employees as the main measures of crisis prevention. Cooperation with different stakeholders in the interest of ensuring the long-term development of the public water supply and sewerage as well as storm water systems and the employment of new and safer technologies is also important.

## POTENTIAL CRISIS SITUATIONS

Thanks to preventive actions the probability of a crisis occurring is low. Nevertheless the Company has defined possible crisis situations and the principles for solving them. The Company's definition of a crisis is an extraordinary situation with a significant negative impact on public health, quality of life, natural environment, business activity or reputation.

- In the course of technical failures or chlorine transport a chlorine emergency may occur at the Water Treatment Plant, resulting in chlorine (please also refer to page 48) entering the external environment and endangering an area with a radius of ca ~2.3km around the Water Treatment Plant. The size and location of the endangered area depends on the amount of chlorine that has leaked as well as the direction and speed of the wind.

- Due to extraordinary weather conditions the level of water in Lake Ülemiste may increase dangerously, causing the risk of a flooding of the shore areas and the city streets.





# CRISIS PREVENTION AND PREPAREDNESS

- In the case of long-term and extensive technological breakdowns, a chlorine emergency, pollution of Lake Ülemiste (a plane crash, chemicals emergencies, etc.), a fire, a long-term electrical power cut or other undesirable events not dependant on the Company, the operation of the Water Treatment Plant may stop, causing a longer term interruption of water supply leading to no water supply to a part of or the entire service area of the Company.
- Stopping of the main sewerage pumping stations or a tunnel collector failure, as well as major downpours or sudden thaw may lead to extensive flooding and pollution.
- Long-term and extensive technical failures, accidents involving hazardous chemicals (methanol, coagulant), a fire, a long term electrical power cut, extraordinary weather conditions (heavy rain or major downpours) or other undesirable events not dependant on the Company may stop the operation of the Wastewater Treatment Plant, leading to an inability to treat or receive wastewater and causing extensive pollution of the sea as well as a flooding of the streets.
- Failure to follow safety instructions may cause extensive fires, work accidents resulting in death or multiple injuries.
- A bomb threat to or a terrorist act on the Company territory may occur due to extraordinary external circumstances, which, depending on its scope, may trigger other crisis events.
- A pandemic or other external unfavourable conditions may lead to a shortage of key personnel, which, depending on its scope, may in turn trigger other crisis events.

In 2007, the emergency on the major water main of the Tallinn districts of Kristiine, Õismäe and Mustamäe, which left over 50 000 people without water for close to six hours, was treated as an emergency. The water supply interruption also disrupted the functioning of the North Estonia Medical Centre. On the basis of the analysis carried out in the company the definition of a crisis situation was specified, rules for informing customers and the organisation of intra-Company communication were improved.

On earlier occasions the extensive floods of 2004 and the critical water level of Lake Ülemiste in August 2004 and January 2005, caused by strong downpours, have been treated as crisis situations.

## ENSURING CRISIS PREPAREDNESS

The Company has developed crisis management principles and prepared crisis action plans for solving specific situations as well as for organising crisis communication. Several steps for improving crisis management and for minimising risks were taken in 2007.

## UPDATING RISK ANALYSES

A new „Chlorine Handling Risk Analysis” prepared by Risk Management OÜ, a consultancy company independent of the Company, was completed at the Water Treatment Plant. The Company has also concluded a contract for a insurance protection against major accidents. A liability insurance contract must be concluded by all companies of major accident risk depending on the company's risk factors and danger to the environment.

AS SWEKO Projekt, commissioned by the Tallinn Utilities Board, prepared a risk analysis for the City of Tallinn, which focused, among other things, also on risks related to water supply and the relevant risk mitigation activities. Company specialists took part in the mapping and assessment of the risks.

A new risk assessment procedure was developed in the Company, which forms a basis for uniform assessment of work environment, environmental and business risks. Implementation of the procedure will continue in 2008.



*Jaan Pajumaa*  
VEEMEEES, CONSUMER SERVICES MANAGER

# CRISIS PREVENTION AND PREPAREDNESS



*Maarja Madisson*  
ASSISTANT TO THE COO

## IMPROVING TECHNICAL PREPAREDNESS

Reconstruction works of Pirita-Ülemiste canal were continued in order to reduce the risk of flooding due to an excess level of water in Lake Ülemiste and increase the Lake overflow.

A procurement for drafting a water protection programme for the neighbouring basin of Lake Ülemiste surface water catchment system was prepared in order to improve the raw water quality of Lake Ülemiste surface water catchment system and ensure the good ecological condition of the Lake as well as to meet the requirements of the newly established Harju water management plan.

The programme should also cover the planning of technically and economically justified preventive measures for ensuring the operational reliability of the surface water catchment system and for risks management in the case of transport accident, as well as the construction of public sewerage networks and conducting of storm water in the densely populated areas in the catchment area nearest to Lake Ülemiste. Drafting of the programme will start in 2008.

Development of the separate sewer system will continue with the purpose of improving the storm water systems, following the Tallinn Public Water Supply and Sewerage System Development Plan 2004-2015 and the Tallinn Storm Water Disposal Action Plan commissioned by Tallinn Utilities Department. In 2007 Tallinn City Government initiated the environmental impact assessment of the Suur-Sõjamäe storm water system located in the immediate vicinity of Lake Ülemiste, which will be carried out with participation by the Company in 2008. Further actions will be decided on after assessing the environmental impacts.

The remote surveillance project was continued in 2007, so as to receive timely information on the functioning of water and wastewater pumping stations and sudden changes in the surface water catchment system regime. A pilot project at three sites was started at the end of the year and after respective testing and approval the project will be continued in 2008.

Procurements for treatment plants' back-up equipment were finalised in 2007, which covered the acquiring of strategically necessary back-up equipment for ensuring a continuous treatment process.

## CRISIS TRAININGS

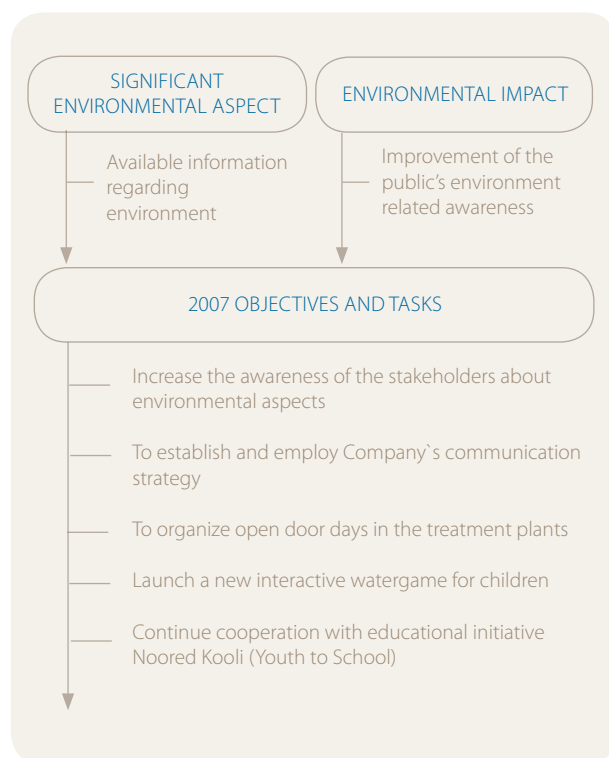
Where possible, the crisis plans are tested via practical training sessions. To ensure better preparedness, intra-Company fire fighting and bomb threat trainings and evacuation practice sessions on Paljassaare and Ülemiste territories took place in 2007 in addition to the regular occupational safety training (please refer to page 79). A chlorine emergency training was carried out in cooperation with the Rescue Centre and a security company with the primary purpose of testing coordination of rescue works and communication. A training for the Tallinn crisis management team took place in November where also Company specialists participated. The training focused on management and cooperation between different organisation in the case of a major railway accident and the accompanying infrastructural disruptions.



*Sven Mäkelä*  
WATER CATCHMENT - TECHNICAL SPECIALIST



# INCREASING ENVIRONMENTAL AWARENESS



## ENVIRONMENTAL EVENTS

Besides their core task Ülemiste Water Treatment Plant and Paljassaare Wastewater Treatment Plant also play the role of educational establishments. 68 field trips with close to 1,500 people in total took place in 2007 at Ülemiste Water Treatment Plant. 65 visits to Paljassaare Wastewater Treatment Plant took place with close to 950 people learning about wastewater treatment. Over half of those interested are pupils and university students. Each year we also introduce municipal or national public servants as well as specialists and cooperation partners both from Estonia as well as from abroad to the water and wastewater treatment technology and processes.

Tallinners have the opportunity to see the operation of the treatment plants during Open Days. In May 2007 an Open day took place in Paljassaare, followed by an already traditional Paljassaare RockFest intended for the fans of heavier music.

Ülemiste Water Treatment Plant celebrated its 80th anniversary in 2007. Giving into pressure from the population of the city, the Water Treatment Plant construction works were started in 1922 and the plant was formally opened on November 29th, 1927. The old treatment plant is still in operation, providing Tallinners with high quality drinking water. Open Days, where all those interested were able to learn about the operation of the plant and about water treatment, were held in August in parallel to the Lake Ülemiste cross country run.

## WATER GAME FOR CHILDREN

In cooperation with teachers and partners the Company employees developed an interactive educational environment related water game "Traveller Drop". The game helps both teachers and parents in making everything related to water and environment friendliness more life-like, better illustrated and more playful. In addition to enriching classes at school, "Traveller Drop" is also intended for use at home. The Ministry of Education recommends the game as additional learning material for the I and II level in basic school. At the end of 2007 free distribution of the game to general education school, kindergartens and establishments providing nature education all over Estonia was started.

## YOUTH TO SCHOOL

The Company supports and actively participates in the Youth to School ("Noored kooli") programme. The objective of the programme, initiated by the Good Deed Foundation, is to bring a greater number of active and talented young teachers to Estonian schools over the coming years. In the first year 12 talented university graduates joined Estonia's schools, but higher goals have been set for the next years. The programme offers novice teachers innovative teacher training, a leadership training programme and mentoring, as well as a support network over two years. AS Tallinna Vesi supports the programme financially and the Company's specialists also participate actively in the substantial activities of the programme by advising the university students in the programme via the leadership training programme and mentoring.

# INCREASING ENVIRONMENTAL AWARENESS



*Ülemiste Run*

## HELPING THE ONES IN NEED

Our obligation as a company is to help the ones who need help most. For years, As Tallinna Vesi has supported kindergarten "Õunake", which is intended for children with special needs. For several years already we send the Company's Christmas greetings on cards drawn by the children of "Õunake" kindergarten. This year we sent an electronic card and supported the kindergarten on account of printing the cards. In addition we support the summer camp of Ristiku schools and help to fund the non-profit organisation "Ohvriabi" ("Victim Help").

## OPPORTUNITIES FOR PRACTICING A HEALTHY LIFESTYLE

### ÜLEMISTE CROSS COUNTRY RUN

We attach value to a healthy lifestyle both inside the Company as well as on a wider basis. The cross country run around the city's main water reservoir, i.e. Lake Ülemiste, has become a tradition that we intend to keep alive also in the coming years. The event is popular among Tallinners, not least due to the fact that under usual circumstances the naturally picturesque territory surrounding the lake is closed to the public as a sanitary protection zone.



*Palgassaare open door day*

## SUPPORTING SPORTS

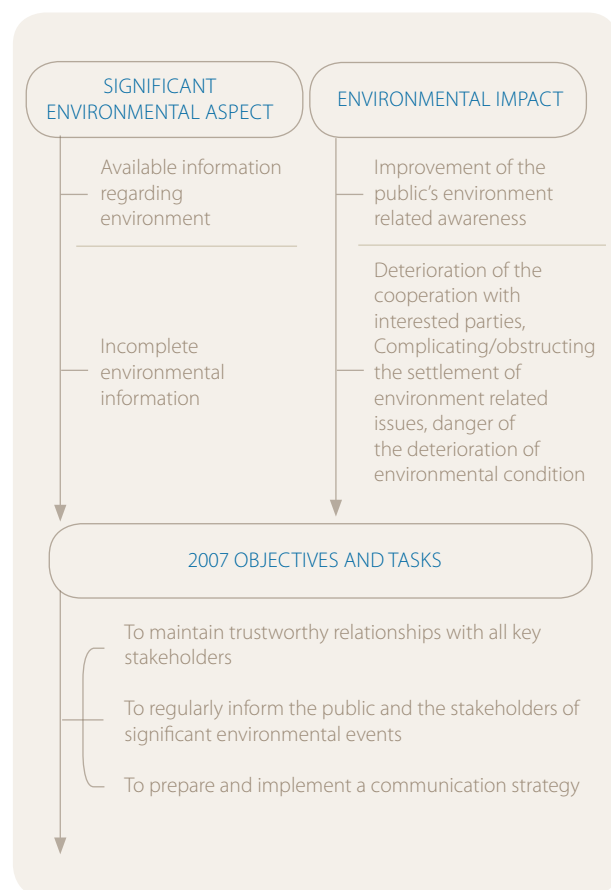
In 2007 we continued our cooperation with Audentes sports club. We wish to give our contribution to the development of young athletes and, at the same time, the Company employees have the opportunity to enjoy favourable conditions when taking their children sporting. Inside the Company, employees can use two gyms, a squash and ball games hall as well as regularly take part in joint sports events free of charge.

At several sports and environment related events the Company introduces the habit of drinking high quality tap water and offers free clean drinking water to participants.

## RECREATIONAL OPPORTUNITIES ON THE CATCHMENT AREA

The construction of water reservoirs has created an additional opportunity for local governments to create recreational areas and develop tourism, particularly in the vicinity of Soodla and Paunküla water reservoirs. Free movement on shore areas is only restricted on water catchment facilities within the sanitary protection zones, such as dams and water regulating facilities. The Company supports organised activities which on the one hand would offer leisure and exercising opportunities for people and on the other hand would keep the surroundings of the water reservoirs protected.

# COMMUNICATION WITH STAKEHOLDERS



The Company wishes to be a reliable partner for its customers, investors, employees and the community by regularly publishing information on its activities, financial standing and results. The Company considers it important to be open to proposals, feedback and constructive criticism, as this is the only way to understand the expectations of different stakeholders.

As a listed company, AS Tallinna Vesi treats all market participants equally and publishes information of significant influence first and foremost via the information systems of Tallinn Stock Exchange.

One of the Company's key stakeholders is the City of Tallinn. Information exchange with the City of Tallinn and its different departments is carried out by regular reporting, correspondence and meetings at which different aspects of the Company's activity are discussed. Important points of cooperation are matters related to the Services Agreement and crisis prevention and preparedness.

