

# ***AS TALLINNA VESI***

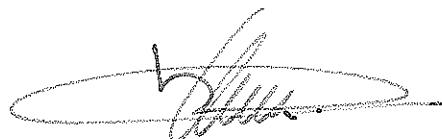
*Annual report  
for the financial year ended  
31 December 2006*

# AS TALLINNA VESI

## ANNUAL REPORT

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Beginning of the financial year	1 January 2006
End of the financial year	31 December 2006
Name of the Company	AS TALLINNA VESI
Legal form of the Company	Public limited company
Commercial register number	10257326
Address	Ädala St.10, Tallinn, Estonia
Chairman of the Board	Roch Jean Guy Antoine Chéroux
Telephone	+ 372 6 262 202
Fax	+372 6 262 300
E-mail	tvesi@tvesi.ee
Web-page	www.tallinnavesi.ee
Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment
Auditors	AS Deloitte Audit Eesti
Documents attached to the Annual Report	Independent auditor's report



Chairman of the Management Board:

**TABLE OF CONTENTS**

	Pg.
<b>MANAGEMENT REPORT, incl</b> .....	3
<b>CHAIRMAN'S STATEMENT</b> .....	3
<b>FINANCIAL REVIEW</b> .....	6
<b>CORPORATE GOVERNANCE REPORT</b> .....	11
<b>ANNUAL ACCOUNTS</b>	
<b>DECLARATION OF MANAGEMENT</b> .....	15
<b>BALANCE SHEETS</b> .....	16
<b>INCOME STATEMENTS</b> .....	17
<b>CASH FLOW STATEMENTS</b> .....	18
<b>STATEMENTS OF CHANGES IN EQUITY</b> .....	19
<b>NOTES TO THE ANNUAL ACCOUNTS</b>	
<b>NOTE 1. ACCOUNTING PRINCIPLES</b> .....	20
<b>NOTE 2. CASH AND CASH EQUIVALENTS</b> .....	26
<b>NOTE 3. CUSTOMER RECEIVABLES</b> .....	26
<b>NOTE 4. ACCRUED INCOME AND PREPAID EXPENSES</b> .....	26
<b>NOTE 5. INVENTORIES</b> .....	26
<b>NOTE 6. ASSETS FOR SALE</b> .....	26
<b>NOTE 7. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS</b> .....	27
<b>NOTE 8. SHORT-TERM AND LONG-TERM BORROWINGS</b> .....	28
<b>NOTE 9. TRADE AND OTHER PAYABLES</b> .....	29
<b>NOTE 10. TAXES PAYABLE</b> .....	29
<b>NOTE 11. PROVISIONS</b> .....	30
<b>NOTE 12. DEFERRED INCOME</b> .....	30
<b>NOTE 13. SHARE CAPITAL AND STATUTORY LEGAL RESERVE</b> .....	30
<b>NOTE 14. NET SALES</b> .....	31
<b>NOTE 15. PERSONNEL EXPENSES</b> .....	31
<b>NOTE 16. COSTS AND EXPENSES</b> .....	32
<b>NOTE 17. FINANCIAL INCOME AND EXPENSES</b> .....	33
<b>NOTE 18. DIVIDENDS</b> .....	33
<b>NOTE 19. EARNINGS AND DIVIDENDS PER SHARE</b> .....	33
<b>NOTE 20. NOTES TO THE CASH FLOW STATEMENT</b> .....	34
<b>NOTE 21. COMMITMENTS</b> .....	35
<b>NOTE 22. CONTINGENT INCOME TAX ON DIVIDENDS</b> .....	36
<b>NOTE 23. COLLATERAL OF LOANS AND PLEDGED ASSETS</b> .....	36
<b>NOTE 24. RELATED PARTIES</b> .....	37
<b>NOTE 25. FINANCIAL RISK MANAGEMENT</b> .....	38
<b>CONFIRMATION OF THE MANAGEMENT AND SUPERVISORY BOARDS</b>	39
<b>INDEPENDENT AUDITORS' REPORT</b> .....	40



Chairman of the Management Board:

MANAGEMENT REPORT

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CHAIRMAN'S STATEMENT

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

**Closer to Clients**

2006 has seen the full deployment of our new client relationship and billing software. The new system gathers in one place information that was stored previously in different databases. This enables a much more complete and accurate overview of each client's information, and thus a much more accurate and diligent response to any client's request. This new system brings a lot more possibilities to interact with the client in a friendly and effective way. The web interface gives the possibility for each client to have access to their own information and engage in dialogue easily with the Company. In addition, new billing functionalities offer, for example direct debit and e-invoice.

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

**Our Employees as Drivers of Performance**

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

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

**Operational Excellence as an Objective**

An extensive investment programme of 246.5 mln kroons was carried out, to renew, upgrade and develop the asset base of the Company. The main areas of investment were networks and water quality (182.8 mln kroons), and treated wastewater quality (43.7 mln kroons). In 2005 the Company invested 223.1 mln kroons overall of which 130.7 mln kroons was in networks and water quality, and 30.4 mln kroons in treated wastewater quality. This ongoing investment programme is a key contributor to the good level of operational performance in 2006. The water quality has been 100% compliant for microbiological standards and 99.55% compliant for all standards. With this level of quality, the Company is already delivering compliance with the new standards that come into force 1<sup>st</sup> January 2007. The leakage level stands at 19.3%, more than 6% below contractual target, and continues to be closely monitored. In addition to these good technical results, we are constantly looking at the possibility to improve and streamline the organization. A project to review and simplify our internal processes was initiated and will be continued in 2007.

  
Chairman of the Management Board:

**MANAGEMENT REPORT**

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**We Preserve Our Environment**

The Company has been heavily investing in different projects. The nitrogen project, total investment of 54.7 mln kroons, which aimed to reduce the amount of nitrogen discharged to the Baltic Sea was successfully completed. As a result, Tallinn was removed from the HELCOM (Environmental body monitoring the quality of the Baltic sea) hotspots list. This international recognition is a great achievement for the Company, the City of Tallinn and Estonia. The construction of 13 hectares of composting fields, which enable us to turn all our sludge production into a good quality soil conditioner used for greenery works and reforestation, is now almost completed and already in use. The Paljassaare waste water treatment plant, is not only treating effluent to a very high level of quality and composting its sludge, but also turning the gas produced during the treatment process into electricity, and is now a reference in terms of recycling. On the clean water side, the biomanipulation project to improve the condition of lake Ülemiste continues.

