

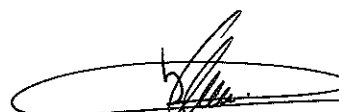
AS TALLINNA VESI

*Annual report
for the financial year ended
31 December 2007*

AS TALLINNA VESI

ANNUAL REPORT

Beginning of the financial year	1 January 2007
End of the financial year	31 December 2007
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:

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CHAIRMAN'S STATEMENT

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

Customer Service Excellence

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

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

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

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

Operational Excellence

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

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

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

Health and Safety of our people is of paramount importance for us. In 2007, international occupational health and safety management system (OHSAS) certificate was awarded to the Company after a successful


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MANAGEMENT REPORT

audit in May. This is great recognition for the work that has been done to improve the working conditions of our staff, but we are even more proud of the fact that in 2007 there were simply no work accidents.

Being able to improve our operation efficiency results from a combination of two factors: the commitment of our people and the large investment programme that we have carried out in 2007 and during the previous years. In 2007 we have continued to invest heavily (18.2 mln euros) on water quality, with improvements made in the catchment area, the water treatment plant and continuous renewal of our distribution network. We have also invested in wastewater treatment with the completion of the nitrogen treatment project. This project received the final approval of the Ministry of Environment and together with the completion of the sludge treatment plant we are able to keep under control the quality of the treated effluent.

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

Growing the activity of the Company

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

Our work to bring public water and sewerage network to the citizens of Tallinn has continued in 2007, and we have laid down another 14.9 km of pipe. We have also continued to extend the stormwater network by an additional 10.4 km. This construction activity will improve the service to customers, enlarge our area of activity but also improve the protection of the environment.

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

Delivering Shareholder Value

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

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



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In terms of revenue, the volumes sold to domestic customers were almost constant and a small decrease was registered from the commercial customers mainly due to one industrial consumer leaving Tallinn. The volumes from the surrounding municipalities have shown a good increase reflecting the intense development of these areas. The connection activity was also very dynamic generating a 65.7% increase in turnover. Overall the total revenue increased to 52.5 mln euros.

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

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

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

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

A Team effort

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

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

- Commitment
- Customer Focus
- Teamwork
- Creativity

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

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

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



Chairman of the Management Board:

RESULTS OF OPERATIONS - FOR THE YEAR 2007

Main economic indicators

million euros	2007	2006	2005	2004	2003
Sales	52,5	44,3	37,8	35,1	32,2
Main operating activities	41,4	37,7	35,1	30,6	27,8
Other operating activities	11,0	6,6	2,7	4,5	4,4
Gross profit	28,5	24,0	22,5	18,3	15,9
Gross profit margin %	54,3%	54,2%	59,4%	52,3%	49,5%
Operating profit	24,1	21,6	18,1	16,3	10,9
Operating profit margin %	46,0%	48,7%	47,7%	46,5%	33,7%
Profit before taxes	21,3	18,9	13,4	12,7	7,7
Profit before taxes margin %	40,6%	42,5%	35,4%	36,3%	23,8%
Net profit	17,8	15,9	11,1	11,1	6,7
Net profit margin %	33,8%	35,8%	29,5%	31,5%	20,7%
ROA %	10,9%	10,0%	7,3%	7,8%	4,8%
Debt to total capital employed	51,8%	53,4%	55,3%	55,1%	58,4%
ROE%	22,5%	21,5%	16,4%	17,3%	11,6%
Current ratio	1,9	2,2	1,9	0,9	0,9
Average number of employees	315	322	337	351	348
Share capital	12,8	12,8	12,8	12,8	12,8

Gross profit margin – Gross profit / Net sales

Operating profit margin – Operating profit / Net sales

Profit before taxes margin – Profit before taxes / Net sales

Net profit margin – Net profit / Net sales

ROA – Net profit / Total assets

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

ROE – Net profit / Shareholders' equity

Current ratio – Current assets / Current liabilities

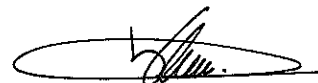
Profit and Loss Statement

Sales

In 2007 the Company's total sales increased, year on year, by 18.4% to 52.5 mln euros. Sales from the Company's main operating activities were 41.4 mln euros. Sales in the main operating activity principally comprise of sales of water and treatment of wastewater to domestic and commercial customers within and outside of the service area, and fees received from the City of Tallinn for operating and maintaining the storm water system.

