AS TALLINNA VESI

Annual report
for the financial year ended
31 December 2006

AS TALLINNA VESI

ANNUAL REPORT

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:

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Chairman of the Management Board:

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 15.8 mln euros was carried out, to renew, upgrade and develop the asset base of the Company. The main areas of investment were networks and water quality (11.7 mln euros), and treated wastewater quality (2.8 mln euros). In 2005 the Company invested 14.2 mln euros overall of which 8.4 mln euros was in networks and water quality, and 1.9 mln euros in treated wastewater quality. This ongoing investment programme is a key contributor to the good level of operational performance in 2006. The water quality has been 100% compliant for microbiological standards and 99.55% compliant for all standards. With this level of quality, the Company is already delivering compliance with the new standards that come into force 1st January 2007. The leakage level stands at 19.3%, more than 6% below 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:

We Preserve Our Environment

The Company has been heavily investing in different projects. The nitrogen project, total investment of 3.5 mln euros, 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 15.9 mln euros. In parallel, the Company has invested 15.8 mln euros in new assets.
The share price increased by 11.35% in 2006, and the dividend paid out amounted to 0.5 euros/share. The Company is committed to stay focused on creating shareholder value.

Chairman of the Management Board:

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

(million euros/ *%)*	2006	2005	2004	2003	2002
Net sales	44,3	37,8	35,1	32,2	32,8
Main operating activities	37,7	35,15	30,6	27,8	27,7
Other operating activities	6,7	2,7	4,5	4,4	5,0
Gross profit	24,0	22,5	18,3	15,9	15,4
Gross profit margin %	54,2%	59,4%	52,3%	49,5%	46,9%
Operating profit	21,6	18,0	16,3	10,9	11,2
Operating profit margin %	48,7%	47,7%	46,5%	33,7%	34,1%
Profit before taxes	18,9	13,4	12,7	7,7	10,8
Profit before taxes margin	42,5%	35,4%	36,3%	23,8%	33,1%
Net profit	15,9	11,2	11,0	6,7	9,3
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 37.7 mln euros, 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 18.4 mln euros. Sales to commercial customers within the services area increased by 10% to 15.8 mln euros 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:

surrounding municipalities - reached 1.9 mln m^3 or 0.9 mln euros, 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 4.0 mln euros to 6.7 mln euros 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 14.1 mln euros, which is an 1.2 mln euros, or 9.2% increase compared to the previous year. The main increases were chemical costs, 0.5 mln euros higher year on year, environmental taxes, 0.4 mln euros higher year on year, and other costs of goods sold, 0.2 mln euros 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 1st quarter of 2007 and as a result will be able to release a tax accrual worth 0.9 mln euros 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 1st 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 0.5 mln euros in 2006, a 0.2 mln euros increase from 2005 levels as a consequence of the increased connections activity.

Gross profit for the 2006 financial year was 24.0 mln euros, which is an increase of 1.5 mln euros, or 6.8% compared to 2005.

Chairman of the Management Board:

Operating margin

For the 2006 financial year marketing expenses were 0.2 mln euros 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 3.3 mln euros, which is 0.8 mln euros lower than in 2005. In 2005 general administration expenses were inflated by 1.1 mln euros of one-off IPO costs. After removing this non-recurring increase this cost category was 0.3 mln euros higher than 2005 due to increases in two main categories. Firstly, an increase in salary costs of 0.1 mln euros (14%) as a consequence of increases paid to retain key members of staff, and secondly, an increase in other general administration expenses of 0.1 mln euros, the majority of which was incurred in the fourth quarter for the reasons outlined more fully in the 4th quarter commentary.

In the 2006 financial year total staff salary costs accounted for 4.3 mln euros, which is 0.2 mln euros lower than in 2005. However, included in the 2005 amount are 0.4 mln euros of IPO bonuses paid to all employees. After removing this one off amount total staff costs increased by 0.2 mln euros, 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 1.5 mln euros, including 1.5 mln euros 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 21.6 mln euros, compared to the operating profit of 18.1 mln euros achieved in 2005. The operating profit margin increased from 47.7% to 48.7%.