**Our engagement towards the Community**

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

**Developing the Company**

Our out performance in delivering the Services Agreement in Tallinn gives us a strong market position and we are well positioned to build on our current success. Focusing on our core activity, water and wastewater services, we have expanded our service area: a way to maximise the use of excess capacity of our assets and share our economy of scale with the municipalities surrounding Tallinn. We will continue to focus on our core activity, and seek to expand geographically. In addition, a review of potential routes for growing the Company in activities closely related to water and wastewater, has been undertaken. The growth prospects look promising.

**Commitment to Shareholders**

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

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

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

  
Chairman of the Management Board:

**MANAGEMENT REPORT**

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**Looking Forward**

A review of the strategy established the 4 strategic objectives aligned with our vision:

- To deliver Customer Service Excellence
- To deliver Operational Excellence
- To Grow the Activity of the Company
- To deliver Shareholder Value

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

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

We intend to build on these strong foundations and continue to meet our business objectives.



Chairman of the Management Board:

## FINANCIAL REVIEW

## Key Financial Indicators

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

Gross profit margin – Gross profit / Net sales

Operating profit margin – Operating profit / Net sales

Profit before taxes margin – Profit before taxes / Net sales

ROA – Net profit / Total assets

Debt to total capital employed – Total liabilities / Total capital employed

ROE – Net profit / Total equity

Current ratio – Current assets / Current liabilities

## Profit and Loss Statement

## Sales

In 2006 total sales from the Company's main operating activities were 589.2 mln kroons, up 7.1% year-on-year. Sales in the main operating activity principally comprise of sales of water and treatment of wastewater to domestic and commercial customers within and outside of the services area, and fees received from the City of Tallinn for operating and maintaining the stormwater system.

Sales from water and wastewater increased by 10.8%, which was in accordance with expectations and is largely attributable to the 9.6% increase in water and sewerage tariffs in 2006 for the Company's residential and commercial customers.

Sales to residential customers increased by 9.7% to 288.7 mln kroons. Sales to commercial customers within the services area increased by 10% to 246.9 mln kroons in 2006, due to the tariff increase and an increase in volumes sold. Sales to commercial customers outside of the service area – primarily bulk volumes of wastewater treatment services provided to the

Chairman of the Management Board:



**MANAGEMENT REPORT**

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surrounding municipalities - reached 1.9 mln m<sup>3</sup> or 13.4 mln kroons, which represents a 66% increase in sales value compared to 2005. This growth in volumes demonstrates the continuing success of the company's strategy in connecting new customers and municipalities.

Sales revenues from other operating activities (mainly connections and stormwater construction) increased, year on year, by 61.9 mln kroons to 104 mln kroons as a result of an increase in connections income from individual connectees in both the domestic and commercial sectors.

*Gross Margin*

For the 2006 financial year the cost of goods sold for the main operating activity was 220.5 mln kroons, which is an 18.5 mln kroons, or 9.2% increase compared to the previous year. The main increases were chemical costs, 7.2 mln kroons higher year on year, environmental taxes, 6.1 mln kroons higher year on year, and other costs of goods sold, 3.8 mln kroons higher year on year.

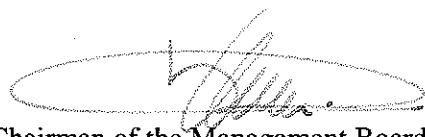
The increase in chemical costs in the first half of the year was due to increased usage of methanol required to reduce the concentration of nitrogen discharged into the Baltic Sea. Working in partnership with the Ministry of Environment the Company had targeted the achievement of this key environmental objective by 30 June 2006. Based upon the measurements taken by the Company this target has been achieved and approvals have been received from Harju County and the Environmental Inspectorate. The final report is now with the Ministry of Environment for their final approval. The Company hopes to receive approval in the 1<sup>st</sup> quarter of 2007 and as a result will be able to release a tax accrual worth 13.3 mln kroons for taxes foregone that would have had to be paid had the project not been successful. In the second half of the year the Company has continued to make investments into chemical at comparable levels to the first half of 2006 to continue to meet this key environmental objective. It is possible that, against a background of increasing commodity prices, the cost of chemicals may rise in the future, as the continued achievement of this objective requires chemical quantities similar to those used in 2006.

The increase in environmental taxes is the result of a 100% rise in tariffs paid on treated wastewater discharged to the sea. Tariffs have been set by the Law on Environmental Fees imposed by the Parliament for the period from 2006 to 2009.

During 2006 other costs of goods sold increased due to the following factors, during the 1<sup>st</sup> quarter of 2006 costs expensed to the Profit and Loss account were higher as a result of lower salary capitalisations resulting from the timing of the capital expenditures programme, cost increases were close to zero during the two middle quarters and were driven higher by labour related increases in the price of support services contracts in the fourth quarter of 2006.

Profits from other operating activities, which include water, sewerage and storm water connection construction income were 7 mln kroons in 2006, a 3.2 mln kroons increase from 2005 levels as a consequence of the increased connections activity.

Gross profit for the 2006 financial year was 375.6 mln kroons, which is an increase of 24 mln kroons, or 6.8% compared to 2005.

  
Chairman of the Management Board:



**MANAGEMENT REPORT**

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*Operating margin*

For the 2006 financial year marketing expenses were 2.8 mln kroons higher than in 2005. Almost all of this increase resulted from additional depreciation charges from the new customer management system.

During 2006 general administration expenses were 51.3 mln kroons, which is 12.9 mln kroons lower than in 2005. In 2005 general administration expenses were inflated by 17.5 mln kroons of one-off IPO costs. After removing this non-recurring increase this cost category was 4.6 mln kroons higher than 2005 due to increases in two main categories. Firstly, an increase in salary costs of 2 mln kroons (14%) as a consequence of increases paid to retain key members of staff, and secondly, an increase in other general administration expenses of 2.2 mln kroons, the majority of which was incurred in the fourth quarter for the reasons outlined more fully in the 4<sup>th</sup> quarter commentary.

In the 2006 financial year total staff salary costs accounted for 67.4 mln kroons, which is 3.3 mln kroons lower than in 2005. However, included in the 2005 amount are 6.1 mln kroons of IPO bonuses paid to all employees. After removing this one off amount total staff costs increased by 2.7 mln kroons, or 4.2%, year on year. The average number of staff employed in 2006 decreased by 15 to 322.

For the 2006 financial year, other net income was 23.2 mln kroons, including 24 mln kroons from the recognition of profits subsequent to concluding the sale of excess land in Paljassaare.

For the 2006 financial year the company achieved an operating profit of 337.9 mln kroons, compared to the operating profit of 282.6 mln kroons achieved in 2005. The operating profit margin increased from 47.7% to 48.7%.

*Financial Expenses*

Net financial expenses were 43 mln kroons in 2006, which is a decrease of 29.9 mln kroons compared to 2005. The restructuring of the Company's long-term debt in November 2005 increased the financial expenses by 18.2 mln kroons in 2005 i.e. the remaining savings were due to changes in loan agreement terms after restructuring lowering the interest rate and increased financial income.