Sales of water and wastewater treatment including over pollution fees were 38.3 mln euros, a 9.2% increase compared to 2006. Sales of water and wastewater treatment excluding over pollution fees were 37.7 mln euros, a 9.7% increase compared to 2006, resulting from the 10.8% increase in tariffs from 1 January 2007 for the Company's residential and commercial customers combined with the factors described below.

Included within this amount were the following increases by the customer groups with different tariffs: Sales to residential customers increased by 10.5% to 20.4 mln euros. Sales to commercial customers within the service area increased by 7.5% to 16.1 mln euros. Sales outside of the service area – primarily bulk volumes of wastewater treatment services provided to the surrounding municipalities – increased by 32.2% reaching 2.5 mln m³ or 1.1 mln euros. Over pollution fees received were 96 thousand euros lower than in 2006.



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In 2007, the volumes sold to residential customers stayed at a similar level to that in 2006. Volumes sold in 2007 have dropped 0.3% or 90 thousand m³, mainly because of the rainy summer in 2007 (compared to 2006) when water used for gardening purposes reduced considerably. This loss of sales is more than recovered (specified below) by the storm water disposal and fire hydrant services line, as due to the rainy year, the treatment volumes of storm water increased.

The volumes sold to commercial customers inside the services area decreased compared to 2006 due to several factors combined. Most of the reduction in sales volumes in Tallinn is due to companies moving to the surrounding municipalities, attracted by cheaper real estate prices. Most of these customers are re-captured through the bulk-supply contracts signed with the surrounding municipalities, but not always. For example in the 2nd quarter of 2007, one of the Company's biggest industrial customers moved its facilities out of our area, resulting in a volume loss of 175 thousand m³, mainly in the 3rd and 4th quarter. We have recognized that the overall economic situation and the decline on the real estate market have also had a negative effect on the Company's commercial sales.

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

The sales from the operation and maintenance of the storm water service increased by 24.5% to 2.4 mln euros in 2007 compared to 2006. This is in accordance with the terms and conditions of the contract whereby the storm water and fire hydrant service costs are invoiced based on actual costs and volumes treated. This is contractually agreed up to 2020.

Sales revenues from other operating activities, mainly connections, network extension and storm water construction, totaled 11.0 mln euros which is 4.4 mln euros higher than in 2006. This line depends on construction completion and the revenue is recorded when it is probable that the revenues will flow to the company.

Cost of Goods Sold and Gross Profit

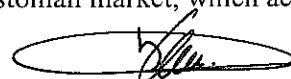
The cost of goods sold for the main operating activity was 13.8 mln euros in 2007, a decrease of 249 thousand euros or 1.8% from 2006.

In 2007 the Company recorded zero failures in all pollution measures taken, and as a result the amount of pollution tax payable reduced by 454 thousand euros compared to regular tariffs, partly balanced by an increase in tax rates year on year by 20%. In addition, pollution tax was impacted by the fact that the Ministry of Environment gave final approval to the success of the nitrogen project, which resulted in the release of a pollution tax provision (see Note 10). Due to this non-recurring, one-off event the environmental tax decreased by 850 thousand euros in 2007.

In 2007 tax on special use of water increased by 4.4% compared to 2006. The chemical costs were 1.3 mln euros, which represents a 1.9% increase compared to 2006. Electricity costs increased by 115 thousand euros or 7.3% compared to 2006. All of the above are due to the combination of overall increases in prices and changes in volumes.

Salaries cost of goods sold expenses increased by 326 thousand euros or 10.9%, as a consequence of

growing salaries and the highly competitive labour market. Nevertheless the salaries expense increase is still, in all categories, below the overall increase in average salaries in the Estonian market, which according to the latest statistics has increased by more than 20% year on year.