In addition to the City of Tallinn the Company also cooperates with other municipalities bordering on the service area. In 2007, for instance, attention was on matters related to Harju Water Management Plan, as well as communication related to extending the service area (please also see page 86).

The Company has a good working relationship with Harju County Environmental Service as the main authority regulating our environmental activities. All environmental reporting was submitted on time in 2007 and matters related to environmental permits were solved.

The Company informs the public of important topics through proactive communication on a continuous basis. In 2007, the different activities of the Company were covered by media more than 1100 times. News about the Company's daily work and overviews of water treatment, networks extension plan construction works, wastewater treatment and community projects were published by different media channels like Eesti Päevaleht, Postimees, Linnaleht and TV channels.

The Company continued its cooperation with the environmental magazine Keskkonnatehnika, which published the Company's articles on environmental projects.

In order to provide relevant information to customers and other interested stakeholders the Company has a homepage, [www.tallinnavesi.ee](http://www.tallinnavesi.ee), containing the more important information and contact details in three languages.

To improve cooperation with suppliers, the Company regularly organises information days for construction subcontractors, where overviews are given of future works and Company requirements. 29 representatives of construction works suppliers participated in the 2007 information day.


Regular cooperation with the trade union and the work environment council helps the Company to better take into account the wishes of its employees. Cooperation with Tallinn Technical University and Kopli Vocational School helps to ensure continuity of human resources. We also offer financial support to the pensioners' association, which unites former employees of the Company, who have worked for us for at least 20 years in the past. Even now almost 10% of these senior citizens maintain a link with the activities of the Company.

The Company is a member of several professional organizations. As a member of the board of the Estonian Water Companies Association (EVEL) the Company organises various water and wastewater related seminars and training courses for the members. In addition, cooperation with EVEL enables the Company to be involved in the process of changing legislation applicable to the water industry. Being a member of the Estonian Environmental Management Association (EKJA) and participation in the board of this organization helps to promote cooperation with other environmentally aware businesses.







A woman with short brown hair and bangs is adjusting her rectangular glasses with both hands. She is wearing a light pink button-down shirt under a dark brown corded vest. The background is a solid bright blue. On the far left, a small portion of a white-bordered photograph of a rocky cliff is visible.

*This case of the nature playing with water  
was recorded near Pakri cliff. Spring was  
already in the air that March, but  
the ice was still so strong that one  
could only walk to the cliff.  
By today the part of the cliff  
in the picture is gone forever  
due to a recent serious  
collapse at the site, but a  
similar view can still be  
enjoyed every year as the  
main part of the cliff  
still remains.*

*Vrsula Siilivask*

SENIOR ENGINEER

# EMPLOYEES





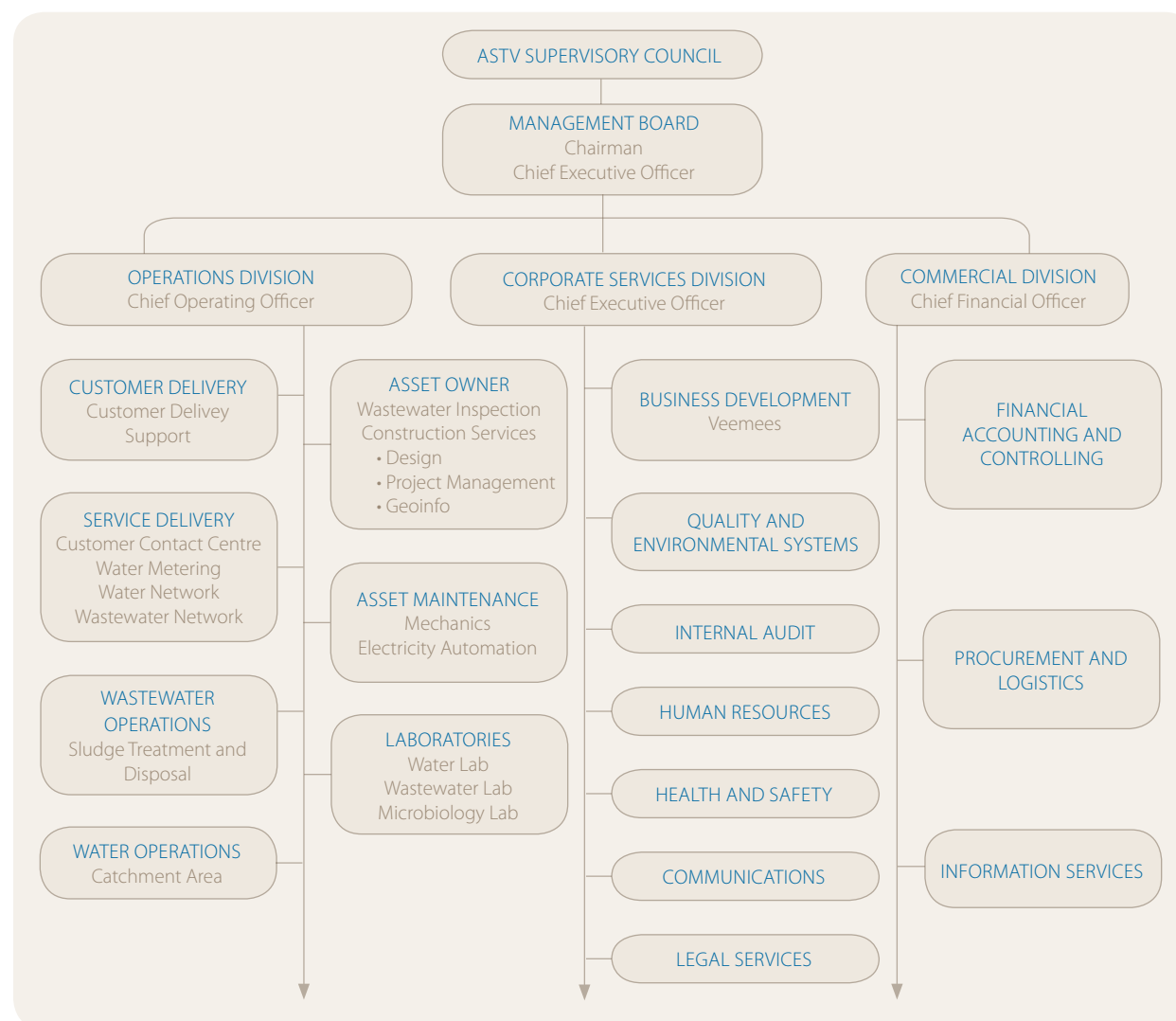
# STRUCTURE OF THE ORGANISATION AND EMPLOYEES

## 2007 OBJECTIVES AND TASKS

- To be an employer of choice
- To develop and implement a human resources strategy
- To increase employee commitment
- To make the work environment safer and healthier, to avoid work accidents
- To implement an OHSAS standard compliant occupational health and safety system

Several changes were introduced to the organisational structure in 2007 – the structure of the Operations Division was reviewed and a service and sales centre created. As a result of these changes the Company structure became clearer and areas of responsibility were specified and the changes also serve the purpose of improving the level of customer service.

## COMPANY'S ORGANISATIONAL STRUCTURE AT THE END OF 2007



# STRUCTURE OF THE ORGANISATION AND STAFF

At the end of 2007 the company employed 312 employees under permanent employment contracts, in addition 2 employees were employed under fixed term contracts and 19 under (seasonal) works contracts. The average age of permanent staff is 45.1 years and the years of employment by the company amounted to 12,7 years on average.

## EMPLOYEES BY GENDER

Men	213
Woman	99

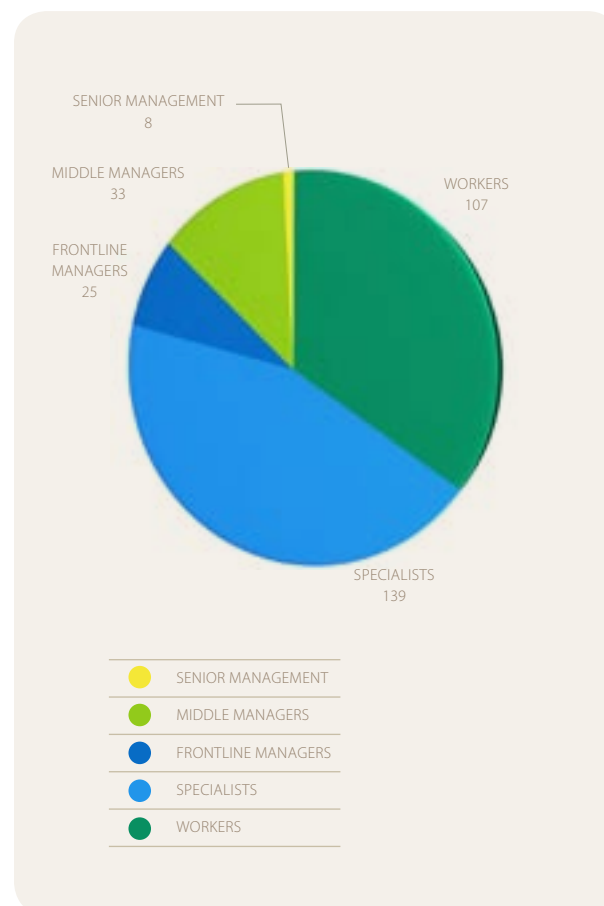
## EMPLOYEE TURNOVER 2007

EMPLOYEE RECRUITMENT	
Internal recruitment	8
New employees	47
<b>TOTAL</b>	<b>55</b>
LEAVING TURNOVER	
Retirement due to age	1
Resigned	33
Other reasons	20
<b>TOTAL</b>	<b>54</b>

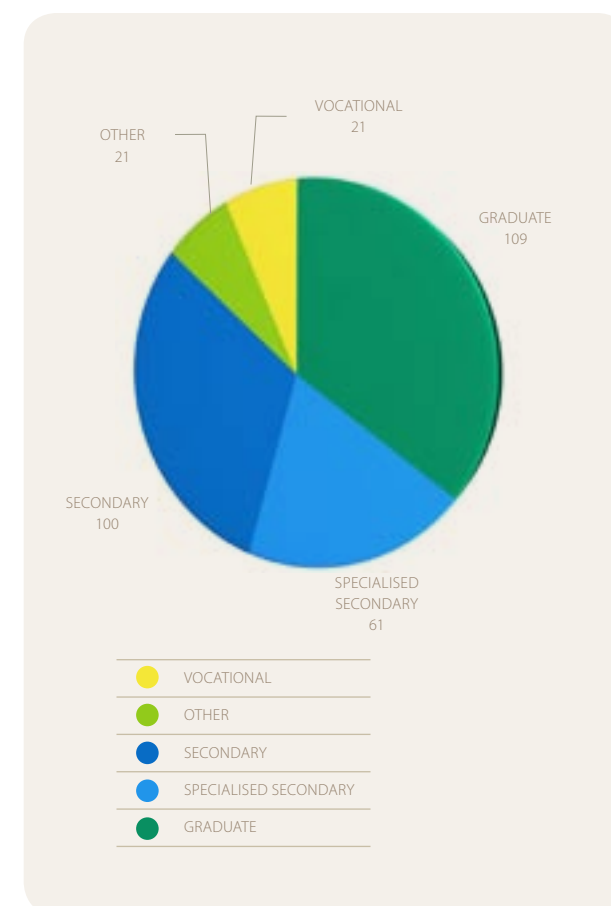
## EMPLOYEE TRAINING IN 2007

PER PERSON	
Participation in training	2.91 days
Training cost	ca 4,000 kroons annually

## EMPLOYEES BY POSITION 2007



## EMPLOYEES BY LEVEL OF EDUCATION 2007



# HR STRATEGY AND POLICY

The Company's objective is to offer a supportive work environment which enables employees to move towards the objectives in a committed manner and to raise their professionalism via new experience and versatile training.



*Margus Maripuu*  
WATER TREATMENT - PROCESS MANAGER

## OUR CONTRIBUTION TO EMPLOYEES

- We offer a competitive pay package for work performed with commitment and for good results
- We employ and value people who wish and are able to achieve results in their work
- We offer development and career opportunities inside the company
- We encourage employees to continuously learn and develop
- We ensure a healthy and safe work environment
- We value and support a healthy lifestyle in the company
- We support employees in balancing their professional and private life
- We share information honestly, openly and regularly
- We value employees as versatile personalities and take the different needs of people into account in organising work
- We encourage employees to actively participate in the society and to make their contribution to carrying out social projects
- Our activities are legally compliant
- We actively seek solutions for increasing employee commitment

We reviewed the HR and work environment policies at the beginning of 2007 and completed the company HR strategy for the years 2007–2011. The strategy serves the main purpose of supporting the performance against the company business plan by using effective and appropriate practices for managing people.

The strategy focuses on the five key areas of HR planning, organisation development and leadership, work performance management, employee development and employer of choice image creation.

The areas mentioned above have been divided into specific actions and tasks over the span of the next five years. In 2007 the company focused on reviewing the values, developing a values based competence model and the new performance related pay system.



*Elma Kertel*  
TECHNICAL SPECIALIST

## HR STRATEGY AND POLICY



*Gerda Mätsäre*  
ANALYST

### COMMON VALUES

Since 2003 the company has focused on values based management. In 2007 the revised values of organisation were developed and worded, which support progress against the four strategic company objectives. In 2007 the revised values were outlined to company employees and the new values have been integrated into all HR-related activities such as recruitment, promotion, salary increases and dismissal.

### THE NEW REMUNERATION SYSTEM

The Company's remuneration and reward system was renewed in 2007.

The objective of the renewed system is to provide employees with additional motivation in achieving their work related objectives in both their work area as well as across the entire company. The remuneration and reward system is treated as a part of the management control and monitoring system of the Company.

#### THE BASIS FOR IMPLEMENTING THE REMUNERATION AND REWARD SYSTEM ARE:

- the strategic objectives and strategies approved by the senior management of the Company
- the annual objectives and budget of the Company are derived from strategic objectives
- the objectives, action plans and budgets of units

#### PERSONAL OBJECTIVES BASED ON:

- the above mentioned objectives as well as competencies based on Company values are the basis for assessing the performance of each employee

### AS TALLINNA VESI VALUES



# OCCUPATIONAL HEALTH AND SAFETY

## OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM

In 2007 an OHSAS (Occupational Health and Safety Accreditation Scheme) based occupational health and safety management system was introduced and certification company Det Norske Veritas issued the corresponding certificate in October.

The work environment managements system is based on an evaluation of work environment risks and the carrying out of actions aimed at preventing or reducing the risks. The performance and results of work environment related actions is largely influenced by employee awareness, thus great attention is paid to work environment related training. In 2007, an in-house training course on occupational health and safety risks was carried out in all units with nearly half of the employees taking part in the course.