*Profit Before Tax*

For the 2006 financial year profit before taxes was 294.9 mln kroons, which is an 85.2 mln kroons increase compared to 2005.

**Balance Sheet**

The Company's total assets were 2,472 mln kroons as at 31 December 2006, representing an increase of 98.2 mln kroons compared to 31 December 2005. Current assets increased by 46.8 mln kroons, which was largely attributable to an increase in cash and accounts receivable reflecting increased sales of water and wastewater treatment services.

Tangible, intangible and unfinished assets were 2,138.5 mln kroons at 31 December 2006, an increase of 52.0 mln kroons of the fixed asset base during the year.

  
Chairman of the Management Board:

**MANAGEMENT REPORT**

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Current liabilities increased by 6.7 mln kroons to 153.1 mln kroons in twelve months of the year. This was mainly due to increased trade payables, reflecting the higher levels of investments.

The company continues to maintain its leverage level within its target range of 50-60% with total liabilities to total capital employed of 53.4% as at 31 December 2006. Long-term liabilities stood at 1,166.2 mln kroons at the end of December 2006, consisting almost entirely of the outstanding balance of the long-term bank loans.

**Cash Flow**

During 2006, the Company generated 320.6 mln kroons of cash flows from operating activities, an increase of 13.5 mln kroons, or 4.4% compared to the corresponding period in 2005. The key factor affecting this improvement was a 55.3 mln kroons increase in operating profit.

In 2006 net cash outflows from investing activities were 73.0 mln kroons, 10.2 mln kroons less than in 2005. This was largely due to higher proceeds received from pipelines financed by construction income in 2006 offset by prepayments and proceeds from the sale of assets.

Cash outflows from financing activities were 205.2 mln kroons during twelve months of the year, which is 87.4 mln kroons more than the outflows in the corresponding period in 2005. This significant increase in cash outflows was mainly due to a net receipt of 31.3 mln kroons from long-term loans in 2005, as well as lower dividend and corresponding tax payments in 2005.

As a result of all of the above factors, the total cash inflow in twelve months of 2006 was 42.3 mln kroons compared to a cash inflow of 106.1 mln kroons in twelve months of 2005. Cash and cash equivalents stood at 249.4 mln kroons as at 31 December 2006.

**Employees**

As of 31 December 2006 the Company employed 318 people consisting of 227 people in the Operations division and 91 people in Commercial and Corporate Services. The number of employees has decreased by 16 people since the beginning of the year as a result of the highly competitive labor market and not a significant change in the Company's structure.

**Dividends and Share Performance**

Based on the results of the 2005 financial year, the Company paid 157 mln kroons dividends in June 2006.

As of 31 December 2006 AS Tallinna Vesi shareholders, with a holding over 5%, were:

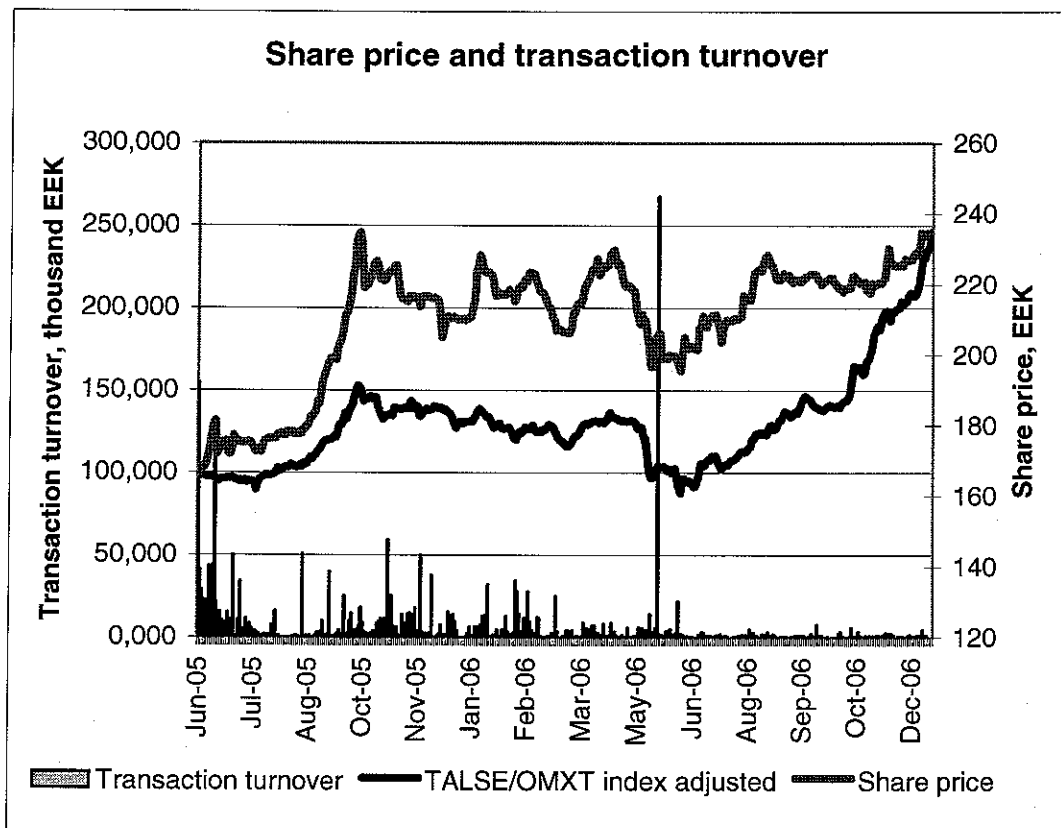
United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%
Morgan Stanley + Co International Equity client account	6.87%
Citygroup Global Markets Ltd	5.00%



Chairman of the Management Board:

## MANAGEMENT REPORT

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



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

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

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

Chairman of the Management Board:

**CORPORATE GOVERNANCE REPORT**

**The Background**

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

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

The Company has regular dialogue with major shareholders with general presentations made bi-annually - a list of meetings and the presentations are available on the Company's website. The Company also uses the Annual General Meeting to keep shareholders informed and there is an opportunity for individual shareholders to ask questions of the Management Board and Supervisory Council within the meeting

**Declaration of Conformity by AS Tallinna Vesi**

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

*'2.2.3. The basis for Management Board remuneration shall be clear and transparent. The Supervisory Board shall discuss and review regularly the basis for Management Board remuneration. Upon determination of the Management Board remuneration, the Supervisory Board shall be guided by evaluation of the work of the Management Board members. Upon evaluation of the work the Management Board members, the Supervisory Board shall above all take into consideration the duties of each member of the Management Board, their activities, the activities of the entire Management Board, the economic condition of the Issuer, the actual state and future prediction and direction of the business in comparison with the same indicators of companies in the same economic sector.'*

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

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



Chairman of the Management Board:

**MANAGEMENT REPORT**

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*'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.'*

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

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

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

**Information Disclosure**

*'2.2.2. The member of the Management Board shall not be at the same time a member of more than two management boards of an Issuer and shall not be the Chairman of the Supervisory Board of another Issuer. A member of the Management Board can be the Chairman of the Supervisory Board in company belonging to same group as the Issuer.'*

Roch Chéroux, CEO, is a member of the Supervisory Board of the following companies belonging to United Utilities group: United Utilities BV, United Utilities Investment BV, United Utilities (Tallinn) BV, United Utilities (Luxembourg) sarl, United Utilities (Luxembourg) No. 2 sarl and also in Eesti Vee-ettevõtete Liit (Estonian Water Companies Association).