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Other cost of goods sold in the main operating activity increased by 460 thousand euros, or 21.5% year on year. In 2007 other costs increased due to increased costs on a number of support services contracts, such as transport, security services, reflecting the significant increase in labour costs in Tallinn.

As a result of all of the above the Company's gross profit in 2007 was 28.5 mln euros, which represents an increase of 4.5 mln euros, or 18.7%, compared to the gross profit of 24.0 mln euros in 2006. Eliminating the non-recurring one off factor, the underlying cost of goods sold from main operating activities increased by 601 thousand euros, or 4.3% year on year and the gross profit from recurring activities increased by 27.6 mln euros to 3.6 mln euros compared to the gross profit of 2006.

Operating Costs and Operating Profit

Marketing expenses increased by 255 thousand euros to 863 thousand euros in 2007 compared to 2006. This is partly the result of the overall salary increases, but particularly in this group it is impacted by the formation of the new business unit focusing on new business development opportunities. The increase in depreciation charges accounted within marketing expenses is due to the inclusion of the depreciation related to the latest stage of implementation of the Customer Information and Billing system.

General administration expenses increased by 351 thousand euros to 3.6 mln euros in 2007 as a consequence of an increase in salaries and other general administration expenses as described above. The other general administration expenses have been affected by price increases in labor-intensive services, but also non-cash decrease in capitalization to fixed assets. In addition approximately 83 thousand euros of the increase is due to rental cost of computers resulting from switching from owning the computers into the lease contracts – a corresponding reduction can be found in the depreciation charge. A switch from old billing related modules to new software, recorded within marketing expenses complements the reduction in this line.

Included within the above cost categories are staff costs. These totaled 4.9 mln euros in 2007, which is a 607 thousand euros or 14.1% increase compared to 2006, which as mentioned earlier was due to exceptional items and the Company wide revision of salaries at end of 2006, in order to maintain competitiveness in the labor market. Salaries expenses are partly compensated by the Company's inner efficiency, which is reflected by the decrease in the number of workers, as described in the financial report.

Other net income/expenses totaled an income of 115 thousand euros in 2007 compared to a 1.5 mln euros income in 2006. Net income in both 2006 and 2007 included non-recurring, one-off income from sale of assets: In 2007 128 thousand euros and in 2006 1.5 mln euros.

As a result of all of the above the Company's operating profit in 2007 was 24.1 mln euros, an increase of 2.5 mln euros compared to an operating profit of 21.6 mln euros achieved in 2006.

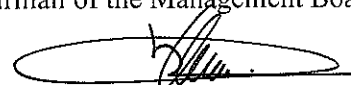
Financial expenses

Net Financial expenses were 2.8 mln euros in 2007, which is an increase of 76 thousand euros or 2.8% compared to 2006. The Company's interest costs have increased by 10.5% compared to 2006. This is due to the fact that half of the Company's loans are connected to the 6 month Euribor rate, which was 4.707% on 31.12.2007 compared to 3.853% on 31.12.2006. The increase in interest expenses is partially offset by an increase in financial income earned in 2007, as a result of a more favorable cash position and increasing interest rates.

Profit Before Tax

The Company's profit before taxes in 2007 was 21.3 mln euros, which is 2.4 mln euros or 12.9% higher

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than the profit before taxes of 18.9 mln euros in 2006. Eliminating non-recurring one off income and expenses mentioned within the above categories, the profit before taxes increased by 3.0 mln euros or 17.3% from 17.3 mln euros in 2006 to 20.3 mln euros in 2007.

Balance sheet

During the twelve months of 2007 the Company invested 18.3 mln euros into fixed assets. Non-current assets were 139.7 mln euros at 31 December 2007. Current assets increased by 2.8 mln euros to 23.9 mln euros in the twelve months of the year, which was largely attributable to an increase in contractual customer receivables payable in 1st quarter 2008, mostly payable by the City of Tallinn according to the Services Contract.

Current liabilities increased by 3.0 mln euros to 12.7 mln euros in the twelve months of the year. This was mainly due to transfer of current portion of the long-term borrowings from non-current liabilities to current liabilities.