Financial Expenses

Net financial expenses were 2.8 mln euros in 2006, which is a decrease of 1.9 mln euros compared to 2005. The restructuring of the Company's long-term debt in November 2005 increased the financial expenses by 1.1 mln euros 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 18.9 mln euros, which is an 5.5 mln euros increase compared to 2005.

Balance Sheet

The Company's total assets were 158 mln euros as at 31 December 2006, representing an increase of 6.3 mln euros compared to 31 December 2005. Current assets increased by 3 mln euros, 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 136,7 mln euros at 31 December 2006, an increase of 3.3 mln euros of the fixed asset base during twelve months of the year.

Chairman of the Management Board:

Current liabilities increased by 0.4 mln euros to 9.8 mln euros 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 74.5 mln euros 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 20.5 mln euros of cash flows from operating activities, an increase of 0.9 mln euros, or 4.4% compared to the corresponding period in 2005. The key factor affecting this improvement was a 3.5 mln euros increase in operating profit.

In 2006 net cash outflows from investing activities were 4.7 mln euros, 0.7 mln euros 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 13.1 mln euros during twelve months of the year, which is 5.6 mln euros more than the outflows in the corresponding period in 2005. This significant increase in cash outflows was mainly due to a net receipt of 2 mln euros 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 2.7 mln euros compared to a cash inflow of 6.8 mln euros in twelve months of 2005. Cash and cash equivalents stood at 15.9 mln euros 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 in Operations division 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

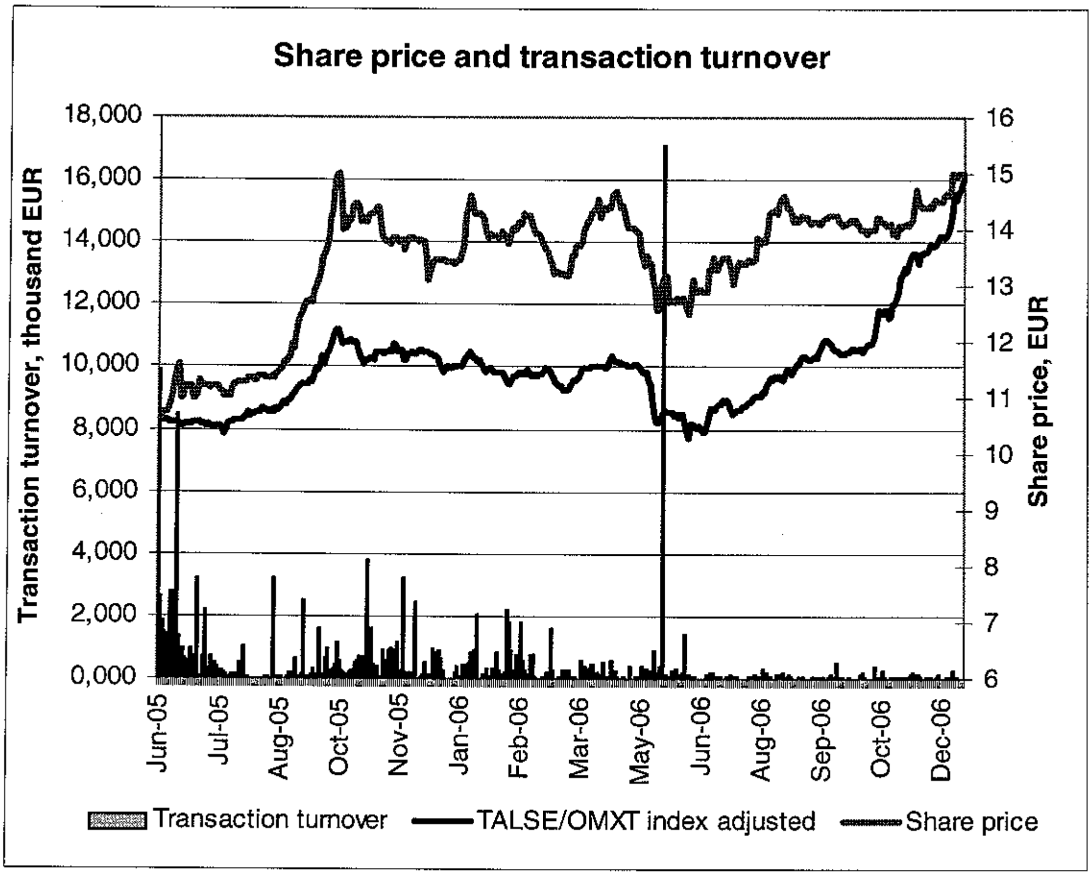
Based on the results of the 2005 financial year, the Company paid 10 mln euros dividends in June 2006.