Ian Plenderleith, CFO, and David Hetherington, COO, are not in the Supervisory Boards of other companies.

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

According to the decision of shareholders meeting that the payments for Supervisory Board 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.

  
Chairman of the Management Board:

**MANAGEMENT REPORT**

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*3.2.6. If a member of the Supervisory Board has attended less than half of the meeting of the Supervisory Board, this shall be indicated separately in the Corporate Governance Recommendations Report.*

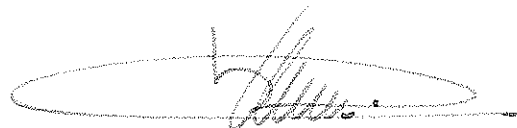
Robert John Gallienne attended all the Supervisory Board meetings since his nomination on 02.07.2006.

Karl Olof Joakim Forsberg attended in one Supervisory Board meeting and missed two, until recalled from Board on 22.05.2006.

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

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

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



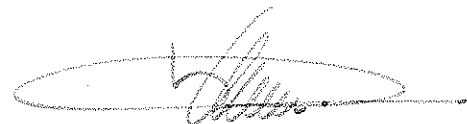
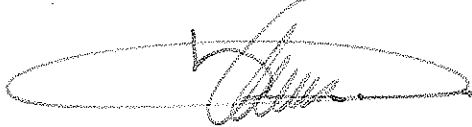
Chairman of the Management Board:

**MANAGEMENT REPORT**

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The previous sections, Chairman's statement, Financial Review & Corporate Governance 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 2006.

Roch Jean Guy Antoine Chéroux  
Chairman of the Management Board



Chairman of the Management Board:

# AS TALLINNA VESI

## **DECLARATION OF MANAGEMENT FOR THE YEAR ENDED 31 DECEMBER 2006**

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

The annual accounts have been prepared according to International Financial Reporting Standards as adopted by the EU, and give a true and fair view of the financial position, results of operations and cash flows of AS Tallinna Vesi.

The preparation of the annual accounts according to International Financial Reporting Standards involves estimates made by the Management Board of the Company's assets and liabilities as at 31 December 2006, and of income and expenses during the financial year. These estimates are based on current information about AS Tallinna Vesi and consider all plans and risks as at 31 December 2006. The actual results of these business transactions recorded may differ from such estimates.

Any subsequent events that materially affect the valuation of assets and liabilities until the preparation of the annual accounts as at 15 February 2007 have been assessed as part of this review.

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

<b>Name</b>	<b>Position</b>	<b>Signature</b>	<b>Date</b>
Roch Jean Guy Antoine Ch�eroux	Chairman of the Management Board		<u>15.02.2007</u>
David Nigel Hetherington	Member of the Management Board		<u>15-2-07</u>
Ian John Alexander Plenderleith	Member of the Management Board	<u>I.J.A. Plenderleith</u>	<u>15/2/2007</u>



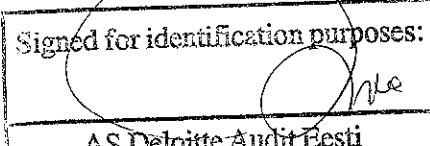
AS TALLINNA VESI

BALANCE SHEETS

AT 31 DECEMBER 2006 AND 2005

(thousand EEK)

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

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 AS Deloitte Audit Eesti

  
 Chairman of the Management Board:

AS TALLINNA VESI

**INCOME STATEMENTS  
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005**

(thousand EEK)

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

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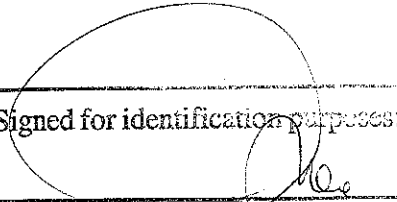
**AS TALLINNA VESI**

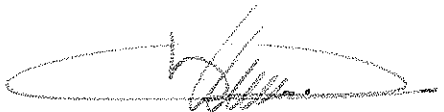
**CASH FLOW STATEMENTS**

**FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005**

(thousand EEK)

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

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 Chairman of the Management Board:

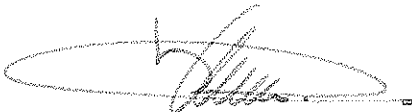
AS TALLINNA VESI

STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(thousand EEK)

	Share capital	Share premium	Statutory legal reserve	Accumulated profit	Net profit	Total equity
<b>31 December 2004</b>	<b>200 001</b>	<b>387 000</b>	<b>93 394</b>	<b>145 734</b>	<b>172 961</b>	<b>999 090</b>
Transfer of financial year profit to the accumulated profit	0	0	0	172 961	-172 961	0
Transfer of statutory legal reserve to the accumulated profit	0	0	-73 394	73 394	0	0
Dividends	0	0	0	-112 000	0	-112 000
Net profit of the financial year	0	0	0	0	174 354	174 354
<b>31 December 2005</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>280 089</b>	<b>174 354</b>	<b>1 061 444</b>
Transfer of financial year profit to the accumulated profit	0	0	0	174 354	-174 354	0
Dividends	0	0	0	-157 000	0	-157 000
Net profit of the financial year	0	0	0	0	248 046	248 046
<b>31 December 2006</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>297 443</b>	<b>248 046</b>	<b>1 152 490</b>

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Chairman of the Management Board:

**NOTES TO THE ANNUAL ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

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**NOTE 1. ACCOUNTING PRINCIPLES**

The annual accounts for the financial year 2006 (hereinafter financial statements) have been prepared according to International Financial Reporting Standards (hereinafter IFRS) as adopted by the European Union. IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB), except for certain hedge accounting requirements under IAS 39 which have not been endorsed by the EU. The Company has determined that the unendorsed hedge accounting requirements under IAS 39 would not impact the financial statements had they been endorsed by the EU at the balance sheet date. IFRIC 4 'Determining whether an Arrangement Contains a Lease' is the only new standard or an interpretation of a standard which became effective from 1 January 2006 and is applicable to the Company. The IFRIC 4 has been adopted in the preparation of the statements without any impact on the accounting principles and financial statements.