The company continues to maintain its leverage level within a range of 50% with total liabilities to total capital employed of 51.8% as at 31 December 2007. Long-term liabilities stood at 72.0 mln euros at the end of December 2007, consisting almost entirely of the outstanding balance on the two long-term bank loans.

Cash flow

During the twelve months of 2007, the Company generated 21.3 mln euros of cash flows from operating activities, an increase of 837 thousand euros compared to the corresponding period in 2006. Operating profit continues to be the main driver for growth.

In 2007 net cash flows used for investing activities was 9.8 mln euros, which is 5.1 mln euros more than in 2006. Investments to networks extension are paid back to the company and the timing of payments impacts the cash flow. Because of that cash flow was impacted by some big construction revenue invoices that are due in the 1st quarter 2008, but also by increased investment levels. In the twelve months of the year, the company invested 18.3 mln euros – 8.6 mln euros in networks extension, 3.2 mln euros in sewerage networks rehabilitation, 3.0 mln euros in Paljassaare wastewater treatment plant and wastewater treatment, 2.9 mln euros in water quality (rehabilitation of water network, Ülemiste water treatment plant and raw water) and 614 thousand euros in other investments (IT, capital maintenance, meters, etc).

Cash flows used in financing activities were 16.1 mln euros during 2007 compared to cash outflow of 13.1 mln euros during 2006, reflecting increased dividend payments and related taxes.


As a result of all of the above factors, the total cash outflow in the twelve months of 2007 was 4.5 mln euros compared to a cash inflow of 2.7 mln euros in the twelve months of 2006. Cash and cash equivalents stood at 11.4 mln euros as at 31 December 2007, which ensured more than sufficient working capital and liquidity needed to manage the Company's cash flows.

Employees

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

Dividends and share performance

Based on the results of the 2006 financial year, the Annual General Meeting of shareholders of AS Tallinna Vesi voted to pay 12 527 322 euros of dividends. Of this 639 euros was paid to the owner of the B-share and 12.5 mln euros, i.e. 0.63 euros per share to the owners of the A-shares. Dividends were paid on 15 June 2007.


Chairman of the Management Board:

AS TALLINNA VESI

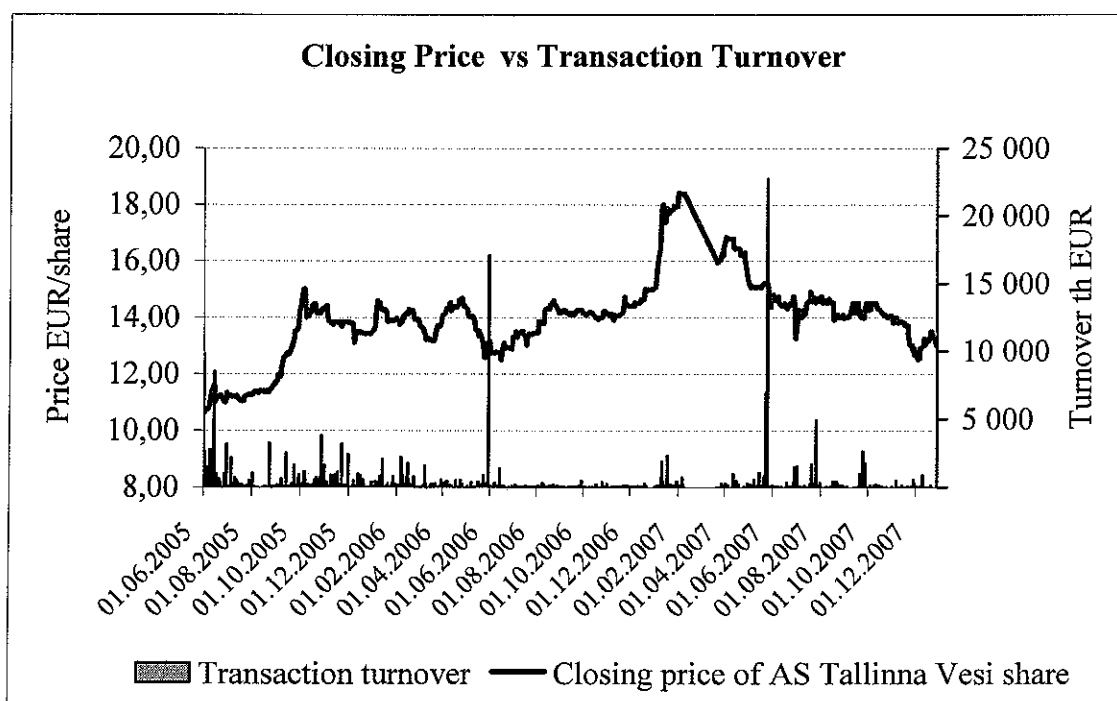
MANAGEMENT REPORT

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

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

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

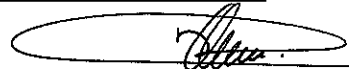
At the end of the year, 31 December 2007, the closing price of the AS Tallinna Vesi share was 12.96 euros, which is a 13.7% decrease compared to the closing price of 15.00 euros in the beginning of 2007. The Company's share price decrease was at the same level as the OMX Tallinn index, which dropped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



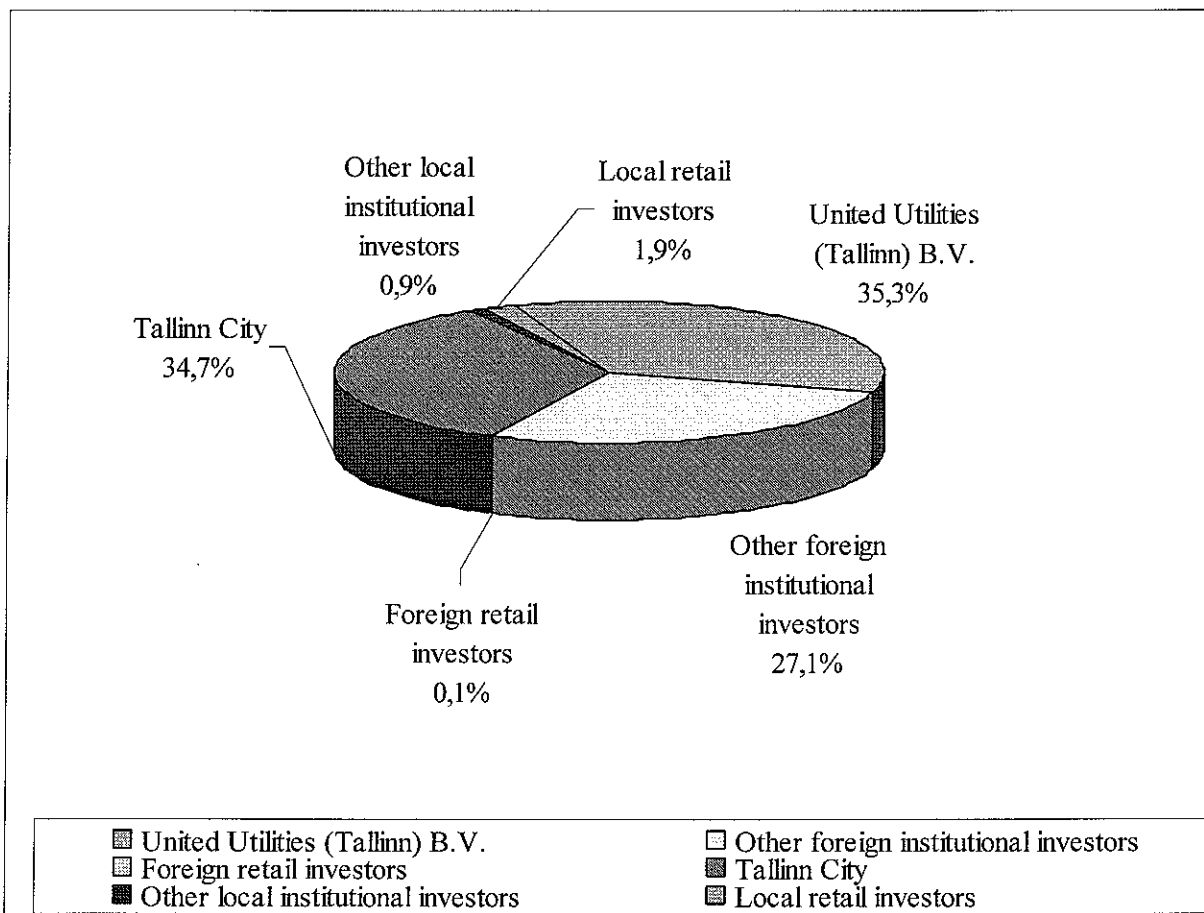
Share price statistics starting from the listing at Tallinn Stock Exchange