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:

At the end of the reporting period, 31 December 2006, the closing price of the AS Tallinna Vesi share was 15.01 euros.



(euros/ %)	2006	2005	2004	2003	2002
Share price, at the end of the year	15,01	13,48	n/a	n/a	n/a
Share price, low	12,47	9,94	n/a	n/a	n/a
Share price, high	15,01	15,05	n/a	n/a	n/a
Share price, average	13,90	12,62	n/a	n/a	n/a
Earnings per share	0,79	0,56	0,55	0,33	0,11
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:

'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 euros 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:

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

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:

DECLARATION OF MANAGEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

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

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

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

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

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

Name	**Position**	**Signature**	**Date**
Roch Jean Guy Antoine Chéroux	Chairman of the Management Board		15.02.2007
David Nigel Hetherington	Member of the Management Board		15-2-07
Ian John Alexander Plenderleith	Member of the Management Board	I.J.A. Plenderleith	15/2/2007

AS TALLINNA VESI

BALANCE SHEET
AT 31 DECEMBER 2006 AND 2005

(thousand EUR)

ASSETS	Note	2006	2005
CURRENT ASSETS			
Cash at bank and in hand	2	15 940	13 234
Customer receivables	3	4 569	4 265
Accrued income and prepaid expenses	4	304	338
Inventories	5	201	202
Assets for sale	6	105	89
TOTAL CURRENT ASSETS		**21 120**	**18 128**
NON-CURRENT ASSETS			
Tangible assets	7	119 969	117 503
Intangible assets	7	3 361	2 811
Unfinished assets - non connections	7	5 859	6 058
Unfinished pipelines - new connections	7	7 488	6 979
Prepayments for fixed assets	7	179	222
TOTAL NON-CURRENT ASSETS		**136 856**	**133 573**
TOTAL ASSETS		**157 976**	**151 701**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Current portion of long-term borrowings	8	30	86
Trade and other payables	9	5 448	3 420
Taxes payable	10	1 950	1 452
Short-term provisions	11	34	18
Deferred income	12	2 322	4 382
TOTAL CURRENT LIABILITIES		**9 784**	**9 359**
NON-CURRENT LIABILITIES			
Borrowings	8	74 527	74 498
Other payables	9	6	6
TOTAL NON-CURRENT LIABILITIES		**74 534**	**74 504**
TOTAL LIABILITIES		**84 318**	**83 863**
EQUITY			
Share capital	13	12 782	12 782
Share premium		24 734	24 734
Statutory legal reserve		1 278	1 278
Accumulated profit		19 010	17 901
Net profit for the period		15 853	11 143
TOTAL EQUITY		**73 658**	**67 839**
TOTAL LIABILITIES AND EQUITY		**157 976**	**151 701**

Signed for identification purposes:

AS Deloitte Audit Eesti

Chairman of the Management Board:

AS TALLINNA VESI

INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(thousand EUR)

	Note	2006	2005
Sales from main operating activities	14	37 655	35 146
Revenues from other operating activities	14	6 650	2 691
Net sales		**44 305**	**37 838**
Costs of goods sold (main operating activities)	15,16	-14 095	-12 914
Costs of goods sold (other operating activities)	16	-6 206	-2 450
GROSS PROFIT		**24 005**	**22 474**
Marketing expenses	15,16	-612	-433
General administration expenses	15,16	-3 280	-4 107
Other income/ expenses (-)	16	1 485	125
OPERATING PROFIT		**21 597**	**18 059**
Financial income / expenses (-)	17	-2 747	-4 655
PROFIT BEFORE TAXES		**18 850**	**13 404**
Income tax on dividends	18	-2 997	-2 260
NET PROFIT FOR THE PERIOD		**15 853**	**11 143**
Attributable to:			
Equity holders of A-shares		15 852	11 143
B-share holder		0,64	0,64
Earnings per share in euros	19	0,79	0,56