The "Change your mindset in safety issues" series of in-house training courses intended for managers, technical specialists and foremen was launched. The series is based on similar courses conducted in our parent company United Utilities and was received very positively thanks to the practical psychology-based approach used. Regular fire, electricity, chemicals, lifting equipment, pressure equipment and gas works safety training courses and first aid basic and additional training courses were continued in both Estonian as well as Russian.

The best evidence of the good work done in the area of improving work conditions is the fact that no work accidents occurred in the company in 2007.

## INCREASING WORK SAFETY

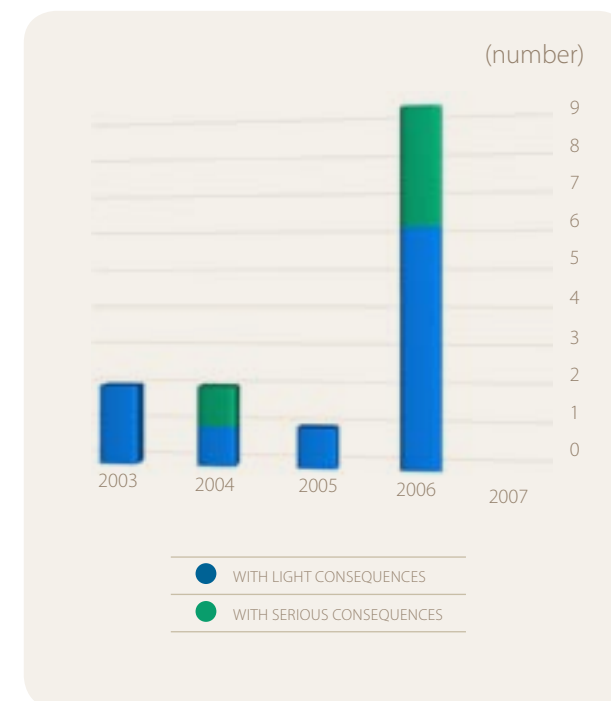
Several actions were carried out at both the treatment plants as well as in the offices to make work conditions safer. Among the more important ones we can point at transferring the treatment plant ozone unit to an automated control system, which led to employees needing to spend less time in a hazardous environment. With the completion of the new sludge treatment building at the wastewater treatment plant the time spent by employees in a biologically hazardous environment was reduced, equipment maintenance became easier than before and the new ventilation system ensures cleaner air. The heating and ventilation systems in several units were reconstructed and the ergonomics and lighting of computer work stations were improved considerably.

## OCCUPATIONAL HEALTH PROMOTION

For the third year running the company successfully participated in the "Health Promoting Working Places" project which is aimed at developing a healthy work environment first and foremost by changing mindsets and by increasing the involvement of both the employers and the employees. Particular attention is paid to lifestyle based health promotion via employers, which is a relatively new topic in Estonia.

Employees take regular health checks, as foreseen by law, which provide the basis for making work conditions more suitable where needed. In addition to the procedures foreseen by legislation, the Company provides influenza vaccinations and prophylactic massage. Employees also have the opportunity to visit an occupational health doctor twice per month at the Company's medical room. The Company supports a healthy lifestyle, for more information please refer to page 70.

## WORK ACCIDENTS 2003 – 2007



## EMPLOYEE INVOLVEMENT

Although the responsibility for achieving strategic goals rests with senior management, the company has developed a business planning process whereby also the managers and specialists of structural units and activity areas are involved in determining the operational priorities. Managers of structural units will, in turn, involve their employees in performing the tasks. Assessment of key employees' performance is linked to the company's performance related pay system.



*Maarja Madisson*  
ASSISTANT TO THE COO

Various matters related to the Company's activities are solved in cooperation, including issues related to quality, the environment or the work environment. Employees from different units and managerial levels are also performing the tasks of management system internal auditors, an activity that increases their understanding of the different functioning mechanisms in the Company.

Information on events important for the Company reaches employees via the monthly internal newspaper INFOTILK, as well as through the Company's intranet and by e-mail. Once per year an annual conference intended for all employees takes place, giving an overview of Company objectives and showing how employees can directly contribute to the Company's success with their actions. The motto for the 2007 conference was "A Company as You Want It to Be/A Company as You Like It".

In 2007 we continued to gather into the "Bank of Ideas" the ideas proposed by employees for better organisation of work, developing of an environmentally friendly mindset or improvement of the work environment. The best ideas will be implemented and the people behind them will deserve recognition by the company senior management. The photographs used for illustrating this annual report is also a collection from the Company's photography competition initiated by our employees.



*Employees of AS Tallinna Vesi*



# EMPLOYEE COMMITMENT

The objective of the 2007 employee satisfaction survey carried out by research company AS TNS Emor was to determine the commitment of the Company's employees to their work and to measure satisfaction with the important factors influencing work motivation.

The survey helps the Company to find opportunities to increase employee commitment and thus reach better work results. 70% of all employees, which is the highest participation rate ever, took part in the survey.

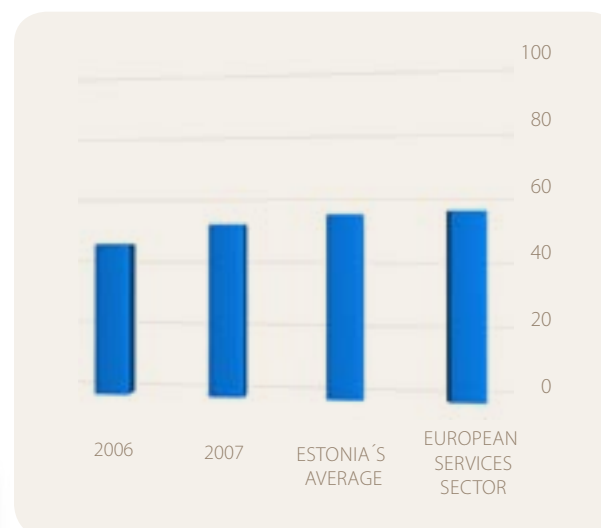
Employee commitment is assessed on a scale of 100, on the basis of a TRI\*M commitment index developed by the company, which also allows comparison with other companies. The commitment of the Company's employees has increased significantly over the past year, reaching Estonia's average in 2007.



*Sven Miller*

WATER CATCHMENT - TECHNICAL SPECIALIST

## EMPLOYEE COMMITMENT 2006-2007, TRI\*M INDEX



Different aspects influencing employee commitment, such as work content and work organisation, development opportunities, management of the unit and the Company as a whole, cooperation, remuneration and fringe benefits, Company values and the employer's reputation, were addressed in the survey. Ratings given by employees have increased in all areas.

Joint events creating a sense of unity, the link of performance related pay with achieving both the departmental as well as personal objectives, job stability and security as well as the opportunity to have a say in the taking of decisions affecting work organisation were highlighted as Company strengths. The flow of work related information and fair remuneration, corresponding to the contribution, need improving in the opinion of the employees.

## EMPLOYEE SATISFACTION ACROSS DIFFERENT AREAS 2006-2007, ON A SCALE OF 6

	2006	2007	
Work organisation processes are justified and function in practice	4.1	4.4	↑
I can have my say in the taking of the decisions related to the organisation of my work	4.5	4.8	↑
Information on the activities and plans of other units is easily available	3.4	3.7	↑
I know what the longer term objectives and plans of the Company are	4.3	4.6	↑
I am paid in a just manner in accordance with my contribution	3.3	3.8	↑
My salary is competitive when compared to what I could earn elsewhere	2.9	3.5	↑
I know what the principles underpinning my performance related pay are	4.1	4.6	↑
My performance related pay depends on the success and results of the Company as a whole	4.4	4.7	↑
My performance related pay depends on achieving the objectives of the department	4.4	4.9	↑
My performance related pay depends on my individual effort and results	4.3	4.8	↑
I attach value to how the best employees in our Company are recognised and rewarded	4.0	4.3	↑
Joint events which created a sense of unity are organised	5.1	5.4	↑
Employees put their heart into their work and do their best *	4.2	4.7	↑
People are entrepreneurial and creative *	4.2	4.5	↑
The Company offers a stable and secure place of employment	4.4	4.7	↑





*In September I was still working at the Water Treatment Plant.*

*Those who have been there know there is alley of chestnut trees in front of the plant and that is where I stumbled upon this picture. As it was a day of good weather, I decided to take some fresh air and a walk outside.*

*Luckily I always carried a camera with me at that time.*

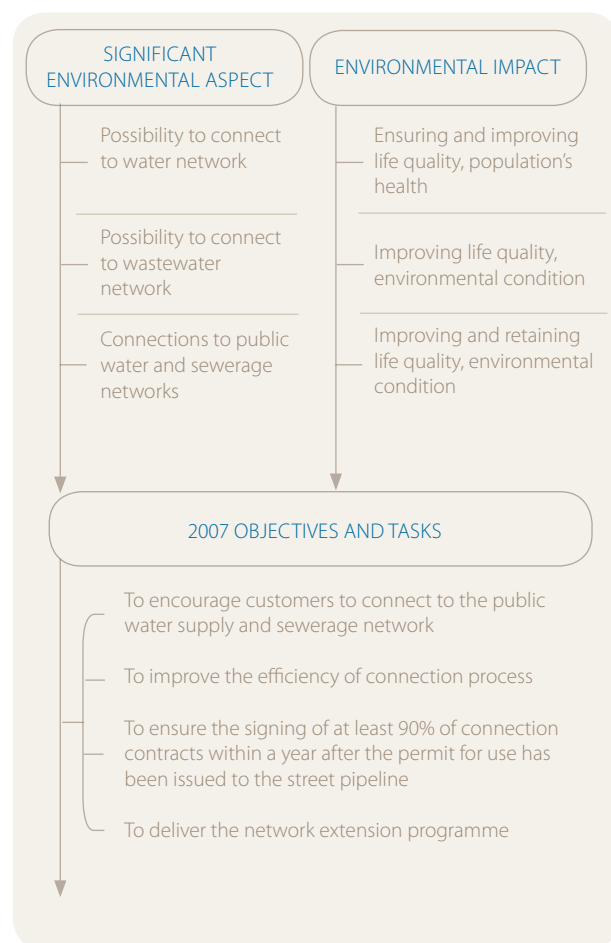
*Joar Pajumaa*  
CONSUMER SERVICES MANAGER

*It was an afternoon moment with the sun already low in the sky. I guess that was what gave such a shine to the shot. I did not need to arrange anything myself, the nature took care of everything. I simply happened to be at the right place at the right time.*



# SHAREHOLDERS

# TO GROW THE ACTIVITIES OF COMPANY



## NEW CONNECTIONS TO PUBLIC WATER SUPPLY AND SEWERAGE SYSTEM

As shown on page 25 (water distribution network extensions) and on page 43 (sewer and storm water network extensions), in 2007 the Company constructed altogether 27 km of networks in the existing service area, in connection to which 26 properties were provided with the opportunity to connect to public water supply system, 273 properties had the opportunity to connect to sewerage network and 347 properties were provided with the opportunity to connect to the storm water system.

Connecting to the public water supply and sewerage system enables the citizens to improve their environment. New networks are constructed in liaison with the City of Tallinn.

The Company has set an objective to conclude at least 90% of all possible connection contracts within one year after the street pipeline usage permit is obtained. In 2007 this objectives was delivered; 144 properties out of 160 connected.

As a result of the investments made in the new customer management system and the reorganisations made within the Company the connection process has become simpler and quicker for the customers. Regarding connections both customers as well as the Company have a complete overview of the progress in each part of the connection project and such an overview significantly improves the quality of communication and saves time for the customer.

## NETWORK EXTENSION PROGRAMME

To date ca 99% of the Company's service area in Tallinn is covered with water distribution network and ca 97% with public sewerage network. In liaison with the City of Tallinn the Company is planning to cover the whole city with the public sewerage network by the end of March 2011. For that the representatives of the Company and the City of Tallinn signed the Amendments to the Services Agreement in 2007, which enable to significantly accelerate the construction of water supply and sewerage system of Tallinn and ensure the construction of sewerage system within the Tallinn Public Water Supply and Sewerage Network Development Plan approved by Tallinn City Government.

When constructing the sewerage pipeline the Company shall take the Network Extension Programme prepared for 2008-2010 and approved by Tallinn City Government as the basis. Altogether approximately 101 km of sewerage pipeline shall be constructed within three years and 3473 properties shall be provided with the connection opportunity. During these years 4.3 km of water pipeline shall be constructed, which provides connection opportunity for 89 properties. In addition, 27.6 km of storm water pipeline shall be constructed in several areas.

## SEWERAGE CONSTRUCTION 2008 – 2010, km

2008	2009	2010
33.2	38.6	36.3

# TO GROW THE ACTIVITIES OF COMPANY

## NEW SERVICE AREAS

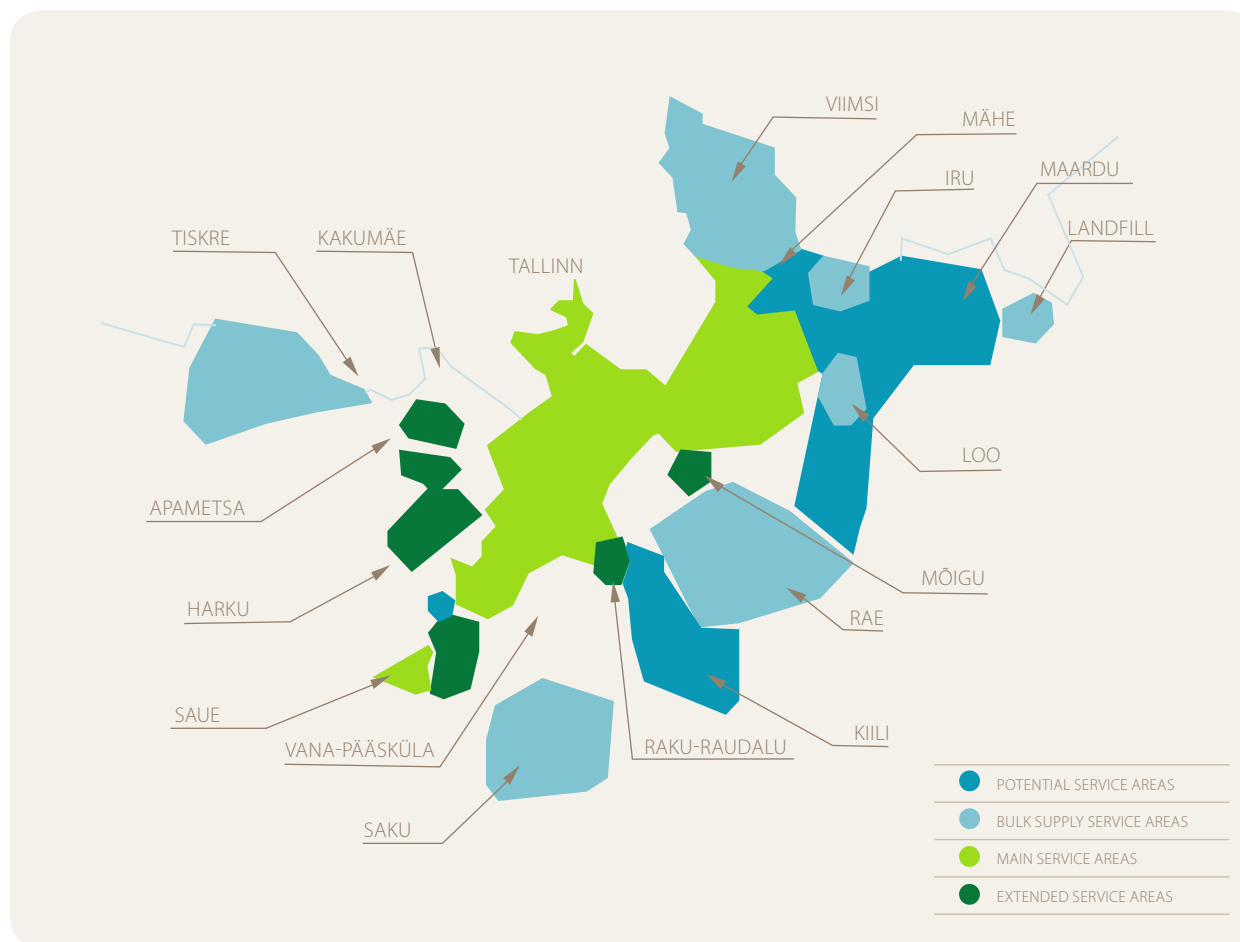
One of the strategic objectives of the Company is to grow its activities and offer water and wastewater services to surrounding municipalities. Our treatment plants have enough capacity to treat higher volumes thus enabling the Company to offer services to more customers.