(euros/%)	2007	2006	2005	2004	2003
Share price, open	15,00	13,50	9,94	n/a	n/a
Share price, at the end of the year	12,96	15,01	13,48	n/a	n/a
Share price, high	18,59	15,01	15,05	n/a	n/a
Share price, low	12,50	12,47	9,94	n/a	n/a
Share price, average	14,84	13,90	12,62	n/a	n/a
Traded volume	5 462 916	4 274 094	7 993 844	n/a	n/a
Turnover, million	82,83	58,37	96,50	n/a	n/a
Capitalisation, million	259,20	300,20	269,60	n/a	n/a
Earnings per share	0,89	0,79	0,56	0,55	0,33
Dividend per share	n/a	0,63	0,50	0,36	0,24
P/E	0,93	1,21	1,55	n/a	n/a
P/BV	0,21	0,26	0,26	n/a	n/a

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


 Chairman of the Management Board:

Shareholders by type as of 31.12.2007



Distribution of share capital by size of share ownership as of 31.12.2007

	Shareholders	Shareholders %	No. of shares	% of share capital
1-100	435	30,5%	22 224	0,1%
101-200	435	30,5%	63 792	0,3%
201-300	146	10,3%	37 753	0,2%
301-500	150	10,5%	60 840	0,3%
501-1 000	112	7,9%	82 182	0,4%
1 001-5 000	109	7,7%	225 779	1,1%
5 001-10 000	11	0,8%	79 746	0,4%
10 001-50 000	14	1,0%	309 784	1,5%
50 000+	12	0,8%	19 117 900	95,6%
TOTAL	1 424	100,0%	20 000 000	100,0%

More detailed information about the structure of the equity and the preference share, giving the special control rights, is disclosed in note 13.

Chairman of the Management Board:

CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE RECOMMENDATIONS REPORT

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

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

Throughout 2007 the management of the Company was organized according to good governance principles, Commercial Code and Articles of Association of the Company. An annual General Meeting of Shareholders was convened to approve the annual report, distribution of dividend, appointment of auditors and recalling/election of Supervisory Board members. Change of the Articles of Association and management of the Company (incl. the election and recall of the members of the management board) is done according to the Part VII of the Commercial Code.

The Supervisory Board and internal audit

Five Supervisory Board meetings were held. The Supervisory Board organized the Management of the Company and supervised the activity of the Management Board. The Supervisory Board approved the 2006 annual report presented at the Annual General Meeting, and approved the 2007 budget.

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

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

The Management Board

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

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

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

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


Chairman of the Management Board:

MANAGEMENT REPORT

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

Conformity to Tallinn Stock Exchange Corporate Governance Recommendations

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

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.

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

'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 disclose the overall management board remuneration in the report appendix 24, but considers that individual remuneration is sensitive and private information and disclosing it would bring no benefit to the shareholders.



Chairman of the Management Board:

MANAGEMENT REPORT

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

Pursuant to the Articles of Association, the Supervisory Board consists of nine members. Under the Shareholders' Agreement, United Utilities (Tallinn) B.V. (hereinafter UUTBV) and the City of Tallinn have agreed that the division of seats in the Supervisory Board shall be such that UUTBV shall have four seats, the City of Tallinn shall have three seats and two seats shall be for independent members of the Supervisory Board as described by the Tallinn Stock Exchange.