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

- IFRS 7 'Financial Instruments: Disclosures' shall be applied to the annual periods beginning on or after 1 January 2007;
- IFRS 8 'Operating segments' shall be applied to the annual periods beginning on or after 1 January 2009;
- IFRIC 7 'Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Environments' shall be applied to the annual periods beginning on or after 1 March 2006;
- IFRIC 8 'Scope of IFRS 2' shall be applied to the annual periods beginning on or after 1 May 2006;
- IFRIC 9 'Reassessment of Embedded Derivatives' shall be applied to the annual periods beginning on or after 1 June 2006;
- IFRIC 10 'Interim Financial Reporting and Impairment' shall be applied to the annual periods beginning on or 1 January 2007;
- 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.

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

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

The financial statements do not include the segment reporting as there are no geographical segments and no clearly distinguished business segments related to the activities of the Company.

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

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Chairman of the Management Board:

**NOTES TO THE ANNUAL ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

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**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.
- The Company has made a specific tax accrual for pollution taxes foregone. As the decision to exempt the Company from payment of these taxes has not yet been received from the Ministry of Environment the management of the Company has made the decision not to release the accrual (see the details in note 10). Exemption from payment of these taxes in 2007 would decrease the Company's liabilities by 13 million kroons and respectively would increase net profit.

**Foreign currency transactions**

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

**Financial assets and liabilities**

Financial assets are cash, trade receivables, accrued income, other current and long-term receivables including the derivatives with positive value. Financial liabilities are accounts payable, accrued expenses, other current and long-term liabilities including the derivatives with negative value.

Financial assets and liabilities are recognized at acquisition cost, which is assumed to be a fair value paid for or gained from that asset or liability.

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

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

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**NOTES TO THE ANNUAL ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

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**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 un-collectible and written-off from the Balance Sheet.

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

61 to 90 days	10%;
91 to 180 days	30%;
181 to 360 days	70%;
over 360 days	100%.

**Inventories**

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

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

**Assets for sale**

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

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Chairman of the Management Board:

**NOTES TO THE ANNUAL ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

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

Unfinished pipelines – new connections include the costs of acquiring water or sewerage pipelines. After completion of construction and the concluding of the connection contracts with customers the costs related to the acquisition of these pipelines are recorded within costs of goods sold to ensure the correct matching of revenues and expenses in the same accounting period. Remaining expenses relating to the construction, that are not directly compensated to the Company, are recorded within the Balance Sheet as 'Tangible assets'.

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

- buildings 1,25-2,0 % per annum;
- facilities 1,0-8,33 % per annum;
- machinery and equipment 3,33-50 % per annum;
- instruments, facilities etc. 10-20 % per annum;
- intangible assets 10-33 % per annum.

Land is not depreciated.

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.

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**NOTES TO THE ANNUAL ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

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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 'Costs of goods sold – main operating activities', 'Marketing expenses' or 'General administration expenses' depending on purpose of asset usage before the impairment.

**Liabilities**

Liabilities with payment terms of more than one year after the balance sheet date are considered to be long-term liabilities. All other liabilities are considered to be short-term liabilities.

No long-term employee benefit schemes are applicable to the Company. The company has made an internal decision to pay bonuses to the employees based on the accounting year results of the company and other individual performance criteria. The expected cost is recorded on the Income Statement as an expense and on the Balance Sheet as a short-term liability.

As profits are not taxable in Estonia no deferred tax liabilities are applicable. Taxation is described more thoroughly in notes 10 and 22.

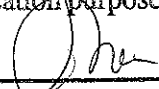
**Provisions**

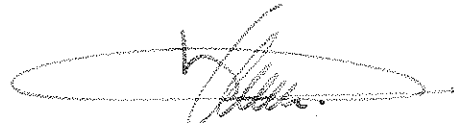
Legal or contractual liabilities which have arisen during the financial year or previous periods, which are reasonably expected to result in abandoning the asset and result in costs that can be reliably measured at any point in the future, but the final cost or term of payment is not firmly fixed, and 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.

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Chairman of the Management Board:

**NOTES TO THE ANNUAL ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

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**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.

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

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

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AS TALLINNA VESI

NOTES TO THE ANNUAL ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006

(thousand EEK)

NOTE 2. CASH AND CASH EQUIVALENTS

	2006	2005
Cash and bank accounts	17 227	46 822
Short-term deposits	232 186	160 245
<b>Total cash and cash equivalents</b>	<b>249 413</b>	<b>207 067</b>

NOTE 3. CUSTOMER RECEIVABLES

	2006	2005
Accounts receivable	76 693	74 133
Allowance for doubtful debts	-5 203	-7 396
<b>Total customer receivables</b>	<b>71 490</b>	<b>66 737</b>

Impairment costs of receivables:

Write off of uncollectible receivables	-607	-1 074
Proceeds from uncollectible receivables	9	216
Change in allowance for doubtful debts	2 193	343

NOTE 4. ACCRUED INCOME AND PREPAID EXPENSES

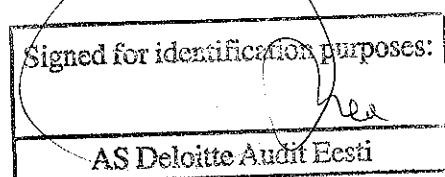
	2006	2005
Fair value of interest rate swap	436	0
Accrued interest	226	173
Other accrued income	200	20
Prepaid taxes	263	1 105
Other prepaid expenses	3 631	3 988
<b>Total accrued income and prepaid expenses</b>	<b>4 756</b>	<b>5 286</b>

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

NOTE 6. ASSETS FOR SALE

	2006	2005
Assets for sale	750	494
Prepayments for the land related to the assets for sale	898	896
<b>Total assets for sale</b>	<b>1 648</b>	<b>1 390</b>

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NOTES TO THE ANNUAL ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006

(thousand EEK)