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.

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.

As of 2007 the wastewater from nearly all municipalities surrounding Tallinn was conducted to Paljassaare Wastewater Treatment Plant. The Company has also been appointed as a water company in Harku and Saue municipalities.

The Company is constantly monitoring the growing tendency of industry being relocated from Tallinn to its surrounding municipalities and has planned its investments into the main public water supply and sewerage network accordingly. This has enabled the Company to sign several agreements with the industrial areas outside the main service area, in order to grow the sales into the surrounding areas of Tallinn significantly.





# TO GROW THE ACTIVITIES OF COMPANY

## NEW SERVICES



In 2007 the Company launched a new trademark VEEMEES, which offers maintenance, emergency and construction services related to water supply and sewerage services to owners of private houses, housing associations, apartment owners, real estate developers and construction companies.

The new trademark was developed in order to offer customers the widest possible range of professional services related to water supply and sewerage and also to differentiate more clearly the fee-charging ancillary services from the services and infrastructure maintenance works offered under the contract concluded with Tallinn.

More information about VEEMEES can be found on: [www.veemees.ee](http://www.veemees.ee)

## INVESTOR CALENDAR FOR 2008

EVENT	TIME
preliminary Annual Report 2007	30.01.08
preliminary Annual Report 2007	12.03.08
1st quarter financial results for 2008	24.04.08
2nd quarter financial results for 2008	17.07.08
3rd quarter financial results for 2008	22.10.08

Annual General Meeting of shareholders will take place on the 23rd of April in 2008.

## CORPORATE GOVERNANCE

The Company 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.

Declaration of conformity by AS Tallinna Vesi is located in annual accounts chapter, for more detail please refer to page 97.

## KEEPING YOU IN THE PICTURE

The Company is transparent in its ways of working, corporate disclosures and relations with shareholders. The Company has regular dialogue with major shareholders with general presentations made at least bi-annually - a list of meetings and the presentations are available on the Company's website. The Company management also uses the Annual General Meeting to keep shareholders informed and there is an opportunity for individual shareholders to ask questions of the management board and supervisory council within the meeting.

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](http://www.tallinnavesi.ee). Investors can also join the regular investor mailing list by contacting the Head of Communication or Chief Financial Officer (details below).



SIIRI LAHE  
CHIEF FINANCIAL OFFICER

*You can find  
more information  
about AS  
Tallinna Vesi  
quickly and easily  
from our website  
[www.tallinnavesi.ee](http://www.tallinnavesi.ee)*

### ADDITIONAL INFORMATION TO THE SHAREHOLDERS:

Reigo Marosov  
Head of Communication  
Phone: (+372) 6262 209  
E-mail: [reigo.marosov@tvesi.ee](mailto:reigo.marosov@tvesi.ee)  
or  
Siiri Lahe  
Chief Financial Officer  
Phone: (+372) 6262 262  
E-mail: [siiri.lahe@tvesi.ee](mailto:siiri.lahe@tvesi.ee)

# ANNUAL ACCOUNTS

# TABLE OF CONTENT

ANNUAL ACCOUNTS	88	NOTE 6. ASSETS FOR SALE	109	NOTE 23. COLLATERAL OF LOANS AND PLEDGED ASSETS	120
RESULT OF OPERATIONS - FOR THE YEAR 2007	90	NOTE 7. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS	110	NOTE 24. RELATED PARTIES	121
CORPORATE GOVERNANCE AND CORPO- RATE RECOMMENDATIONS REPORT	96	NOTE 8. SHORT-TERM AND LONG-TERM BORROWINGS	112	NOTE 25. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS	122
DECLARATION OF MANAGEMENT	99	NOTE 9. TRADE AND OTHER PAYABLES	113	CONFIRMATION OF THE MANAGEMENT AND SUPERVISORY BOARDS	126
BALANCE SHEETS	100	NOTE 10. TAXES PAYABLE	113	INDEPENDENT AUDITORS' REPORT	125
INCOME STATEMENTS	101	NOTE 11. SHORT-TERM PROVISIONS	114	CONFIRMATION OF THE MANAGEMENT AND SUPERVISORY BOARDS	126
CASH FLOW STATEMENTS	102	NOTE 12. DEFERRED INCOME	114	AS TALLINNA VESI MANAGEMENT BOARD 2007	127
STATEMENTS OF CHANGES IN EQUITY	103	NOTE 13. SHARE CAPITAL	114	AS TALLINNA VESI SUPERVISORY COUNCIL	128
NOTES TO THE ANNUAL ACCOUNTS	104	NOTE 14. NET SALES	115		
NOTE 1. ACCOUNTING PRINCIPLES	104	NOTE 15. PERSONNEL EXPENSES	115		
NOTE 2. CASH AND CASH EQUIVALENTS	109	NOTE 16. COST OF GOODS SOLD, MARKETING AND GENERAL ADMINISTRATIONS EXPENSES	116		
NOTE 3. CUSTOMER RECEIVABLES	109	NOTE 17. FINANCIAL INCOME AND EXPENSES	117		
NOTE 4. ACCRUED INCOME AND PREPAID EXPENSES	109	NOTE 18. DIVIDENDS	117		
NOTE 5. INVENTORIES	109	NOTE 19. EARNINGS AND DIVIDENDS PER SHARE	117		
		NOTE 20. NOTES TO THE CASH FLOW STATEMENT	118		
		NOTE 21. COMMITMENTS	119		
		NOTE 22. CONTINGENT INCOME TAX ON DIVIDENDS	120		

# RESULTS OF OPERATIONS - FOR THE YEAR 2007

## MAIN ECONOMIC INDICATORS

(million EEK)

MILLION KROONS	2007	2006	2005	2004	2003
Sales	820.8	693.2	592.0	548.5	504.0
Main operating activities	648.3	589.2	549.9	478.8	434.8
Other operating activities	172.4	104.0	42.1	69.7	69.2
Gross profit	445.9	375.6	351.6	286.9	249.3
Gross profit margin %	54.3	54.2	59.4	52.3	49.5
Operating profit	377.4	337.9	282.6	254.9	169.8
Operating profit margin %	46.0	48.7	47.7	46.5	33.7
Profit before taxes	333.1	294.9	209.7	199.2	119.8
Profit before taxes margin %	40.6	42.5	35.4	36.3	23.8
Net profit	277.8	248.0	174.4	173.0	104.5
Net profit margin %	33.8	35.8	29.5	31.5	20.7
ROA %	10.9	10.0	7.3	7.8	4.8
Debt to total capital employed %	51.8	53.4	55.3	55.1	58.4
ROE %	22.5	21.5	16.4	17.3	11.6
Current ratio	1.9	2.2	1.9	0.9	0.9
Average number of employees	315	322	337	351	348

GROSS PROFIT MARGIN – GROSS PROFIT / NET SALES

OPERATING PROFIT MARGIN – OPERATING PROFIT / NET SALES

PROFIT BEFORE TAXES MARGIN – PROFIT BEFORE TAXES / NET SALES

NET PROFIT MARGIN – NET PROFIT / NET SALES

ROA – NET PROFIT / TOTAL ASSETS

DEBT TO TOTAL CAPITAL EMPLOYED – TOTAL LIABILITIES / TOTAL CAPITAL EMPLOYED

ROE – NET PROFIT / SHAREHOLDERS' EQUITY

CURRENT RATIO – CURRENT ASSETS / CURRENT LIABILITIES

# RESULTS OF OPERATIONS - FOR THE YEAR 2007

## PROFIT AND LOSS STATEMENT

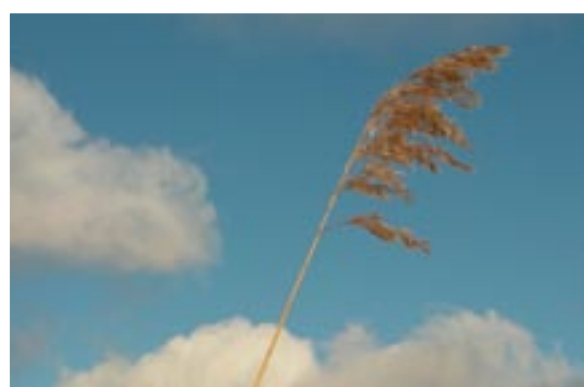
### SALES

In 2007 the Company's total sales increased, year on year, by 18.4% to 820.8 mln kroons. Sales from the Company's main operating activities were 648.3 mln kroons. Sales in the main operating activity principally comprise of sales of water and treatment of wastewater to domestic and commercial customers within and outside of the service area, and fees received from the City of Tallinn for operating and maintaining the storm water system.

Sales of water and wastewater treatment including over pollution fees were 599.6 mln kroons, a 9.2% increase compared to 2006. Sales of water and wastewater treatment excluding over pollution fees were 589.3 mln kroons, a 9.7% increase compared to 2006, resulting from the 10.8% increase in tariffs from 1 January 2007 for the Company's residential and commercial customers combined with the factors described below.

Included within this amount were the following increases by the customer groups with different tariffs: Sales to residential customers increased by 10.5% to 319.0 mln kroons. Sales to commercial customers within the service area increased by 7.5% to 252.7 mln kroons. Sales outside of the service area – primarily bulk volumes of wastewater treatment services provided to the surrounding municipalities – increased by 32.2% reaching 2.5 mln m<sup>3</sup> or 17.7 mln kroons. Over pollution fees received were 1.5 mln kroons lower than in 2006.

In 2007, the volumes sold to residential customers stayed at a similar level to that in 2006. Volumes sold in 2007 have dropped 0.3% or 90 thousand m<sup>3</sup>, mainly because of the rainy summer in 2007 (compared to 2006) when water used for gardening purposes reduced considerably. This loss of sales is more than recovered (specified below) by the storm water disposal and fire hydrant services line, as due to the rainy year, the treatment volumes of storm water increased.



*Elmo Kartel*  
TECHNICAL SPECIALIST

The volumes sold to commercial customers inside the services area decreased compared to 2006 due to several factors combined. Most of the reduction in sales volumes in Tallinn is due to companies moving to the surrounding municipalities, attracted by cheaper real estate prices. Most of these customers are re-captured through the bulk-supply contracts signed with the surrounding municipalities, but not always. For example in the 2<sup>nd</sup> quarter of 2007, one of the Company's biggest

industrial customers moved its facilities out of our area, resulting in a volume loss of 175 thousand m<sup>3</sup>, mainly in the 3<sup>rd</sup> and 4<sup>th</sup> quarter. We have recognized that the overall economic situation and the decline on the real estate market have also had a negative effect on the Company's commercial sales.

Statistics show, that starting from May the tourist flow to Tallinn has slowed down, still exceeding 2005 level, but slightly below 2006. Also the real estate market seems to have reached a point of stagnation. Even though the number of new apartments and business buildings constructed in Tallinn has continued to increase, a large share of new buildings remain vacant as commercial customers as well as people in need of space are moving to surrounding areas due to more affordable real estate prices. This trend is also reflected in the Company's sales to surrounding areas, which has increased by 32.2% compared to 2006.

The sales from the operation and maintenance of the storm water service increased by 24.5% to 37.4 mln kroons in 2007 compared to 2006. This is in accordance with the terms and conditions of the contract whereby the storm water and fire hydrant service costs are invoiced based on actual costs and volumes treated. This is contractually agreed up to 2020.

Sales revenues from other operating activities, mainly connections, network extension and storm water construction, totaled 172.4 mln kroons which is 68.4 mln kroons higher than in 2006. This line depends on construction completion and the revenue is recorded when it is probable that the revenues will flow to the company.

# RESULTS OF OPERATIONS - FOR THE YEAR 2007

## COST OF GOODS SOLD AND GROSS PROFIT

The cost of goods sold for the main operating activity was 216.7 mln kroons in 2007, a decrease of 3.9 mln kroons or 1.8% from 2006.

In 2007 the Company recorded zero failures in all pollution measures taken, and as a result the amount of pollution tax payable reduced by 7.1 mln kroons compared to regular tariffs, partly balanced by an increase in tax rates year on year by 20%. In addition, pollution tax was impacted by the fact that the Ministry of Environment gave final approval to the success of the nitrogen project, which resulted in the release of a pollution tax provision (see Note 10). Due to this non-recurring, one-off event the environmental tax decreased by 13.3 million kroons in 2007.

In 2007 tax on special use of water increased by 4.4% compared to 2006. The chemical costs were 21.0 mln kroons, which represents a 1.9% increase compared to 2006. Electricity costs increased by 1.8 mln kroons or 7.3% compared to 2006. All of the above are due to the combination of overall increases in prices and changes in volumes.