Information Disclosure

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

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

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

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



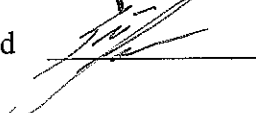
According to the decision of shareholders meeting that the payments for Supervisory Board members is set at 6 391 euros per year. The fee is subject to deduction and payment of taxes set out by laws and would be payable monthly. The Supervisory Board members are not paid any additional benefits.

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

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

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

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

Name	Position	Signature	Date
Roch Jean Guy	Chairman of the Management Board		15.02.08
Antoine Chéroux	Member of the Management Board		15.02.08
David Nigel Hetherington	Member of the Management Board		15.02.08

AS TALLINNA VESI

DECLARATION OF MANAGEMENT FOR THE ANNUAL ACCOUNTS




The Management Board of AS Tallinna Vesi (hereinafter the Company) hereby declares its responsibility for the preparation of the Annual Accounts for the financial year ended 31 December 2007.

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

The preparation of the Annual Accounts according to International Financial Reporting Standards involves estimates made by the Management Board of the Company's assets and liabilities as at 31 December 2007, and of income and expenses during the financial year. These estimates are based on current information about the Company and consider all plans and risks as at 31 December 2007. The actual results of these business transactions recorded may differ from such estimates.

Any subsequent events that materially affect the valuation of assets and liabilities until the preparation of the annual accounts as at 15 February 2008 have been assessed as part of this review.

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

Name	Position	Signature	Date
Roch Jean Guy Antoine Chéroux	Chairman of the Management Board		<u>15.02.08</u>
David Nigel Hetherington	Member of the Management Board		<u>15.02.08</u>
Siiri Lahe	Member of the Management Board		<u>15.02.08</u>

AS TALLINNA VESI

BALANCE SHEET
AT 31 DECEMBER 2007 AND 2006

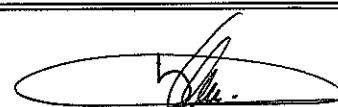
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(thousand EUR)

ASSETS	Note	2007	2006
CURRENT ASSETS			
Cash and equivalents	2	11 403	15 940
Customer receivables	3	11 838	4 569
Accrued income and prepaid expenses	4	331	304
Inventories	5	233	201
Assets for sale	6	72	105
TOTAL CURRENT ASSETS		23 877	21 120
NON-CURRENT ASSETS			
Tangible assets	7	127 375	119 969
Intangible assets	7	3 140	3 361
Unfinished assets - non connections	7	3 070	5 859
Unfinished pipelines - new connections	7	5 756	7 488
Prepayments for fixed assets	7	345	179
TOTAL NON-CURRENT ASSETS		139 686	136 856
TOTAL ASSETS		163 562	157 976
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Current portion of long-term borrowings	8	2 651	30
Trade and other payables	9	5 558	5 448
Taxes payable	10	1 693	1 950
Short-term provisions	11	143	34
Deferred income	12	2 691	2 322
TOTAL CURRENT LIABILITIES		12 736	9 784
NON-CURRENT LIABILITIES			
Borrowings	8	71 932	74 527
Other payables	9	7	6
TOTAL NON-CURRENT LIABILITIES		71 939	74 534
TOTAL LIABILITIES		84 675	84 318
EQUITY			
Share capital	13	12 782	12 782
Share premium		24 734	24 734
Statutory legal reserve		1 278	1 278
Accumulated profit		22 336	19 010
Net profit for the period		17 757	15 853
TOTAL EQUITY		78 887	73 658
TOTAL LIABILITIES AND EQUITY		163 562	157 976



Chairman of the Management Board:

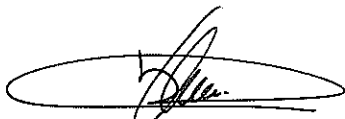
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AS TALLINNA VESI

**INCOME STATEMENT
 FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006**

(thousand EUR)