Signed for identification purposes:

AS Deloitte Audit Eesti

Chairman of the Management Board:

AS TALLINNA VESI

CASH FLOW STATEMENT

FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(thousand EUR)

	Note	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		21 597	18 059
Adjustment for depreciation	16	5 180	5 032
Adjustment for income and expenses from constructions	20A	-444	-241
Other financial income and expenses		-34	-1 279
Profit from sale of fixed assets		-1 592	-759
Expensed fixed assets		71	25
Capitalization of operating expenses	20C	-1 337	-1 488
Change in current assets involved in operating activities	20B	-265	3 691
Change in liabilities involved in operating activities	20B	383	410
Interest paid		-3 071	-3 825
Total cash flow from operating activities		**20 487**	**19 626**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of shares of associated company		0	0
Acquisition of fixed assets (incl pipelines construction)	20C	-12 274	-12 774
Proceeds from pipelines financed by construction income	20A	7 200	3 355
Proceeds from sale of and prepayments received/ repaid for fixed assets		-83	3 026
Proceeds from sale of assests for sale and of real estate investments		71	748
Interest received		418	324
Total cash flow used in investing activities		**-4 667**	**-5 322**
CASH FLOWS FROM FINANCING ACTIVITIES			
Received long-term loans	8	0	44 503
Repayment of long-term loans	8	0	-42 500
Finance lease payments	8	-82	-109
Dividends paid	18	-10 034	-7 158
Income tax on dividends	18	-2 997	-2 260
Total cash flow used in financing activities		**-13 113**	**-7 525**
Change in cash and bank accounts		**2 706**	**6 779**
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**13 234**	**6 455**
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	2	**15 940**	**13 234**

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AS TALLINNA VESI

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

(thousand EUR)

	Share capital	Share premium	Statutory legal reserve	Accumulated profit	Net profit	Total equity
31 December 2004	**12 782**	**24 734**	**5 969**	**9 314**	**11 054**	**63 853**
Transfer of financial year profit to the accumulated profit	0	0	0	11 054	-11 054	0
Transfer of statutory legal reserve to the accumulated profit	0	0	-4 691	4 691	0	0
Dividends	0	0	0	-7 158	0	-7 158
Net profit of the financial year	0	0	0	0	11 143	11 143
31 December 2005	**12 782**	**24 734**	**1 278**	**17 901**	**11 143**	**67 839**
Transfer of financial year profit to the accumulated profit	0	0	0	11 143	-11 143	0
Dividends	0	0	0	-10 034	0	-10 034
Net profit of the financial year	0	0	0	0	15 853	15 853
31 December 2006	**12 782**	**24 734**	**1 278**	**19 010**	**15 853**	**73 658**

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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 euros (euros) 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 in euros are converted using the Bank of Estonian official fixed exchange rate of 15.6466 EEK per EUR from the original accounts prepared in euros for the same period.

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

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

Critical accounting estimates

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

- Management has estimated the useful lifetime of property, plant and equipment and intangible assets. The results of the estimates are disclosed in the section 'Tangible and intangible fixed assets' below, and the information about the carrying amounts is disclosed in note 7 to the financial statements.
- 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 850 thousand euros 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 euros 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.

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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.

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 evaluation of the doubtful debts the individual debts are grouped by age based on the practical experience and 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 639 euros. Assets that

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have a value less than this are only accounted as fixed assets if the item is an essential part of fixed asset or if the expected useful lifetime is considerably longer than 1 year and the asset has an important role in the provision of key business process (for example the water meters used to measure consumption).