Salaries cost of goods sold expenses increased by 5.1 mln kroons or 10.9%, as a consequence of growing salaries and the highly competitive labour market. Nevertheless the salaries expense increase is still, in all categories, below the overall increase in average salaries in the Estonian market, which according to the latest statistics has increased by more than 20% year on year.

Other cost of goods sold in the main operating activity increased by 7.2 mln kroons, or 21.5% year on year. In 2007 other costs increased due to increased costs on a number of support services contracts, such as transport, security services, reflecting the significant increase in labour costs in Tallinn.

As a result of all of the above the Company's gross profit in 2007 was 445.9 mln kroons, which represents an increase of 70.3 mln kroons, or 18.7%, compared to the gross profit of 375.6 mln kroons in 2006. Eliminating the non-recurring one off factor, the underlying cost of goods sold from main operating activities increased by 9.4 mln kroons, or 4.3% year on year and the gross profit from recurring activities increased by 57.0 mln kroons to 432.6 mln kroons compared to the gross profit of 2006.



*Margus Maripuu*  
WATER TREATMENT - PROCESS MANAGER

## OPERATING COSTS AND OPERATING PROFIT

Marketing expenses increased by 4.0 mln kroons to 13.5 mln kroons in 2007 compared to 2006. This is partly the result of the overall salary increases, but particularly in this group it is impacted by the formation of the new business unit focusing on new business development opportunities. The increase in depreciation charges accounted within marketing expenses is due to the inclusion of the depreciation related

to the latest stage of implementation of the Customer Information and Billing system.

General administration expenses increased by 5.5 mln kroons to 56.8 mln kroons in 2007 as a consequence of an increase in salaries and other general administration expenses as described above. The other general administration expenses have been affected by price increases in labor-intensive services, but also non-cash decrease in capitalization to fixed assets. In addition approximately 1.3 mln kroons of the increase is due to rental cost of computers resulting from switching from owning the computers into the lease contracts – a corresponding reduction can be found in the depreciation charge. A switch from old billing related modules to new software, recorded within marketing expenses complements the reduction in this line.

Included within the above cost categories are staff costs. These totaled 76.9 mln kroons in 2007, which is a 9.5 mln kroons or 14.1% increase compared to 2006, which as mentioned earlier was due to exceptional items and the Company wide revision of salaries at end of 2006, in order to maintain competitiveness in the labor market. Salaries expenses are partly compensated by the Company's inner efficiency, which is reflected by the decrease in the number of workers, as described in the financial report.

Other net income/expenses totaled an income of 1.8 mln kroons in 2007 compared to a 23.2 mln kroons income in 2006. Net income in both 2006 and 2007 included non-recurring, one-off income from sale of assets: In 2007 2.0 mln kroons and in 2006 24.1 mln kroons.

As a result of all of the above the Company's operating profit in 2007 was 377.4 mln kroons, an increase of 39.5 mln kroons compared to an operating profit of 337.9 mln kroons achieved in 2006.



# RESULTS OF OPERATIONS - FOR THE YEAR 2007

## FINANCIAL EXPENSES

Net Financial expenses were 44.2 mln kroons in 2007, which is an increase of 1.2 mln kroons or 2.8% compared to 2006. The Company's interest costs have increased by 10.5% compared to 2006. This is due to the fact that half of the Company's loans are connected to the 6 month Euribor rate, which was 4.707% on 31.12.2007 compared to 3.853% on 31.12.2006. The increase in interest expenses is partially offset by an increase in financial income earned in 2007, as a result of a more favorable cash position and increasing interest rates.

## PROFIT BEFORE TAX

The Company's profit before taxes in 2007 was 333.1 mln kroons, which is 38.2 mln kroons or 12.9% higher than the profit before taxes of 294.9 mln kroons in 2006. Eliminating non-recurring one off income and expenses mentioned within the above categories, the profit before taxes increased by 47.0 mln kroons or 17.3% from 270.8 mln kroons in 2006 to 317.8 mln kroons in 2007.

## BALANCE SHEET

During the twelve months of 2007 the Company invested 285.9 mln kroons into fixed assets. Non-current assets were 2 185.6 mln kroons at 31 December 2007. Current assets increased by 43.1 mln kroons to 373.6 mln kroons in the twelve months of the year, which was largely attributable to an increase in contractual customer receivables payable in 1<sup>st</sup> quarter 2008, mostly payable by the City of Tallinn according to the Services Contract.

Current liabilities increased by 46.2mln kroons to 199.3 mln kroons in the twelve months of the year. This was mainly due to transfer of current portion of the long-term borrowings from non-current liabilities to current liabilities.



*Jane Libe*  
CUSTOMER ADMINISTRATOR

The company continues to maintain its leverage level within a range of 50% with total liabilities to total capital employed of 51.8% as at 31 December 2007. Long-term liabilities stood at 1 126.1 mln kroons at the end of December 2007, consisting almost entirely of the outstanding balance on the two long-term bank loans.

## CASH FLOW

During the twelve months of 2007, the Company generated 333.7 mln kroons of cash flows from operating activities, an increase of 13.1 mln kroons compared to the corresponding period in 2006. Operating profit continues to be the main driver for growth.

In 2007 net cash flows used for investing activities was 152.9 mln kroons, which is 79.8 mln kroons more than in 2006. Investments to networks extension are paid back to the company and the timing of payments impacts the cash flow. Because of that cash flow was impacted by some big construction revenue invoices that are due in the 1<sup>st</sup> quarter 2008, but also by increased investment levels. In the twelve months of the year, the company invested 285.9 mln kroons – 135.1 mln kroons in networks extension, 50.5 mln kroons in sewerage networks rehabilitation, 46.2 mln kroons in Paljassaare wastewater treatment plant and wastewater treatment, 44.6 mln kroons in water quality (rehabilitation of water network, Ülemiste water treatment plant and raw water) and 9.6 mln kroons in other investments (IT, capital maintenance, meters, etc).

Cash flows used in financing activities were 251.8 mln kroons during 2007 compared to cash outflow of 205.2 mln kroons during 2006, reflecting increased dividend payments and related taxes.

As a result of all of the above factors, the total cash outflow in the twelve months of 2007 was 71.0 mln kroons compared to a cash inflow of 42.3 mln kroons in the twelve months of 2006. Cash and cash equivalents stood at 178.4 mln kroons as at 31 December 2007, which ensured more than sufficient working capital and liquidity needed to manage the Company's cash flows.

# RESULTS OF OPERATIONS - FOR THE YEAR 2007

## EMPLOYEES

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

## DIVIDENDS AND SHARE PERFORMANCE

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

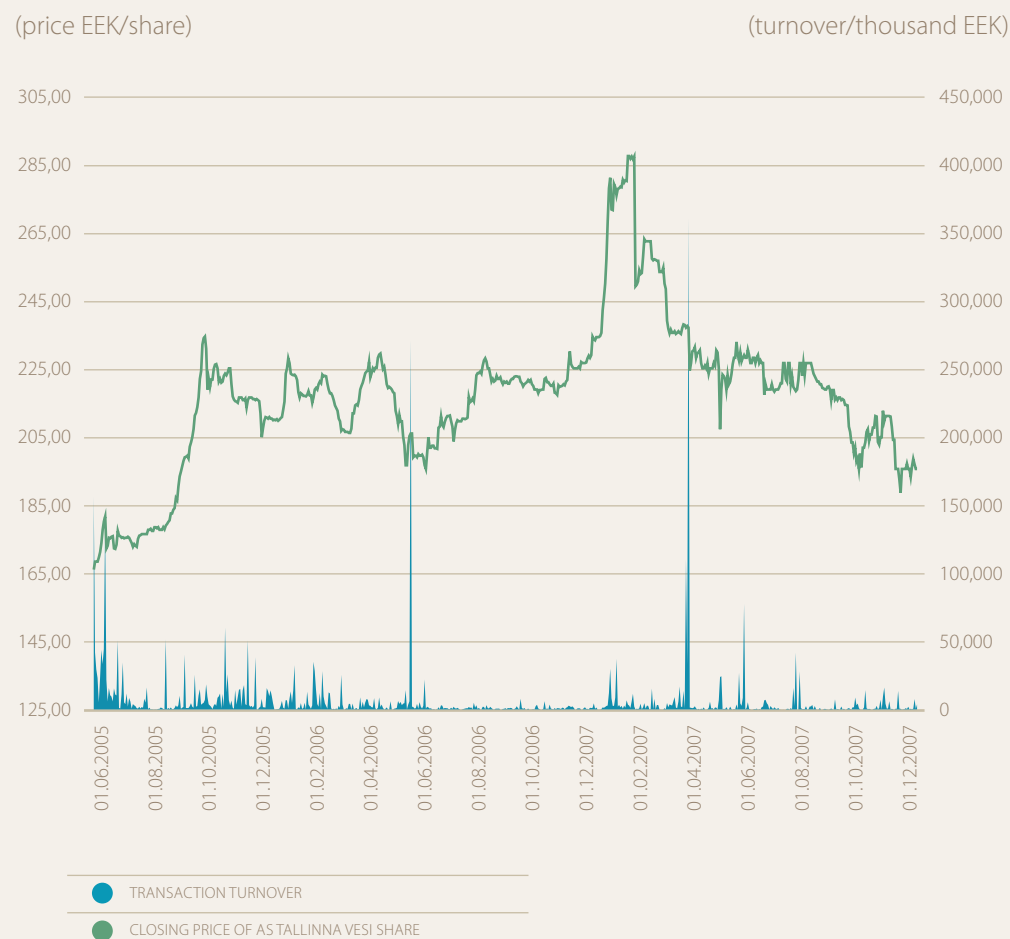
As of 31 December 2007 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

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

In course of the preparation of the annual accounts AKO Master Fund Limited had notified the Company that their indirect shareholding in the Company was 5.76%. They own the shares through the client accounts of investment banks.

At the end of the year, 31 December 2007, the closing price of the AS Tallinna Vesi share was 202.78 kroons (12.96 euros), which is a 13.7% decrease compared to the closing price of 234.70 kroons (15.00 euros) in the beginning of 2007. The Company's share price decrease was at the same level as the OMX Tallinn index, which dropped 13.3% in 2007.

## CLOSING PRICE VS TRANSACTION TURNOVER



# RESULTS OF OPERATIONS - FOR THE YEAR 2007

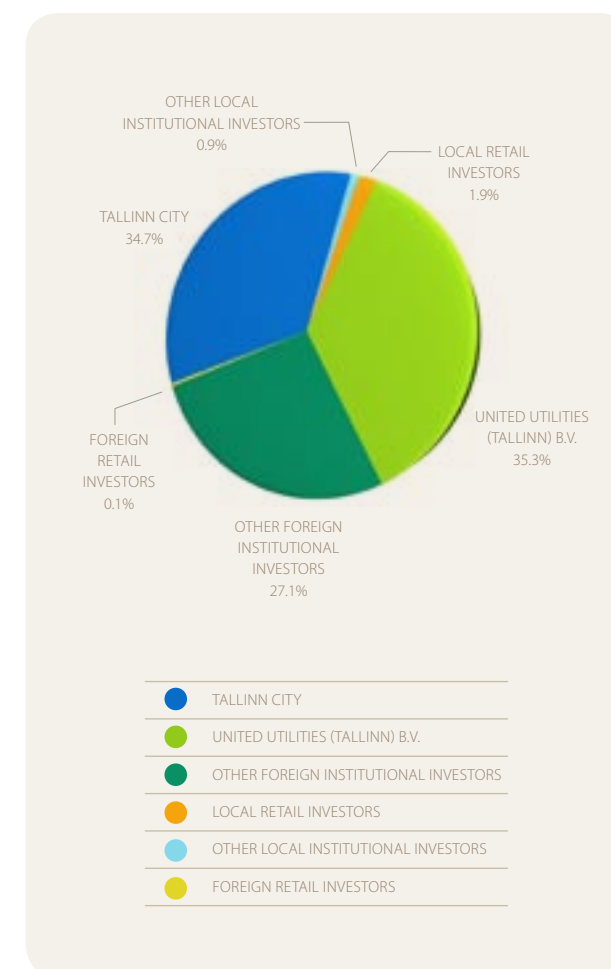
## SHARE PRICE STATISTICS STARTING FROM THE LISTING AT TALLINN STOCK EXCHANGE

KROONS / %	2007	2006	2005	2004	2003
Share price, open	234.70	211.23	155.53	n/a	n/a
Share price, at the end of the year	202.78	234.86	210.92	n/a	n/a
Share price, high	290.87	234.86	235.48	n/a	n/a
Share price, low	195.58	195.11	155.53	n/a	n/a
Share price, average	232.20	217.49	197.46	n/a	n/a
Traded volume	5,462,916	4,274,094	7,993,844	n/a	n/a
Turnover, million	1265.94	913.22	1509.88	n/a	n/a
Capitalisation, million	4.056	4.697	4.218	n/a	n/a
Earnings per share	13.89	12.40	8.72	8.65	5.23
Dividend per share	12.45*	9.80	7.85	5.60	3.75
P/E	14.60	18.94	24.19	n/a	n/a

P/E = SHARE PRICE AT THE END OF THE YEAR / EARNINGS PER SHARE

\*SUBJECT TO ANNUAL GENERAL MEETING APPROVAL

## SHAREHOLDERS BY TYPE AS OF 31.12.2007



## DISTRIBUTION OF SHARE CAPITAL BY SIZE OF SHARE OWNERSHIP AS OF 31.12.2007

	SHAREHOLDERS	SHAREHOLDERS %	NO. OF SHARES	% OF SHARE CAPITAL
1-100	435	30.5%	22,224	0.1%
101-200	435	30.5%	63,792	0.3%
201-300	146	10.3%	37,753	0.2%
301-500	150	10.5%	60,840	0.3%
501-1 000	112	7.9%	82,182	0.4%
1 001-5 000	109	7.7%	225,779	1.1%
5 001-10 000	11	0.8%	79,746	0.4%
10 001-50 000	14	1.0%	309,784	1.5%
50 000+	12	0.8%	19,117,900	95.6%
TOTAL	1,424	100.0%	20,000,000	100.0%

# CORPORATE GOVERNANCE AND CORPORATE RECOMMENDATIONS REPORT

AS Tallinna Vesi is committed to high standards of corporate governance for which the Management Board and Supervisory Board are accountable to shareholders. The Company endeavours to be transparent in its ways of working, corporate disclosures and relations with Shareholders and this was recognised in 2006 and 2007 when the Company was nominated by Baltic Stock Exchanges for the quality of its investor relations program.

The Company has regular dialogue with major shareholders with general presentations made at least 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 for individual shareholders to ask questions of the Management Board and Supervisory Council within the meeting.