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

	Tangible assets in use			Assets in progress			Intangible assets		Total tangible and intangible non-current assets	
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Unfinished assets - non connections	Unfinished pipelines - new connections	Prepayment for fixed assets	Development costs		Acquired licenses and other intangible assets
<b>Acquisition cost at</b>										
31.12.2004	311 470	1 899 519	484 895	16 335	102 634	79 675	3 648	9 598	27 357	2 935 131
Acquisition	0	0	0	0	128 979	74 363	19 803	0	0	223 145
Sale of fixed assets	-83	-126	-2 994	-5	0	0	0	0	0	-3 208
Write-off of fixed assets	-1 011	-3 212	-15 943	-181	0	0	0	0	-184	-20 531
Reclassification within balance sheet	0	229	0	0	0	0	0	0	0	229
Reclassification to expenses	0	0	0	0	-59	-3	-169	0	0	-231
Expensed pipelines	0	0	0	0	0	-38 339	0	0	0	-38 339
Reclassification from assets in progress	39 565	49 711	37 630	2 994	-136 761	-6 506	-19 803	4 243	28 927	0
31.12.2005	349 941	1 946 121	503 588	19 143	94 793	109 190	3 479	13 841	56 100	3 096 196
Acquisition	0	0	0	0	139 665	106 811	0	0	0	246 476
Sale of fixed assets	-7 876	-8 965	-5 088	-7	0	0	0	0	0	-21 936
Write-off of fixed assets	0	-967	-4 930	-2 483	0	0	0	0	-7 006	-15 386
Reclassification within balance sheet	0	0	0	0	-43	-33	0	0	0	-76
Reclassification to expenses	0	-1	0	0	-614	0	-489	0	0	-1 104
Expensed pipelines	0	0	0	0	0	-97 096	0	0	0	-97 096
Reclassification from assets in progress	3 009	80 746	41 057	879	-142 125	-1 710	-195	3 702	14 637	0
31.12.2006	-2 862 000	2 016 934	534 627	17 532	91 676	117 162	2 795	17 543	63 731	3 207 074
<b>Accumulated depreciation</b>										
31.12.2004	52 889	586 747	282 329	10 357	0	0	0	7 041	11 454	950 817
Depreciation	3 886	29 905	35 934	1 359	0	0	0	2 389	5 261	78 734
Depreciation of fixed assets sold and written-off (-)	-1 094	-3 334	-18 531	-182	0	0	0	0	-185	-23 326
31.12.2005	55 681	613 318	299 732	11 534	0	0	0	9 430	16 530	1 006 225
Depreciation	3 864	31 471	34 143	1 844	0	0	0	1 978	7 747	81 047
Depreciation of fixed assets sold and written-off (-)	-70	-3 740	-8 231	-2 484	0	0	0	0	-7 006	-21 531
31.12.2006	59 475	641 049	325 644	10 894	0	0	0	11 408	17 271	1 065 741
<b>Net book value</b>										
31.12.2004	258 581	1 312 772	202 566	5 978	102 634	79 675	3 648	2 557	15 903	1 984 314
31.12.2005	294 260	1 332 803	203 856	7 609	94 793	109 190	3 479	4 411	39 570	2 089 971
31.12.2006	-2 921 475	1 375 885	208 983	6 638	91 676	117 162	2 795	6 135	46 460	2 141 333

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

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Chairman of the Management Board:

**FOR THE YEAR ENDED 31 DECEMBER 2006**

(thousand EEK)

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

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

Bank loans	Loan date	Loan received	Residual amount 31.12.2005	Repayments during 2006	Residual amount 31.12.2006	Short-term portion	Long-term portion	Interest rate %	Maturity date
EBRD	12.2002	586 747	586 747	0	586 747	0	586 747	4,67	05.2015
EBRD loan costs	12.2002	-17 404	-7 985	848	-7 137	0	-7 137		05.2015
Nordea Bank	11.2005	586 747	586 747	0	586 747	0	586 747	6 month Euribor + 0,24	05.2015
Nordea Bank loan costs	11.2005	-290	-290	31	-259	0	-259		05.2015
<b>Total bank loans</b>		<b>1 155 800</b>	<b>1 165 219</b>	<b>879</b>	<b>1 166 098</b>	<b>0</b>	<b>1 166 098</b>		
<b>Finance lease</b>		<b>15 905</b>	<b>1 755</b>	<b>-1 282</b>	<b>473</b>	<b>473</b>	<b>0</b>	<b>4,5 - 8,63</b>	<b>06.2007</b>
<b>Total borrowings</b>		<b>1 171 705</b>	<b>1 166 974</b>	<b>-403</b>	<b>1 166 571</b>	<b>473</b>	<b>1 166 098</b>		

All short-term debits 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 collateral of the loans are indicated in Note 23.

**Name Repayments period**

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

The repayments, by due dates, are as follows:

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

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**NOTES TO THE ANNUAL ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

(thousand EEK)

**NOTE 9. TRADE AND OTHER PAYABLES**

Liabilities	Balance amount 31.12.2005	Balance amount 31.12.2006	Short-term portion 31.12.2006	Long-term portion 31.12.2006	Maturity date
Accounts payable - operating expenditures	15 984	15 476	15 476	0	until 31.12.2007
Accounts payable - capital expenditures	19 318	52 555	52 555	0	until 31.12.2007
Factoring	0	270	270	0	until 31.12.2007
Payables to related parties	2 423	2 176	2 176	0	until 31.12.2007
Payables to employees	11 597	10 034	10 034	0	until 31.12.2007
Interest payable	4 131	4 681	4 681	0	until 31.12.2007
Other accrued expenses	54	58	58	0	until 31.12.2007
Long-term guarantee deposit*	100	100	0	100	04.2102
<b>Total trade and other payables</b>	<b>53 607</b>	<b>85 350</b>	<b>85 250</b>	<b>100</b>	

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

**NOTE 10. TAXES PAYABLE**

	31.12.2006	31.12.2005	Most common tax rates
Income tax	1 719	1 515	23% (2005: 24%)
VAT	5 877	4 588	18%
Water usage tax	2 523	2 333	0,35 - 0,72 kr/m <sup>3</sup> (2005: 0,33 - 0,66 kr/m <sup>3</sup> )
Pollution taxes*	16 558	11 259	3 409 - 21 540 kr/h (2005: 3 409 - 10 766 kr/h)
Social security tax	3 398	2 859	33%
Other	433	170	0.03 -23%
<b>Total</b>	<b>30 508</b>	<b>22 724</b>	

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

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*[Signature]*  
AS Deloitte Audit Eesti

*[Signature]*  
Chairman of the Management Board:

**NOTES TO THE ANNUAL ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

(thousand EEK)

**NOTE 11. SHORT-TERM PROVISIONS**

Provisions include an estimate of the value of servitudes

	2006	2005
<b>Servitudes</b>	538	289

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. The provision recorded for servitudes is the management estimate of the expected cost of potential future payments to private land owners whose use of land has been restricted as a result of the Company's pipelines laid on their land.