Before 2006 the minimum value of a fixed asset was 128 euros. As a result of the increase in the minimum value to 639 euros, additional depreciation of 33 thousand euros was expensed to the profit and loss account with respect to assets capitalised in prior years with an original costs of less that 639 euros. The initial acquisition value of these assets was 94 thousand euros. 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 internal directly related 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 'Gost of goods sold (main operating activites)'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 forseen that additional future revenues will result. Maintenance and repair works are expensed in the period incurred.

All costs of identifiable and controllable development projects which are likely to earn future revenues, and the acquisition costs of computer software are capitalised as intangible assets on the

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Balance Sheet and amortised on a straight-line basis for a period of up to 5 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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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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FOR THE YEAR ENDED 31 DECEMBER 2006 (thousand EUR)

NOTE 2. CASH AND CASH EQUIVALENTS	2006	2005
Cash and bank accounts	1 101	2 992
Short-term deposits	14 839	10 242
Total cash and cash equivalents	**15 940**	**13 234**

NOTE 3. CUSTOMER RECEIVABLES	2006	2005
Accounts receivable	4 902	4 738
Allowance for doubtful debts	-333	-473
Total customer receivables	**4 569**	**4 265**
Impairment costs of receivables:		
Write off of uncollectible receivables	-39	-69
Proceeds from uncollectible receivables	1	14
Change in allowance for doubtful debts	140	22

NOTE 4. ACCRUED INCOME AND PREPAID EXPENSES	2006	2005
Fair value of the interest rate swap	28	0
Accrued interest	14	11
Other accrued income	13	1
Prepaid taxes	17	71
Other prepaid expenses	232	255
Total accrued income and prepaid expenses	**304**	**338**

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 unnecesary 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 14 thousand euros. Any subsequent revenues received on the sale of these assets have been immaterial in value and have been offset against the value written off.

NOTE 6. ASSETS FOR SALE	2006	2005
Asset for sale	48	32
Prepayments for the land related to the assets for sale	57	57
Total assets for sale	**105**	**89**

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(thousand EUR)

NOTE 7. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS

	Tangible assets in use				Assets in progress			Intangible 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	Total tangible and intangible non-current assets
Acquisition cost at										
31.12.2004	**19 907**	**121 401**	**30 990**	**1 044**	**6 560**	**5 092**	**233**	**613**	**1 748**	**187 589**
Acquisition	0	0	0	0	8 243	4 753	1 266	0	0	14 262
Sale of fixed assets	-5	-8	-191	0	0	0	0	0	0	-205
Write-off of fixed assets	-65	-205	-1 019	-12	0	0	0	0	-12	-1 312
Reclassification within balance sheet	0	15	0	0	0	0	0	0	0	15
Reclassification to expenses	0	0	0	0	-4	0	-11	0	0	-15
Expensed pipelines	0	0	0	0	0	-2 450	0	0	0	-2 450
Reclassification from assets in progress	2 529	3 177	2 405	191	-8 741	-416	-1 266	271	1 849	0
31.12.2005	**22 365**	**124 380**	**32 185**	**1 223**	**6 058**	**6 979**	**222**	**885**	**3 585**	**197 883**
Acquisition	0	0	0	0	8 926	6 826	0	0	0	15 753
Sale of fixed assets	-503	-573	-325	0	0	0	0	0	0	-1 402
Write-off of fixed assets	0	-62	-315	-159	0	0	0	0	-448	-983
Reclassification within balance sheet	0	0	0	0	-3	-2	0	0	0	-5
Reclassification to expenses	0	0	0	0	-39	0	-31	0	0	-71
Expensed pipelines	0	0	0	0	0	-6 206	0	0	0	-6 206
Reclassification from assets in progress	192	5 161	2 624	56	-9 083	-109	-12	237	935	0
31.12.2006	**22 054**	**128 906**	**34 169**	**1 120**	**5 859**	**7 488**	**179**	**1 121**	**4 073**	**204 969**
Accumulated depreciation										
31.12.2004	**3 380**	**37 500**	**18 044**	**662**	**0**	**0**	**0**	**450**	**732**	**60 768**
Depreciation	248	1 911	2 297	87	0	0	0	153	336	5 032
Depreciation of fixed assets sold and written-off (-)	-70	-213	-1 184	-12	0	0	0	0	-12	-1 491
31.12.2005	**3 559**	**39 198**	**19 156**	**737**	**0**	**0**	**0**	**603**	**1 056**	**64 309**
Depreciation	247	2 011	2 182	118	0	0	0	126	495	5 180
Depreciation of fixed assets sold and written-off (-)	-4	-239	-526	-159	0	0	0	0	-448	-1 376
31.12.2006	**3 801**	**40 970**	**20 812**	**696**	**0**	**0**	**0**	**729**	**1 104**	**68 113**
Net book value										
31.12.2004	**16 526**	**83 901**	**12 946**	**382**	**6 560**	**5 092**	**233**	**163**	**1 016**	**126 821**
31.12.2005	**18 807**	**85 182**	**13 029**	**486**	**6 058**	**6 979**	**222**	**282**	**2 529**	**133 573**
31.12.2006	**18 253**	**87 935**	**13 356**	**424**	**5 859**	**7 488**	**179**	**392**	**2 969**	**136 856**