*Kristi Ojanurm*  
MICROBIOLOGY LABORATORY MANAGER

Throughout 2007 the management of the Company was organized according to good governance principles and constitution of the Company. 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.

Change of the Articles of Association and management of the Company (incl. the election and recall of the members of the management board) is done according to the Part VII of the Commercial Code.

## THE SUPERVISORY BOARD AND INTERNAL AUDIT

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 2006 annual report presented at the Annual General Meeting, and approved the 2007 budget.

Members of the Company's Supervisory Board during the composition of the report were as follows: Robert John Gallienne – Chairman of the Supervisory Board, David John Kilgour, Henry Emanuel Russell, David Leonard Fuller, Mart Mägi, Rein Ratas, Elmar Sepp, Deniss Boroditš and Valdur Laid.

At each meeting, an internal audit report was presented to the Board. The internal auditor of the Company reports directly to David Kilgour, Supervisory Board Member responsible for auditing function.

## THE MANAGEMENT BOARD

The Management Board of the Company managed the activity of the Company. The Management Board is composed of three members, two of them seconded by United Utilities International Ltd, all of them appointed by the Supervisory Board.

The duties of the Chairman of the Management Board Roch Chérourx among the other duties were to fulfill the everyday obligations of the Chief Executive Officer of the Company by leading and representing the company, organizing the activities of the management board, preparing the strategies and ensuring their implementation.

The duties of the member of the Management Board David Hetherington among the other duties were to fulfill the everyday obligations of the Chief Operating Officer of the Company by managing and being responsible for the operating activities, including the customer service function of the Company.

The duties of the member of the Management Board Siiri Lahe among the other duties were to fulfill the everyday obligations of the Chief Financial Officer of the Company by managing and being responsible for the accounting and financial activities of the Company. Siiri Lahe was appointed to the position since August 1, 2007. Before that the same position was held by Ian John Alexander Plenderleith.

According to the Company's statute the Chairman of the Management Board can represent the Company single-handedly, other members together with another member. In order to make daily decisions the Management Board has validated a framework of principles, according to which certain management team members are authorized to conclude transactions to small amounts.

# CORPORATE GOVERNANCE AND CORPORATE RECOMMENDATIONS REPORT

## CONFORMITY TO TALLINN STOCK EXCHANGE CORPORATE GOVERNANCE RECOMMENDATIONS

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.



*Olga Chislova*  
CHEMIST

## 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.



*Medis Paade*  
WASTEWATER TREATMENT - SYSTEM SPECIALIST

According to the agreement, the working hours, rates of compensation, manner of performance, and all other matters relating to the employment of the individuals appointed by United Utilities International Ltd are to be determined solely by United Utilities International Ltd, the Supervisory Board does not regularly review the principles of those Management Board members remuneration.

# CORPORATE GOVERNANCE AND CORPORATE RECOMMENDATIONS REPORT

*'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 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.'*



*Liika Vartiainen*  
SYSTEM ADMINISTRATOR

The Company does disclose the overall management board remuneration in the report appendix 24, 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 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.

## 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 Eesti Vee-ettevõtte Liit (Estonian Water Companies Association).



*Margus Maripuu*  
WATER TREATMENT - PROCESS MANAGER

Siiri Lahe, 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 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. The Supervisory Board members are not paid any additional benefits.



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.

The members of the Supervisory Board have attended more than 50% of the meetings during the time held office. As members of the Supervisory Board have changed during the year, consequently the following Supervisory Board members have attended less than half of the meetings held during the year.

- David Leonard Fuller and Deniss Borodits attended all the Supervisory Board meetings since their nomination on 04.10.2007 and 19.09.2007 respectively.
- Toivo Tootsen attended two Supervisory Board meetings, until recalled from Board on 06.04.2007.

The previous sections, Chairman's statement, Results of operations – for the year 2007, Corporate Governance and Corporate Governance Recommendations Report form the Management Report, which is an integral part of the annual report of AS Tallinna Vesi for the financial year ended 31 December 2007. The Management Report gives a true and fair view of the trends and results of operations, main risks and doubts of the Company.

Roch Jean Guy Antoine Chérour  
Chairman of the Management Board

David Nigel Hetherington  
Member of the Management Board

Siiri Lahe  
Member of the Management Board

## DECLARATION OF MANAGEMENT FOR THE ANNUAL ACCOUNTS

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 2007.




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 2007, 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 2007. 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 2008 have been assessed as part of this review.

The Management Board considers AS Tallinna Vesi to be a going concern entity.

NAME	POSITION	SIGNATURE	DATE
Roch Jean Guy Antoine Chérour	Chairman of the Management Board		15 Feb 2008
David Nigel Hetherington	Member of the Management Board		15 Feb 08
Siiri Lahe	Member of the Management Board		15.02.08

# BALANCE SHEETS

AT 31 DECEMBER 2007 AND 2006

(thousand EEK)

ASSETS	NOTE	2007	2006
CURRENT ASSETS			
Cash and equivalents	2	178,420	249,413
Customer receivables	3	185,223	71,490
Accrued income and prepaid expenses	4	5,179	4,756
Inventories	5	3,645	3,142
Assets for sale	6	1,120	1,648
<b>TOTAL CURRENT ASSETS</b>		<b>373,587</b>	<b>330,449</b>
NON-CURRENT ASSETS			
Tangible assets	7	1,992,978	1,877,105
Intangible assets	7	49,137	52,595
Unfinished assets - non connections	7	48,034	91,676
Unfinished pipelines - new connections	7	90,057	117,162
Prepayments for fixed assets	7	5,399	2,795
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,185,605</b>	<b>2,141,333</b>
<b>TOTAL ASSETS</b>		<b>2,559,192</b>	<b>2,471,782</b>

LIABILITIES AND EQUITY	NOTE	2007	2006
CURRENT LIABILITIES			
Current portion of long-term borrowings	8	41,486	473
Trade and other payables	9	86,966	85,250
Taxes payable	10	26,486	30,508
Short-term provisions	11	2,231	538
Deferred income	12	42,099	36,325
<b>TOTAL CURRENT LIABILITIES</b>		<b>199,268</b>	<b>153,094</b>
NON-CURRENT LIABILITIES			
Borrowings	8	1,125,491	1,166,098
Other payables	9	113	100
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1,125,604</b>	<b>1,166,198</b>
<b>TOTAL LIABILITIES</b>		<b>1,324,872</b>	<b>1,319,292</b>
EQUITY			
Share capital	13	200,001	200,001
Share premium		387,000	387,000
Statutory legal reserve		20,000	20,000
Accumulated profit		349,479	297,443
Net profit for the period		277,840	248,046
<b>TOTAL EQUITY</b>		<b>1,234,320</b>	<b>1,152,490</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,559,192</b>	<b>2,471,782</b>

# INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

(thousand EEK)

	NOTE	2007	2006
Sales from main operating activities	14	648,335	589,176
Revenues from other operating activities	14	172,437	104,048
Net sales		820,772	693,224
Costs of goods sold (main operating activities)	15,16	-216,677	-220,537
Costs of goods sold (other operating activities)	16	-158,187	-97,096
<b>GROSS PROFIT</b>		<b>445,908</b>	<b>375,591</b>
Marketing expenses	15,16	-13,547	-9,578
General administration expenses	15,16	-56,849	-51,319
Other income/expenses (-)	16	1,850	23,229
<b>OPERATING PROFIT</b>		<b>377,362</b>	<b>337,923</b>
Financial income/expenses (-)	17	-44,237	-42,981
<b>PROFIT BEFORE TAXES</b>		<b>333,125</b>	<b>294,942</b>
Income tax on dividends	18	-55,285	-46,896
<b>NET PROFIT FOR THE PERIOD</b>		<b>277,840</b>	<b>248,046</b>
Attributable to:			
Equity holders of A-shares		277,830	248,036
B-share holder		10	10
Earnings per share in kroons	19	13.89	12.40

# CASH FLOW STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

(thousand EEK)

	NOTE	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		377,362	337,923
Adjustment for depreciation	16	79,241	81,047
Adjustment for income and expenses from constructions	20A	-14,250	-6,952
Other financial income and expenses	17	-1,585	-536
Profit from sale of fixed assets		-2,422	-24,917
Expensed fixed assets		476	1,106
Capitalization of operating expenses	20C	-19,764	-20,921
Change in current assets involved in operating activities	20B	-32,062	-4,142
Change in liabilities involved in operating activities	20B	-327	5,994
Interest paid		-52,986	-48,051
<b>TOTAL CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>333,683</b>	<b>320,551</b>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of fixed assets (incl pipelines construction)	20C	-265,951	-192,048
Proceeds from pipelines financed by construction income	20A	101,840	112,662
Proceeds from sale of and prepayments received/ repaid(-) for fixed assets		390	-1,293
Proceeds from sale of assets for sale and of real estate investments		242	1,107
Interest received		10,571	6,545
<b>TOTAL CASH FLOW USED IN INVESTING ACTIVITIES</b>		<b>-152,908</b>	<b>-73,027</b>
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance lease payments	8	-473	-1,282
Dividends paid	18	-196,010	-157,000
Income tax on dividends	18	-55,285	-46,896
<b>TOTAL CASH FLOW USED IN FINANCING ACTIVITIES</b>		<b>-251,768</b>	<b>-205,178</b>
Change in cash and bank accounts		-70,993	42,346
<b>CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>		<b>249,413</b>	<b>207,067</b>
<b>CASH AND EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>2</b>	<b>178,420</b>	<b>249,413</b>

# STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

(thousand EEK)

	SHARE CAPITAL	SHARE PREMIUM	STATUTORY LEGAL RESERVE	ACCUMULATED PROFIT	NET PROFIT	TOTAL EQUITY
31 DECEMBER 2005	200,001	387,000	20,000	280,089	174,354	1,061,444
Transfer of financial year profit to the accumulated profit	0	0	0	174,354	-174,354	0
Dividends	0	0	0	-157,000	0	-157,000
Net profit of the financial year	0	0	0	0	248,046	248,046
31 DECEMBER 2006	200,001	387,000	20,000	297,443	248,046	1,152,490
Transfer of financial year profit to the accumulated profit	0	0	0	248,046	-248,046	0
Dividends	0	0	0	-196,010	0	-196,010
Net profit of the financial year	0	0	0	0	277,840	277,840
31 DECEMBER 2007	200,001	387,000	20,000	349,479	277,840	1,234,320



# NOTES TO THE ANNUAL ACCOUNTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### NOTE 1. ACCOUNTING PRINCIPLES

The annual accounts for the financial year 2007 (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 hedge accounting requirements under IAS 39 would not impact the financial statements had they been endorsed by the EU at the balance sheet date. The new standard or an interpretation of a standard which became effective from 1 January 2007 and applicable to the Company are:

- IFRS 7 'Financial Instruments: Disclosures' – implementation of the standard caused disclosure of additional information about financial instruments in the Company's reports.
- IAS 1 'Presentation of Financial Statement' – implementation of the standard caused disclosure of additional information about capital in the Company's reports.

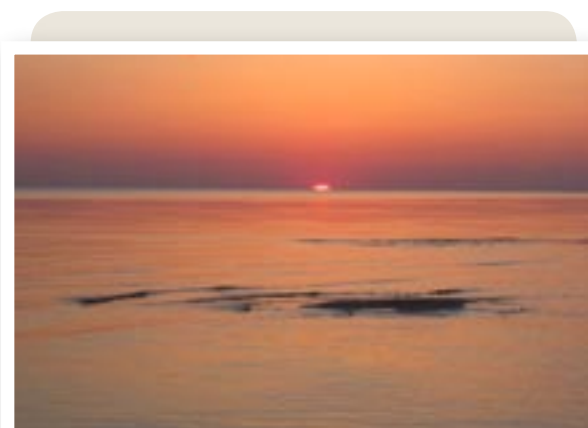
At the time of preparing the current financial statements, the following new IFRS standards and interpretations have been issued, which shall be mandatory for the Company's financial statements prepared for accounting periods beginning on or after 1 January 2008:

- IFRS 8 'Operating segments' shall be applied to the annual periods beginning on or after 1 January 2009;
- IFRS 3 'Business combinations' (revised) shall be applied to the annual periods beginning on or after 1 July 2009;

• IFRS 2 'Share-based payment' amendments shall be applied to the annual periods beginning on or after 1 July 2008;

• IAS 1 'Presentation of Financial Statement' amendments shall be applied to the annual periods beginning on or after 1 January 2009;

• IAS 23 'Borrowing costs' amendments shall be applied to the annual periods beginning on or after 1 January 2009;



*Melio Paado*

WASTEWATER TREATMENT - SYSTEM SPECIALIST

• IAS 27 'Consolidated Financial Statements and Accounting for Investments in Subsidiaries' amendments shall be applied to the annual periods beginning on or after 1 January 2009;

• IFRIC 11 'IFRS 2 on Group and treasury shares transactions' shall be applied to the annual periods beginning on or after 1 March 2007;

• IFRIC 12 'Service concession arrangements' shall be applied to the annual periods beginning on or after 1 January 2008;

• IFRIC 13 'Customer Loyalty Programmes' shall be applied to the annual periods beginning on or after 1 July 2008;

• IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' shall be applied to the annual periods beginning on or after 1 January 2008.

IFRS 3, IFRS 2 amendments, IAS 1 amendments, IAS 23 amendments, IFRS 27 amendments and IFRIC 12, IFRIC 13, IFRIC 14 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, except :

- Implementing the IAS 23 sooner would have brought along 5 to 10 mln kroons decrease in net financial costs and respective increase in profit. The Company has not decided yet, whether or not to apply the IAS 23 in 2008, but based on the management estimate the impact of the implementation would be in the same size as the 2007 estimate.
- Implementing the IFRS 8 sooner would not have brought along any changes to the 2007 financial statements. Hence the management considers the probable impact of IFRS 8 in further years based on the sales volumes from the new activities in extra to the main operating services. During the composition of the report the impact is not predictable.

# NOTES TO THE ANNUAL ACCOUNTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

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 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:

- 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.

### 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.



*Maarja Madisson*  
ASSISTANT TO THE COO

### 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 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.

# NOTES TO THE ANNUAL ACCOUNTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 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 account as a reverse entry. Receivables which cannot be collected, or the collection is considered to be economically not justified, are evaluated as uncollectible by the decision of the Management Board based on individual reviews, 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%

Bigger discount rates could be applied in case of individual receivables if needed.

### 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.



*Loek Chiroux*  
CHAIRMAN OF THE MANAGEMENT BOARD

### 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 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.

### 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).

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

# NOTES TO THE ANNUAL ACCOUNTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

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.

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.

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.

### 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 'Cost 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.



*Eha Keroo*  
ADMINISTRATOR

# NOTES TO THE ANNUAL ACCOUNTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 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, 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.