**NOTE 12. DEFERRED INCOME**

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

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

**NOTE 13. SHARE CAPITAL**

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

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

At the beginning of 2005 United Utilities (Tallinn) B.V. owned 10 086 957 (50,4%) A- shares and the City of Tallinn owned 9 913 043 A-shares (49,6%) and 1 B- share. In May 2005 an initial public offering (hereinafter IPO) took place, with the existing shareholders selling down total 6 000 000 shares in direct proportion to their original shareholding. The shares of the Company were listed on the Tallinn Stock Exchange on 1 June 2005. As of 31.12.2006 United Utilities (Tallinn) B.V. owns 7 060 870 (35,3%) A- shares, the City of Tallinn owns 6 939 130 (34,7%) A- shares, with 6 000 000 shares in free float.

Morgan Stanley + Co International Equity customers owned 1 374 533 (6,87%) shares and Citigroup Global Markets Ltd. Owned 1 000 000 (5%) as of 31.12.2005. Other shareholders owned less than 5% of the shares as of 31.12.2006.

From Supervisory and Management Board members only Ian John Alexander Plenderleith and Roch Jean Guy Antoine Chéroux owned 110 and 262 shares respectively, both proportion in shareholding was approximately 0 as of 31.12.2006.

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Chairman of the Management Board

**AS TALLINNA VESI**

**NOTES TO THE ANNUAL ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

(thousand EEK)

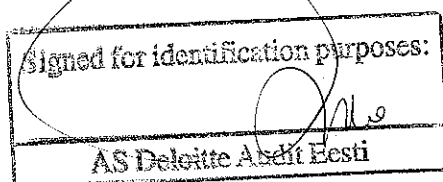
**NOTE 14. NET SALES**

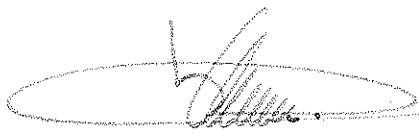
	<b>2006</b>	<b>2005</b>
<b>Revenues from main operating activities</b>		
Water supply service	289 250	262 693
Waste water disposal service	259 727	232 852
Stormwater treatment and disposal service	30 052	46 574
Fire hydrants service	3 007	2 040
Other works and services	7 140	5 759
<b>Total revenues from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

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

**NOTE 15. PERSONNEL EXPENSES**

	<b>2006</b>	<b>2005</b>
Salaries and wages	-50 532	-52 949
Social security taxation	-16 832	-17 739
<b>Staff costs total</b>	<b>-67 364</b>	<b>-70 688</b>
<b>Average number of employees during the reporting period</b>	<b>322</b>	<b>337</b>



  
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**AS TALLINNA VESI**

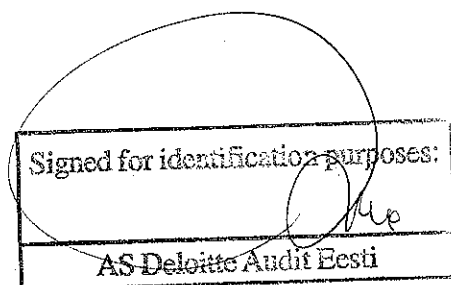
**NOTES TO THE ANNUAL ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

(thousand EEK)

NOTE 16. COSTS AND EXPENSES	2006	2005
<b>Cost of goods sold (main operating activities)</b>		
Tax on special use of water	-10 050	-9 049
Chemicals	-20 638	-13 477
Electricity	-24 594	-23 628
Pollution tax	-11 988	-6 905
Staff costs	-46 521	-45 692
Research & development	-129	-186
Depreciation and amortization	-73 278	-73 582
Other costs of goods sold	-33 339	-29 536
<b>Total cost of goods sold (main operating activities)</b>	<b>-220 537</b>	<b>-202 055</b>
<b>Cost of goods sold (other operating activities)</b>		
Water, sewerage and storm water connections construction cost	-97 096	-38 338
<b>Marketing Expenses</b>		
Staff costs	-4 710	-4 777
Depreciation and amortization	-2 453	-192
Other marketing expenses	-2 415	-1 809
<b>Total cost of marketing expenses</b>	<b>-9 578</b>	<b>-6 778</b>
<b>General Administration Expenses</b>		
Staff costs	-16 133	-20 219
Depreciation and amortization	-5 316	-4 967
Other general administration expenses	-29 870	-39 071
<b>Total cost of general administration expenses</b>	<b>-51 319</b>	<b>-64 257</b>

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

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



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE ANNUAL ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006

(thousand EEK)

NOTE 17. FINANCIAL INCOME AND EXPENSES

	2006	2005
Interest income	6 598	4 966
Interest expense	-49 479	-77 288
Other financial income / expenses (-)	-100	-516
<b>Total financial income / expenses</b>	<b>-42 981</b>	<b>-72 838</b>

NOTE 18. DIVIDENDS

	2006	2005
Dividends declared during the period	157 000	112 000
Dividends paid during the period	157 000	112 000
Income tax on dividends declared	-46 896	-35 368
<b>Income tax accounted</b>	<b>-46 896</b>	<b>-35 368</b>

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

NOTE 19. EARNINGS AND DIVIDENDS PER SHARE

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

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

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**NOTES TO THE ANNUAL ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

(thousand EEK)

**NOTE 20. NOTES TO THE CASH FLOW STATEMENT**NOTE 20A. PIPELINES FINANCED BY CONNECTION FEES

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

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 -7 972 thousand and -3 773 thousand kroons in 2006 and in 2005.

NOTE 20B. CHANGE IN CURRENT ASSETS AND LIABILITIES

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

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

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AS TALLINNA VESI

NOTES TO THE ANNUAL ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006

(thousand EEK)

NOTE 20. NOTES TO THE CASH FLOW STATEMENT (continued)

NOTE 20C. PAYMENTS FOR FIXED ASSETS

	2006	2005
Acquisition of fixed assets	-246 476	-223 145
<u>Adjustments:</u>		
Change in accounts payable related to investments	33 507	-1 818
Offsetting of payments for investments	0	733
Interest capitalization	0	1 075
Capitalization of operating expenses	20 921	23 280
<b>Total payments for fixed assets</b>	<b>-192 048</b>	<b>-199 875</b>

NOTE 21. COMMITMENTS

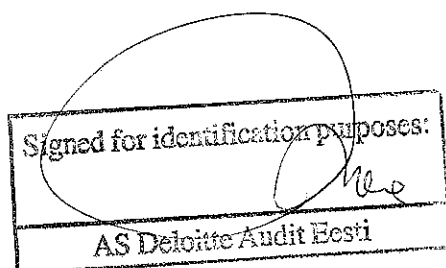
Leased assets

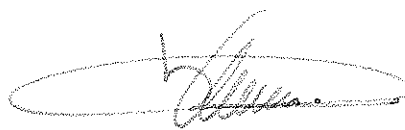
	2006	2005
Total operating lease expense for computers and vehicles	5 355	4 804