Fixed assets are written off if the condition of the asset does not enable further usage for production purposes.
Net balance sheet value of finance leases was 156 thousand euros and 274 thousand euros in 2006 and 2005 respectively.
Interest capitalised to fixed assets was 69 thousand euros in 2005.

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(thousand EUR)

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 during 2006 in respective debts were as follows:

Pangalaenud	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	37 500	37 500	0	37 500	0	37 500	4,67	05.2015
EBRD loan costs	12.2002	-1 112	-510	54	-456	0	-456		05.2015
Nordea Bank	11.2005	37 500	37 500	0	37 500	0	37 500	6 kuu Euribor + 0,24	05.2015
Nordea Banga loan costs	11.2005	-19	-19	2	-17	0	-17		05.2015
Total bank loans		**73 869**	**74 471**	**56**	**74 527**	**0**	**74 527**		
Finance lease		1 017	112	-82	30	30	0	4,5 - 8,63	06.2007
Total borrowings		**74 886**	**74 583**	**-26**	**74 557**	**30**	**74 527**		

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

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

The repayments are as follows by due dates:

	Less than 1 year	1-5 years	Over 5 years	Total	Repayment period
EBRD	0	24 107	13 393	37 500	8 years
Nordea Bank	0	15 000	22 500	37 500	8 years
Finance lease	30	0	0	30	0,5 year
Total	**30**	**39 107**	**35 893**	**75 030**	

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FOR THE YEAR ENDED 31 DECEMBER 2006 (thousand EUR)

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	1 022	989	989	0	until 31.12.2007
Accounts payable - capital expenditures	1 235	3 359	3 359	0	until 31.12.2007
Factoring	0	17	17	0	until 31.12.2007
Payables to related parties	155	139	139	0	until 31.12.2007
Payables to employees	741	641	641	0	until 31.12.2007
Interest payable	264	299	299	0	until 31.12.2007
Other accrued expenses	3	4	4	0	until 31.12.2007
Long-term guarantee deposit*	6	6	0	6	04.2102
Total trade and other payables	**3 426**	**5 455**	**5 448**	**6**	

* Long-term deposit is presented in aquisition value.

NOTE 10. TAXES PAYABLE

	31.12.2006	31.12.2005	Most common tax rates
Income tax	110	97	23% (2005: 24%)
VAT	376	293	18%
Water usage tax	161	149	0,02 - 0,05 euros/m³ (2005: 0,02 - 0,04 euros/m³)
Pollution taxes*	1 058	720	218 - 1 377 euros/h (2005: 218 - 688 euros/h)
Social security tax	217	183	33%
Other	28	11	0.03 -23%
Total	**1 950**	**1 452**	

* Within pollution taxes is an accrual for 850 thousand euros. This accrual is recorded in order to cover the full value of the taxes that the Company has been exempted up to 31 December 2006. This relates to tax on Nitrogen waived by the Ministry of the Environment in return for the upgrade of the Waste Water Treatment Works. At this moment in time the Company has not received a reply to the final report of Nitrogen removal improvement project from the Ministry of the Enviroment, therefore a liability has been recorded.