### 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.

Periodical 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.

Construction cost compensations, incl. connection revenue, related to pipeline construction and network extension is recorded when construction is completed, the cost is reliably identified and inflow of the revenue is guaranteed with contract or with the payer's confirmation about the volumes of the service, ensuring the correct matching of revenues and expenses in the same accounting period.

Revenue from selling goods and assets is recorded when all significant risks and benefits related to owning the goods are devolved to the buyer, inflow from the sale is probable and sales revenue and expense related to the transaction are reliably identified.

Interest revenue is recorded based on accrual concept using the effective interest rate.



*Quata Lioe*  
TAXATION AND STATISTICS ACCOUNTANT

# NOTES TO THE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

(thousand EEK)

## NOTE 2. CASH AND CASH EQUIVALENTS

as of 31 December

	2007	2006
Cash and equivalents	37,838	53,702
Short-term deposits	140,582	195,711
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>178,420</b>	<b>249,413</b>

## NOTE 3. CUSTOMER RECEIVABLES

as of 31 December

	2007	2006
Accounts receivable	107,957	76,692
Deferred contractual proceeds	80,727	0
Allowance for doubtful debts	-3,461	-5,202
<b>TOTAL CUSTOMER RECEIVABLES</b>	<b>185,223</b>	<b>71,490</b>

Impairment costs of receivables:  
for the year ended 31 December

	2007	2006
Write off of uncollectible receivables	-472	-607
Proceeds from uncollectible receivables	157	9
Change in allowance for doubtful debts	1,741	2,194

## NOTE 4. ACCRUED INCOME AND PREPAID EXPENSES

as of 31 December

	2007	2006
Fair value of interest rate swap	1,549	436
Accrued interest	516	226
Other accrued income	2	200
Prepaid taxes	59	263
Other prepaid expenses	3,053	3,631
<b>TOTAL ACCRUED INCOME AND PREPAID EXPENSES</b>	<b>5,179</b>	<b>4,756</b>

## 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. In 2006 and 2007 previously discounted materials were used, utilized and sold without profit and therefore there was no need for additional discount.

## NOTE 6. ASSETS FOR SALE

as of 31 December

	2007	2006
Assets for sale	291	750
Prepayments for the land related to the assets for sale	829	898
<b>TOTAL ASSETS FOR SALE</b>	<b>1,120</b>	<b>1,648</b>



# NOTES TO THE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

(thousand EEK)

## NOTE 7. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS

	TANGIBLE ASSETS IN USE				ASSETS IN PROGRESS			INTANGIBLE ASSETS		TOTAL TANGIBLE AND INTANGIBLE
	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	NON-CURRENT ASSETS
ACQUISITION COST AT										
31 DECEMBER 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 DECEMBER 2006	345,074	2,016,934	534,627	17,532	91,676	117,162	2,795	17,543	63,731	3,207,074
Acquisition	0	0	0	0	148,257	135,085	2,611	0	0	285,953
Sale of fixed assets	-1,506	0	-1,505	0	0	0	0	0	0	-3,011
Write-off of fixed assets	-34	-1,319	-13,772	-482	0	0	0	-346	-623	-16,576
Reclassification within balance sheet	0	0	0	0	-170	-2,029	-7	0	0	-2,206
Reclassification to expenses	0	0	0	0	-460	0	0	0	0	-460
Expensed pipelines	0	0	0	0	0	-158,187	0	0	0	-158,187
Reclassification from assets in progress	20,654	119,355	47,058	658	-191,269	-1,974	0	1,809	3,709	0
31 DECEMBER 2007	364,188	2,134,970	566,408	17,708	48,034	90,057	5,399	19,006	66,817	3,312,587

# NOTES TO THE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

(thousand EEK)

	TANGIBLE ASSETS IN USE				ASSETS IN PROGRESS			INTANGIBLE ASSETS		TOTAL TANGIBLE AND INTANGIBLE
	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	NON-CURRENT ASSETS
ACCUMULATED DEPRECIATION AT										
31 DECEMBER 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 DECEMBER 2006	59,475	641,049	325,644	10,894	0	0	0	11,408	17,271	1,065,741
Depreciation	3,952	33,642	31,569	1,102	0	0	0	1,918	7,058	79,241
Depreciation of fixed assets sold and written-off (-)	-34	-1,318	-15,197	-482	0	0	0	-346	-623	-18,000
31 December 2007	63,393	673,373	342,016	11,514	0	0	0	12,980	23,706	1,126,982
NET BOOK VALUE AT										
31 DECEMBER 2005	294,260	1,332,803	203,856	7,609	94,793	109,190	3,479	4,411	39,570	2,089,971
31 DECEMBER 2006	285,599	1,375,885	208,983	6,638	91,676	117,162	2,795	6,135	46,460	2,141,333
31 DECEMBER 2007	300,795	1,461,597	224,392	6,194	48,034	90,057	5,399	6,026	43,111	2,185,605

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

At 31 December 2006 the net balance sheet value of finance leases was 2 448 thousand kroons.

# NOTES TO THE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

(thousand EEK)

## NOTE 8. SHORT-TERM AND LONG-TERM BORROWINGS

The Company's short-term and long-term debt obligations as of 31 December 2007 and the changes recorded during 2007 in the respective debts were as follows:

BANK LOANS	LOAN DATE	LOAN RECEIVED	RESIDUAL AMOUNT 31. DECEMBER 2006	REPAYMENTS AND LOAN COST AMORTIZATION 2007	RESIDUAL AMOUNT 31. DECEMBER 2007	SHORT-TERM PORTION	LONG-TERM PORTION	INTEREST RATE %	MATURITY DATE
EBRD	11.2005	586,747	586,747	0	586,747	41,910	544,837	4.67	05.2015
EBRD loan costs	11.2005	-17,404	-7,137	848	-6,289	-424	-5,865		05.2015
Nordea Bank	11.2005	586,747	586,747	0	586,747	0	586,747	6 month Euribor + 0.24	11.2015
Nordea Bank loan costs	11.2005	-290	-259	31	-228	0	-228		11.2015
TOTAL BANK LOANS		1,155,800	1,166,098	879	1,166,977	41,486	1,125,491		
FINANCE LEASE		15,905	473	-473	0	0	0	5.9 - 8.63	06.2007
TOTAL BORROWINGS		1,171,705	1,166,571	406	1,166,977	41,486	1,125,491		

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. The repayments are indicated in Note 25.

NAME	REPAYMENTS PERIOD
EBRD	Loan repayments start in November 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 May 2011. The repayments will be made twice a year in May and November in accordance with the repayment terms agreed in the loan agreement.

# NOTES TO THE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

(thousand EEK)

## NOTE 9. TRADE AND OTHER PAYABLES

as of 31 December

LIABILITIES	BALANCE AMOUNT 2006	BALANCE AMOUNT 2007	SHORT-TERM PORTION 2007	LONG-TERM PORTION 2007	MATURITY DATE
Accounts payable - operating expenditures	15,476	13,019	13,019	0	until 31,12,2008
Accounts payable - capital expenditures	52,555	53,063	53,063	0	until 31,12,2008
Factoring	270	0	0	0	until 31,12,2008
Payables to related parties	2,176	4,091	4,091	0	until 31,12,2008
Payables to employees	10,034	11,492	11,492	0	until 31,12,2008
Interest payable	4,681	5,207	5,207	0	until 31,12,2008
Other accrued expenses	58	94	94	0	until 31,12,2008
Long-term guarantee deposit*	100	113	0	113	04,2102
<b>TOTAL TRADE AND OTHER PAYABLES</b>	<b>85,350</b>	<b>87,079</b>	<b>86,966</b>	<b>113</b>	

\* Long-term deposit is presented in acquisition value.

## NOTE 10. TAXES PAYABLE

as of 31 December

	2007	2006	MOST COMMON TAX RATES
Income tax	1,948	1,719	22% (2006: 23%)
VAT	15,891	5,877	18%
Water usage tax	2,627	2,523	0.36 - 0.80 kr/m <sup>3</sup> (2006: 0.35 - 0.72 kr/m <sup>3</sup> )
Pollution taxes*	1,752	16,558	4,091 - 130,200 kr/t (2006: 3,409 - 108,540 kr/t)
Social security tax	3,853	3,399	33%
Other	415	432	0.3 - 22%
<b>TOTAL</b>	<b>26,486</b>	<b>30,508</b>	

\* Within pollution taxes was an accrual for 13,3 mln kroons at 31 December 2006, This accrual is recorded was order to cover the full value of the taxes that the Company had 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 had not received a reply to the final report of Nitrogen removal improvement project from the Ministry of the Enviroment, therefore a liability had been recorded, In February 2007 a liability was removed in accordance with the resolution of Ministry of the Enviroment,

# NOTES TO THE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

(thousand EEK)

## NOTE 11. SHORT-TERM PROVISIONS

as of 31 December

Provisions include an estimate of the value of servitudes

	2007	2006
Servitudes	2,231	538

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. According to the management estimate there are no ongoing courtcases which will cause any extra cost that would need to be recorded as a provision or off-balance sheet liability.

## NOTE 12. DEFERRED INCOME

as of 31 December

	2007	2006
Operating revenues incl connection revenues	42,099	32,724
Prepayments for sale of fixed assets	0	3,601
<b>TOTAL DEFERRED INCOME</b>	<b>42,099</b>	<b>36,325</b>

## NOTE 13. SHARE CAPITAL

At 31 December 2007 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.

General Meeting of Shareholders has the authority to decide the emission and buyback of the shares, following the principles established in the Articles of Association. Management board does not have any respective authorities.

Restrictions on transfer of shares are disclosed in chapter 'Description of capital stock and corporate governance' of the IPO offering circular of AS Tallinna Vesi shares. The circular is available from the Company's website ([www.tallinnavesi.ee](http://www.tallinnavesi.ee)).

As of 31 December 2006 and 31 December 2007 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 and one B-share, with 6,000,000 shares in free float.

Nordea Bank Finland PLC customers 1,542,491 (7.71%) and Morgan Stanley + Co International PLC customers owned 1,361,459 (6.81%) shares. Other direct shareholders owned less than 5% of the shares as of 31 December 2007.

From Supervisory and Management Board members only Siiri Lahe and Roch Jean Guy Antoine Chérourx owned 180 and 1,000 shares respectively, both proportion in shareholding was approximately 0 as of 31 December 2007.

# NOTES TO THE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## NOTE 14. NET SALES

for the year ended 31 December

	2007	2006
REVENUES FROM MAIN OPERATING ACTIVITIES		
Total water supply and waste water disposal service, incl:	599,612	548,977
Domestic clients, incl:	318,963	288,712
Water supply service	178,452	161,931
Waste water disposal service	140,511	126,781
Corporate clients, incl:	252,658	235,029
Water supply service	138,693	126,617
Waste water disposal service	113,965	108,412
Outside service area clients, incl:	17,676	13,372
Water supply service	1,541	703
Waste water disposal service	16,135	12,669
Overpollution	10,315	11,864
Stormwater treatment and disposal service	37,426	30,052
Fire hydrants service	2,361	3,007
Other works and services	8,936	7,140
TOTAL REVENUES FROM MAIN OPERATING ACTIVITIES	648,335	589,176
REVENUES FROM OTHER OPERATING ACTIVITIES		
Water, sewerage and storm water connections construction income	172,437	104,048
TOTAL NET SALES	820,772	693,224

100 % of AS Tallinna Vesi revenue was transacted within the Estonian Republic. Code of Estonian Classification of Economic Activities (EMTAK) is 36001.

(thousand EEK)

## NOTE 15. PERSONNEL EXPENSES

for the year ended 31 December

	2007	2006
Salaries and wages	-57,666	-50,532
Social security taxation	-19,203	-16,832
STAFF COSTS TOTAL	-76,869	-67,364
Number of employees at the end of reporting period	312	318



# NOTES TO THE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

(thousand EEK)

## NOTE 16. COST OF GOODS SOLD, MARKETING AND GENERAL ADMINISTRATIONS EXPENSES

for the year ended 31 December

	2007	2006
COST OF GOODS SOLD (MAIN OPERATING ACTIVITIES)		
Tax on special use of water	-10,493	-10,050
Chemicals	-20,979	-20,638
Electricity	-26,382	-24,594
Pollution tax	6,207	-11,988
Staff costs	-51,611	-46,521
Research & development	-99	-129
Depreciation and amortization	-72,806	-73,278
Other costs of goods sold	-40,514	-33,339
TOTAL COST OF GOODS SOLD (MAIN OPERATING ACTIVITIES)	-216,677	-220,537
COST OF GOODS SOLD (OTHER OPERATING ACTIVITIES)		
Water, sewerage and storm water connections construction cost	-158,187	-97,096
MARKETING EXPENSES		
Staff costs	-6,107	-4,710
Depreciation and amortization	-3,553	-2,453
Other marketing expenses	-3,887	-2,415
TOTAL COST OF MARKETING EXPENSES	-13,547	-9,578
GENERAL ADMINISTRATION EXPENSES		
Staff costs	-19,151	-16,133
Depreciation and amortization	-2,882	-5,316
Other general administration expenses	-34,816	-29,870
TOTAL COST OF GENERAL ADMINISTRATION EXPENSES	-56,849	-51,319

OTHER INCOME/EXPENSES - in both 2006 and 2007 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.

# NOTES TO THE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

(thousand EEK)

## NOTE 17. FINANCIAL INCOME AND EXPENSES

for the year ended 31 December

	2007	2006
Interest income	10,861	7,034
Interest expense	-53,513	-48,445
Other financial expenses	-1,585	-1,571
<b>TOTAL FINANCIAL INCOME/EXPENSES</b>	<b>-44,237</b>	<b>-42,981</b>

## NOTE 18. DIVIDENDS

as of 31 December

	2007	2006
Dividends declared during the period	196,010	157,000
Dividends paid during the period	196,010	157,000
Income tax on dividends declared	-55,285	-46,896
<b>INCOME TAX ACCOUNTED</b>	<b>-55,285</b>	<b>-46,896</b>

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

## NOTE 19. EARNINGS AND DIVIDENDS PER SHARE

as of 31 December

	2007	2006
EARNINGS PER SHARE FROM CONTINUING OPERATIONS:		
Earnings for the purposes of basic earnings per share (net profit for the period minus B-share preference rights)	277,830	248,036
Weighted average number of ordinary shares for the purposes of basic earnings per share	20,000,000	20,000,000
Earnings per share in kroons	13.89	12.40
Dividends per A-share in kroons	9.80	7.85
Dividends per B-share in kroons	10,000	10,000

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

# NOTES TO THE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

(thousand EEK)

## NOTE 20. NOTES TO THE CASH FLOW STATEMENT

for the year ended 31 December

### NOTE 20A. PIPELINES

#### FINANCED BY CONNECTION FEES

	2007	2006
REVENUE		
Connection fees from pipelines taken into use	172,437	104,048
Increase in prepayments for pipelines	9,218	9,481
Change in accounts receivable from pipelines	-79,815	-867
CONNECTION FEES RECEIVED	101,840	112,662
Acquisition cost of pipelines taken into use	-158,187	-97,096

The connection fees from and the acquisition costs of pipelines taken into use are eliminated from "Cash flows of operating activities" as these are recorded within "Cash flows from investing activities". The net amounts eliminated were respectively -14,250 thousand and -6,952 thousand kroons in 2007 and in 2006.