Minimum operating lease payments are as follows:

Less than 1 year	4 881
1-5 years	5 704
<b>Total minimum lease payments</b>	<b>10 585</b>

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



  
Chairman of the Management Board:

**NOTES TO THE ANNUAL ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

(thousand EEK)

**NOTE 22. CONTINGENT INCOME TAX ON DIVIDENDS**

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

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

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

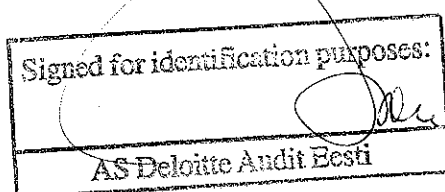
**NOTES 23. COLLATERAL OF LOANS AND PLEDGED ASSETS**

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

- a) Commercial Pledge Agreement in favour of EBRD to the value of 1 877 592 thousand kroons;
- b) Separate Mortgage Agreements in favour of EBRD regarding the properties of Ülemiste water treatment plant and Paljassaare waste water treatment plant whereby both pledges are to the value of 293 374 thousand kroons;
- c) Combined Mortgage Agreement in favour of Nordea Bank regarding the properties of Ülemiste water treatment plant and Paljassaare waste water treatment plant to the value of 586 748 thousand kroons.

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

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



Chairman of the Management Board

**NOTES TO THE ANNUAL ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

(thousand EEK)

**NOTE 24. RELATED PARTIES**

Transactions with related parties are considered to be transactions with members of the Supervisory Board and Management Board, their relatives and the companies in which they hold majority interest and transactions with shareholder having the significant influence. Dividend payments are indicated in the Statement of Changes in Equity.

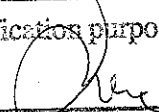
The transactions with related parties in 2005 and 2006 and respective balances as of 31.12.2005 and 31.12.2006 are recorded as follows:

	Tallinn City Government and related boards	The companies belonging to the same group with the United Utilities (Tallinn) B.V.
<b>2005</b>		
<b>Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi</b>		
Deferred income	71	0
Accounts payable - short-term trade and other payables	0	2 423
<b>Transactions recorded to the Income Statement of AS Tallinna Vesi</b>		
Net sales	77 465	0
General administration expenses	0	12 990
Other income (-)/ expenses	0	504
<b>Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi</b>		
Non-current assets incl unfinished assets and new connections	0	13 480
<b>2006</b>		
<b>Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi</b>		
Accounts payable - short-term trade and other payables	0	2 176
<b>Transactions recorded to the Income Statement of AS Tallinna Vesi</b>		
Net sales	65 275	0
General administration expenses	0	14 729
Other income (-)/ expenses	0	10
<b>Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi</b>		
Non-current assets incl unfinished assets and new connections	0	11 593
	<b>2006</b>	<b>2005</b>
<b>Management Board fees excluding social tax</b>	2 097	2 121
<b>Supervisory Board fees excluding social tax</b>	500	70


The fees disclosed above are contractual payments made by the Company to the management board members. In addition to this the board members have also received direct compensations from the companies belonging to the group of United Utilities (Tallinn) B.V. as overseas secondees.

The information about AS Tallinna Vesi shares belonging to the related parties is disclosed in note 13.

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Chairman of the Management Board:

**NOTES TO THE ANNUAL ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

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**NOTE 25. FINANCIAL RISK MANAGEMENT**

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

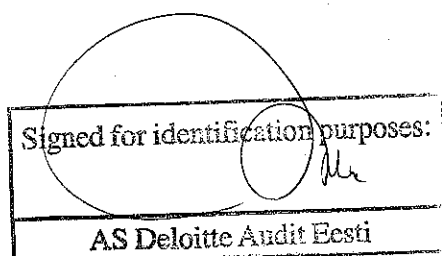
The Company's international transactions are mainly in euros, which rate is fixed against Estonian kroons, all transactions in other currencies may be considered immaterial. Therefore, the likelihood of being exposed to foreign risk arising from currency exposures is low and as such no specific activities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

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

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

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

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



Chairman of the Management Board:

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS Tallinna Vesi:

We have audited the accompanying annual accounts (page 15 to 38) of AS Tallinna Vesi, which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management Board's Responsibility for the Annual Accounts*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

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



Sander Kallasmaa  
Certified Auditor  
15 February 2007



AS Deloitte Audit Eesti



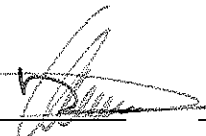
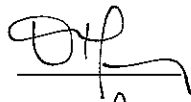
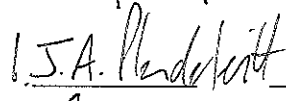

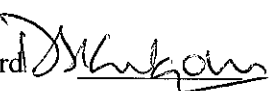


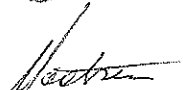

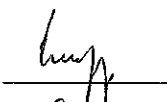
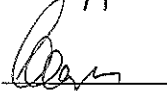

**AS TALLINNA VESI**

**CONFIRMATION OF THE MANAGEMENT AND SUPERVISORY BOARDS TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2006**

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

The Supervisory Board of AS Tallinna Vesi has reviewed the annual report, prepared by the Management Board, consisting of the Address by the Chairman of the Management Board and the annual accounts, the Management Board's proposal for profit distribution and the independent auditors' report, and has approved the annual report for presentation on the Shareholders' General Meeting.

The annual report has been signed by all the members of the Management Board and Supervisory Board.

<b>Name</b>	<b>Position</b>	<b>Signature</b>	<b>Date</b>
Roch Jean Guy Antoine Ch�eroux	Chairman of the Management Board		<u>15.02.07.</u>
David Nigel Hetherington	Member of the Management Board		<u>15-2-07</u>
Ian John Alexander Plenderleith	Member of the Management Board		<u>15/2/07</u>
Robert John Gallienne	Chairman of the Supervisory Board		<u>14/3/07</u>
David John Kilgour	Member of the Supervisory Board		<u>14/3/07</u>
Henry Emanuel Russell	Member of the Supervisory Board		<u>14/3/07</u>
Joanne Bream	Member of the Supervisory Board		<u>14/03/07</u>
Toivo Tootsen	Member of the Supervisory Board		<u>14/03/07</u>
Rein Ratas	Member of the Supervisory Board		<u>14.03.07</u>
Elmar Sepp	Member of the Supervisory Board		<u>14.03.07.</u>
Helo Meigas	Member of the Supervisory Board		<u>14.03.07</u>
Valdur Laid	Member of the Supervisory Board		<u>14.03.07</u>