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FOR THE YEAR ENDED 31 DECEMBER 2006 (thousand EUR)

NOTE 11. SHORT-TERM PROVISIONS

Provisions include expected losses from estimated servitudes:

	2006	2005
Servitudes	34	18

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

NOTE 12. DEFERRED INCOME

	2006	2005
Operating revenues incl connection revenues	2 092	1 468
Prepayments for sale of fixed assets*	230	2 914
Total deferred income	**2 322**	**4 382**

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

NOTE 13. SHARE CAPITAL

At 31 December 2006 the nominal value of the share capital is about 12 782 394 euro (200 001 000 kroons), composed of 20 000 000 shares with nominal value about of 0,64 euro (10 kroons) per share (A-share) and one preferred share with a nominal value about of 64 euro (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 about of 640 euro (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 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

FOR THE YEAR ENDED 31 DECEMBER 2006 (thousand EUR)

NOTE 14. NET SALES

	2006	2005
Revenues from main operating activities		
Water supply service	18 486	16 789
Waste water disposal service	16 600	14 882
Stormwater treatment and disposal service	1 921	2 977
Fire hydrants service	192	130
Other works and services	456	368
Total revenues from main operating activities	**37 655**	**35 146**
Revenues from other operating activites		
Water, sewerage and storm water connections construction income	6 650	2 691
TOTAL NET SALES	**44 305**	**37 838**

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

NOTE 15. PERSONNEL EXPENSES

	2006	2005
Salaries and wages	-3 230	-3 384
Social security taxation	-1 076	-1 134
Staff costs total	**-4 305**	**-4 518**
Average number of employees during the reporting period	**322**	**337**

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FOR THE YEAR ENDED 31 DECEMBER 2006 (thousand EUR)

NOTE 16. COSTS AND EXPENSES

Cost of goods sold (main operating activities)

	2006	2005
Tax on special use of water	-642	-578
Chemicals	-1 319	-861
Electricity	-1 572	-1 510
Pollution tax	-766	-441
Staff costs	-2 973	-2 920
Research & development	-8	-12
Depreciation and amortization	-4 683	-4 703
Other costs of goods sold	-2 131	-1 888
Total cost of goods sold (main operating activities)	**-14 095**	**-12 914**
Cost of goods sold (other operating activities)		
Water, sewerage and storm water connections construction cost	-6 206	-2 450
Marketing Expenses		
Staff costs	-301	-305
Depreciation and amortization	-157	-12
Other marketing expenses	-154	-116
Total cost of marketing expenses	**-612**	**-433**
General Administration Expenses		
Staff costs	-1 031	-1 292
Depreciation and amortization	-340	-317
Other general administration expenses	-1 909	-2 497
Total cost of general administration expenses	**-3 280**	**-4 107**

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 1 662 thousand euros, being made up of 1 274 thousand euros for services and 388 thousand euros for staff bonus costs. Of the total costs for services 543 thousand euros are included in other income/expenses with the balance posted against the category where the cost was incurred.

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FOR THE YEAR ENDED 31 DECEMBER 2006 (thousand EUR)

NOTE 17. FINANCIAL INCOME AND EXPENSES

	2006	2005
Interest income	422	317
Interest expense	-3 162	-4 940
Other financial income / expenses (-)	-6	-33
Total financial income / expenses	**-2 747**	**-4 655**

NOTE 18. DIVIDENDS

	2006	2005
Dividends declared during the period	10 034	7 158
Dividends paid during the period	10 034	7 158
Income tax on dividends declared	-2 997	-2 260
Income tax accounted	**-2 997**	**-2 260**

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)	15 852	11 143
Weighted average number of ordinary shares for the purposes of basic earnings per share	20 000 000	20 000 000
Earnings per share in euros	0,79	0,56
Dividends per A-share in euros	0,50	0,36
Dividends per B-share in euros	639	639

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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FOR THE YEAR ENDED 31 DECEMBER 2006 (thousand EUR)