### NOTE 20B. CHANGE IN CURRENT ASSETS AND LIABILITIES

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

	2007	2006
CURRENT ASSETS		
Change in balance sheet	-43,138	-46,813
Adjustments:		0
Change in money balance	-70,993	42,346
Changes between fixed assets and current assets	2,206	76
Assets sold from assets for sale	-242	-1,107
Change in deferred interests	290	489
Change in construction income debt	79,815	867
TOTAL CHANGE IN CURRENT ASSETS	-32,062	-4,142
CURRENT LIABILITIES		
Change in balance sheet	46,174	6,666
Adjustments:		
Change in finance lease and loan costs	-40,659	317
Change in payables for capital investments	-238	-33,507
Prepayments for the sale of fixed assets	3,600	42,000
Change in construction income prepayments	-9,204	-9,482
TOTAL CHANGE IN CURRENT LIABILITIES	-327	5,994

# NOTES TO THE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

(thousand EEK)

## NOTE 20C. PAYMENTS FOR FIXED ASSETS

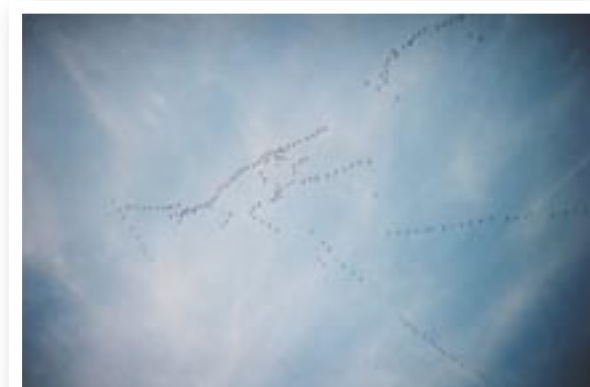
for the year ended 31 December

	2007	2006
Acquisition of fixed assets	-285,953	-246,476
Adjustments:		
Change in accounts payable related to investments	238	33,507
Capitalization of operating expenses	19,764	20,921
<b>TOTAL PAYMENTS FOR FIXED ASSETS</b>	<b>-265,951</b>	<b>-192,048</b>

## NOTE 21. COMMITMENTS

as of 31 December

	2007	2006
<b>LEASED ASSETS</b>		
Total operating lease expense for computers and vehicles	7,281	5,355
Minimum operating lease payments are as follows:		
Less than 1 year	6,946	
1-5 years	9,053	
<b>TOTAL MINIMUM LEASE PAYMENTS</b>	<b>15,999</b>	



*Marina Prigaski*  
DESIGNER

# NOTES TO THE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## 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 22/78 on the amount of the dividends payable in 2007, in 2006 the rate was 23/77. Since 1 January 2008 the rate is 21/79.

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 2007 amounted to 627,319 thousand kroons. Consequently, the maximum possible tax liability which would become payable if retained earnings were fully distributed is 166,756 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.



*Ivar Pajumaa*  
CONSUMER SERVICES MANAGER

# NOTES TO THE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## 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 2007 and 2006 and respective balances as of 31 December 2007 and 31 December 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.
<b>2007</b>		
TRANSACTIONS RECORDED IN WORKING CAPITAL ON THE BALANCE SHEET OF AS TALLINNA VESI		
Accounts receivable	110,639	0
Accounts payable - short-term trade and other payables	0	4,091
TRANSACTIONS RECORDED TO OTHER ACCOUNTS ON THE BALANCE SHEET OF AS TALLINNA VESI		
Non-current assets incl unfinished assets and new connections	0	5,836
TRANSACTIONS RECORDED TO THE INCOME STATEMENT OF AS TALLINNA VESI		
Net sales	158,733	0
General administration expenses	0	17,612
<b>2006</b>		
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 OTHER ACCOUNTS ON THE BALANCE SHEET OF AS TALLINNA VESI		
Non-current assets incl unfinished assets and new connections	0	11,593
TRANSACTIONS RECORDED TO THE INCOME STATEMENT OF AS TALLINNA VESI		
Net sales	84,686	0
General administration expenses	0	14,729
Other expenses	0	10

(thousand EEK)

	2007	2006
Management Board fees excluding social tax	2,118	2,097
Supervisory Board fees excluding social tax	578	500

The fees disclosed above are contractual payments made by the Company to the management board members. In addition to this the 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.



# NOTES TO THE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## NOTE 25. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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 Financial Department under instructions given by the Management Board carries out risk management.

FINANCIAL ASSETS	2007	2006
Receivables (inc cash and cash equivalents)	364,220	321,592
Swap contract	1,549	436
FINANCIAL LIABILITIES	2007	2006
Financial liabilities by amortised cost	1,280,542	1,282,429

The fair value of financial instruments is equal to the carrying amount.

## FOREIGN EXCHANGE RISK

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 exchange risk arising from currency exposures is low and as such no specific activities for foreign exchange management are needed at this moment in time.

## INTEREST RATE RISK

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. Interest bearing financial liabilities are loans and swap contract.

AS Tallinna Vesi is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed interest rate borrowings (4.19% + 48 basis points) from EBRD, and floating rate borrowings (6 month EURIBOR + 24 basis points) from Nordea by the use of interest rate swap contract, the aim of which is fixing the floating interest rate at certain dates depending on the respective spot rate of the 6 month EURIBOR.



*Loek Chiroux*  
CHAIRMAN OF THE MANAGEMENT BOARD

(thousand EEK)

### INTEREST RATE SWAP CONTRACT

Maturity date:	28.05.2009
Notional amount:	347,144 thousand kroons

The fair value of the interest rate swap contract is 1,549 thousand kroons as at 31.12.2007.

If interest rates had been 50 basis points higher and all other variables were held constant, ASTV's profit before tax for the year ended 31 December 2007 would decrease by 4,578 thousand kroons. If interest rates had been 50 basis points lower and all other variables were held constant, ASTV's profit before tax for the year ended 31 December 2007 would increase by 1,774 thousand kroons.

## CREDIT RISK

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 team 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.

The Company's maximum credit risk equals the carrying amount of financial assets. Non of the receivables from one customer exceeds 5 % of the total receivables, except City of Tallinn, which is 111 mln kroons.

# NOTES TO THE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

(thousand EEK)

## LIQUIDITY RISK

In liquidity risk management the Company has taken a prudent view, maintaining sufficient cash balance and availability of short-term marketable securities to fulfil its financial liabilities. Continuous cash flow forecasting and control are essential tools in the day-to-day liquidity risk management of the Company.

Maturities of the non-derivative financial assets and liabilities:

2007	INTEREST RATE %	LESS THAN 1 MONTH	1-3 MONTHS	3 MONTHS - 1 YEAR	1-5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL ASSETS							
Non-interest bearing	-	98,048	87,236	-	-	-	185,284
Fixed interest rate instruments	3.72	179,219	-	-	-	-	179,219
		277,267	87,236	0	0	0	364,503
FINANCIAL LIABILITIES							
Non-interest bearing	-	102,519	10,933	-	-	113	113,565
Variable interest rate instruments	6 months Euribor + 0.24	-	-	27,308	568,549	121,532	717,389
Fixed interest rate instruments	4.67	-	-	69,387	502,311	131,587	703,285
		102,519	10,933	96,695	1,070,860	253,232	1,534,239
2006	INTEREST RATE %	LESS THAN 1 MONTH	1-3 MONTHS	3 MONTHS - 1 YEAR	1-5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL ASSETS							
Non-interest bearing	-	70,485	1,468	-	-	-	71,953
Fixed interest rate instruments	6.94	249,729	-	-	-	-	249,729
		320,214	1,468	0	0	0	321,682
FINANCIAL LIABILITIES							
Non-interest bearing	-	84,562	31,196	-	-	100	115,858
Financial lease liability	4.5 - 8.63	-	-	473	-	-	473
Variable interest rate instruments	6 months Euribor + 0.24	-	-	26,308	468,766	248,623	743,697
Fixed interest rate instruments	4.67	-	-	27,401	336,582	336,703	730,686
		84,562	31,196	54,182	805,348	615,426	1,590,714

# NOTES TO THE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## REQUIREMENTS TO THE CAPITAL

The management board of the Company ensures the management of the capital structure of the Company according to the Business Plan approved by the Supervisory Council. The Business plan foresees a ratio of the total liabilities to the total asset at least on 50% level. The company's leverage ratios were respectively 51.8% and 53.4% as of 31.12.07 and 31.12.06. The loan agreement with Nordea does limit the minimum ratio 35% for the equity capital from the total assets.



*Sven Miller*

WATER CATCHMENT - TECHNICAL SPECIALIST



AS Deloitte Audit Eesti  
Roosikrantsi 2  
10119 Tallinn  
Eesti  
Tel: +372 640 6500  
Fax: +372 640 6503  
www.deloitte.com  
Reg.kood 10687819

## INDEPENDENT AUDITOR'S REPORT

*To the shareholders of AS Tallinna Vesi:*

We have audited the accompanying annual accounts (page 99 to 124) of AS Tallinna Vesi, which comprise the balance sheet as at 31 December 2007, 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 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 judgement, 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 2007, 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. veebruar 2008

Audit.Tax.Consulting.Financial.Advisory.

AS Deloitte Audit Eesti

Member of  
Deloitte Touche Tohmatsu

# CONFIRMATION OF THE MANAGEMENT AND SUPERVISORY BOARDS TO THE ANNUAL REPORT

AT 31 DECEMBER 2007 AND 2006

The Management Board has prepared the management report and the annual accounts of AS Tallinna Vesi on 15 February 2008.

The Supervisory Board of AS Tallinna Vesi has reviewed the annual report, prepared by the Management Board, consisting of Management Report 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 signed by all the members of the Management Board and Supervisory Board.

NAME	POSITION	SIGNATURE	DATE
Roch Jean Guy Antoine Chérourx	Chairman of the Management Board		10.03.08
David Nigel Hetherington	Member of the Management Board		10.03.08
Siiri Lahe	Member of the Management Board		10.03.08
Robert John Gallienne	Chairman of the Supervisory Board		11.03.08.
Ian John Alexander Plenderleith	Member of the Supervisory Board		11/3/08
Henry Emanuel Russell	Member of the Supervisory Board		11/3/08
David Leonard Fuller	Member of the Supervisory Board		10.03.08
Mart Mägi	Member of the Supervisory Board		11.03.08
Rein Ratas	Member of the Supervisory Board		11.03.08
Elmar Sepp	Member of the Supervisory Board		11.03.08.
Deniss Borodits	Member of the Supervisory Board		11.03.08
Valdur Laid	Member of the Supervisory Board		11.03.08

# AS TALLINNA VESI MANAGEMENT BOARD 2007

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.



*Liia Kamm*  
COMMUNICATIONS SPECIALIST

## 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.

### 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 Lancaser University.



*Maarja Madisson*  
ASSISTANT TO COO

### SIIRI LAHE

Member of the Management Board  
Chief Financial Officer (CFO)

Siiri Lahe, Estonian, joined the company in November 1994. She has more than 12 years of experience and extensive managerial skills in AS Tallinna Vesi at several levels within the finance department. She has also been a member of the Executive Team of the company for two years. From August 1st 2007 she is the Chief Financial Officer of the company and a member of the Management Board. She has a higher education Degree in Economy and a Master's Degree in Public Administration from Tallinn University of Technology.



# 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.
- 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. AS Tallinna Vesi has two independent Supervisory Council members elected by the AGM. 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 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.

### DAVID LEONARD FULLER

Nominated by United Utilities Group since 4th October 2007. David Leonard Fuller has an Honours degree in Mechanical Engineering from London and an MBA from Strathclyde Business School in Scotland. He has 20 years experience in infrastructure and construction contracting businesses, the last 5 years of which have been with United Utilities group. He is specialised mainly on commercial and contract management of international concession contracts.

### IAN JOHN ALEXANDER PLENDERLEITH

Nominated by United Utilities group, since 10 March 2008. Ian Plenderleith has over 14 years experience in a variety of financial roles within the utilities sector both in the UK and internationally. Ian worked in AS Tallinna Vesi from October 2004 until August 2007 as Chief Financial Officer and Member of Management Board. He is a member of the Chartered Institute of Management Accountants.

### HENRY EMANUEL RUSSELL

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



*Sven Miller*

WATER CATCHMENT - TECHNICAL SPECIALIST

# AS TALLINNA VESI SUPERVISORY COUNCIL

## TALLINN CITY REPRESENTATIVES:

### 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.



*Kersti Põld*  
MICROBIOLOGIST

### DENISS BORODITŠ

Nominated by the City of Tallinn on 19 September 2007. Deniss Boroditš received a Bachelor's Degree in Law Studies from International University Concordia in 2001. Starting from April 2007 he is working as a Deputy Mayor of Tallinn and his main fields of responsibility are municipal engineering services, infrastructure, road maintenance, heating, water, communication, environment protection, maintenance of parks and green areas, waste management, state defence, rescue and emergency services.

### REIN RATAS

Rein Ratas was elected as 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:

### MART MÄGI

Mart Mägi was elected as the independent member of the Supervisory Council on 23 November 2007. Since 2005 Mart Mägi has been working as the Chairman of the Management Board of Hansa Liising Eesti AS. Mart Mägi has extensive knowledge and experience in finance and business. He has MBA degree in Insurance and Banking from Warsaw University, of Banking and Insurance and in Banking and Finance from University of Tartu.

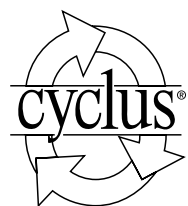
### VALDUR LAID

Valdur Laid was elected as 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. 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 TEXT WAS COMPOSED BY: AS Tallinna Vesi, Reigo Marosov and Jana Kelus.

DESIGN: Ecwador Advertising Agency

The screensaver of the illustrating photos taken by the employees of AS Tallinna Vesi can be downloaded from: [www.tallinnavesi.ee](http://www.tallinnavesi.ee)



*We think green*