NOTE 20. NOTES TO THE CASH FLOW STATEMENT

NOTE 20A. PIPELINES FINANCED BY CONNECTION FEES

	2006	2005
Revenue		
Connection fees from pipelines taken into use	6 650	2 691
Increase in prepayments for pipelines	606	495
Change in accounts receivable from pipelines	-55	213
Offset with liabilities	0	-45
Connection fees received	**7 200**	**3 355**
Acquisition cost of pipelines taken into use	-6 206	-2 450

The connection fees from and the aquisition costs of pipelines taken into use are eliminated from "Cash flows of operating activies" as these are recorded within "Cashflows from investing activites". The net amounts eliminated were respectively -510 thousand and -241 thousand euros in 2006 and in 2005.

NOTE 20B. CHANGE IN CURRENT ASSETS AND LIABILITIES

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

	2006	2005
Current assets		
Change in balance sheet	-2 992	-7 807
Adjustments:		
Change in money balance	2 706	6 779
Changes between fixed assets and current assets	5	-15
Assets sold from assets for sale	-71	0
Change in deferred interests	31	-6
Offset of debts	0	-2
Change in construction income debt	55	-213
Cash from/to long-term deposit	0	4 956
Total change in current assets	**-265**	**3 691**
Current liabilities		
Change in balance sheet	426	-2 496
Adjustments:		
Change in finance lease and loan costs	20	6 199
Change in payables for capital investments	-2 141	116
Prepayments for the sale of fixed assets	2 684	-2 914
Change in construction income prepayments	-606	-495
Total change in current liabilities	**383**	**410**

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FOR THE YEAR ENDED 31 DECEMBER 2006 (thousand EUR)

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

NOTE 20C. PAYMENTS FOR FIXED ASSETS

	2006	2005
Acquisition of fixed assets	-15 753	-14 262
Adjustments:		
Change in accounts payable related to investments	2 141	-116
Offsetting of payments for investments	0	47
Interest capitalization	0	69
Capitalization of operating expenses	1 337	1 488
Total payments for fixed assets	**-12 274**	**-12 774**

NOTE 21. COMMITMENTS

Leased assets

	2006	2005
Total operating lease expense for computers and vehicles	342	307

Minimum operating lease payments are as follows:	
Less than 1 year	312
1-5 years	365
Total minimum lease payments	**677**

As of 31.12.2006 the Company had taken commitments for capital investments, i.e. concluded contracts and requested works with purchase orders in the amount of 4 371 thousand euros.

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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 2005 amounted to 34 863 thousand euros. Consequently, the maximum possible tax liability which would become payable if retained earnings were fully distributed is 9 833 thousand euros.

NOTES 23. COLLATERAL OF LOANS AND PLEDGED ASSETS

In connection with the loan agreements concluded between the EBRD the Company and between and 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 120 000 thousand euros;

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 18 750 thousand euros;

c) Combined Mortgage Agreement in favour of Nordea Bank regarding the properties of Ulemiste water treatment plant and Paljassaare waste water treatment plant to the value of 37 500 thousand euros.

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

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

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Chairman of the Management Board

FOR THE YEAR ENDED 31 DECEMBER 2006 (thousand EUR)

NOTE 24. RELATED PARTIES

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

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

	Tallinn City Government and related boards	The companies belonging to the same group with the United Utilities (Tallinn) B.V.
2005		
Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi		
Deferred income	5	0
Accounts payable - short-term trade and other payables	0	155
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	4 951	0
General administration expenses	0	830
Other income (-)/ expenses	0	32
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	862
2006		
Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi		
Accounts payable - short-term trade and other payables	0	139
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	4 172	0
General administration expenses	0	941
Other income (-)/ expenses	0	1
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	741

	2006	2005
Management Board fees excluding social tax	134	136
Supervisory Board fees excluding social tax	32	4

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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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 euros, 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 22 185 thousand euros and is valid until 28 May 2009. The fair value of the interest rate swap contract is 28 thousand euros 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.

Signed for identification purposes:
AS Deloitte Audit Eesti

Chairman of the Management Board:

Deloitte.

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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.

Deloitte

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.

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