	Note	2007	2006
Sales from main operating activities	14	41 436	37 655
Revenues from other operating activities	14	11 021	6 650
Net sales		52 457	44 305
Costs of goods sold (main operating activities)	15,16	-13 848	-14 095
Costs of goods sold (other operating activities)	16	-10 110	-6 206
GROSS PROFIT		28 499	24 005
Marketing expenses	15,16	-866	-612
General administration expenses	15,16	-3 633	-3 280
Other income/ expenses (-)	16	118	1 485
OPERATING PROFIT		24 118	21 597
Financial income / expenses (-)	17	-2 827	-2 747
PROFIT BEFORE TAXES		21 291	18 850
Income tax on dividends	18	-3 533	-2 997
NET PROFIT FOR THE PERIOD		17 757	15 853
Attributable to:			
Equity holders of A-shares		17 757	15 852
B-share holder		0,64	0,64
Earnings per share in euros	19	0,89	0,79


 Chairman of the Management Board:

AS TALLINNA VESI

CASH FLOW STATEMENT

FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

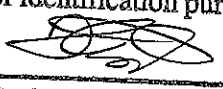
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(thousand EUR)

	Note	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		24 118	21 597
Adjustment for depreciation	16	5 064	5 180
Adjustment for income and expenses from constructions	20A	-911	-444
Other financial income and expenses	17	-101	-34
Profit from sale of fixed assets		-155	-1 592
Expensed fixed assets		30	71
Capitalization of operating expenses	20C	-1 263	-1 337
Change in current assets involved in operating activities	20B	-2 049	-265
Change in liabilities involved in operating activities	20B	-21	383
Interest paid		-3 386	-3 071
Total cash flow from operating activities		21 326	20 487
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of fixed assets (incl pipelines construction)	20C	-16 997	-12 274
Proceeds from pipelines financed by construction income	20A	6 509	7 200
Proceeds from sale of and prepayments received/ repaid(-) for fixed assets		25	-83
Proceeds from sale of assets for sale and of real estate investments		15	71
Interest received		676	418
Total cash flow used in investing activities		-9 773	-4 667
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance lease payments	8	-30	-82
Dividends paid	18	-12 527	-10 034
Income tax on dividends	18	-3 533	-2 997
Total cash flow used in financing activities		-16 091	-13 113
Change in cash and bank accounts		-4 537	2 706
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD		15 940	13 234
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	2	11 403	15 940



Chairman of the Management Board:

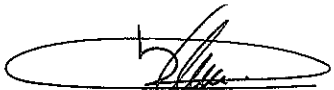
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AS TALLINNA VESI

**STATEMENT OF CHANGES IN EQUITY
 FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006**

(thousand EUR)

	Share capital	Share premium	Statutory legal reserve	Accumulated profit	Net profit	Total equity
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
Transfer of financial year profit to the accumulated profit	0	0	0	15 853	-15 853	0
Dividends	0	0	0	-12 527	0	-12 527
Net profit of the financial year	0	0	0	0	17 757	17 757
31 December 2007	12 782	24 734	1 278	22 336	17 757	78 887


 Chairman of the Management Board:

**NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007****NOTE 1. ACCOUNTING PRINCIPLES**

The annual accounts for the financial year 2007 (hereinafter financial statements) have been prepared according to International Financial Reporting Standards (hereinafter IFRS) as adopted by the European Union. IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB), except for certain hedge accounting requirements under IAS 39 which have not been endorsed by the EU. The Company has determined that the unendorsed hedge accounting requirements under IAS 39 would not impact the financial statements had they been endorsed by the EU at the balance sheet date. The new standard or an interpretation of a standard which became effective from 1 January 2007 and applicable to the Company are:

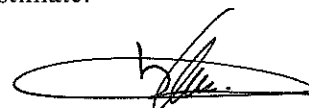
- IFRS 7 'Financial Instruments: Disclosures' – implementation of the standard caused disclosure of additional information about financial instruments in the Company's reports.
- IAS 1 'Presentation of Financial Statement' - implementation of the standard caused disclosure of additional information about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

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

- IFRS 8 'Operating segments' shall be applied to the annual periods beginning on or after 1 January 2009;
- IFRS 3 'Business combinations' (revised) shall be applied to the annual periods beginning on or after 1 July 2009;
- IFRS 2 'Share-based payment' amendments shall be applied to the annual periods beginning on or after 1 July 2008;
- IAS 1 'Presentation of Financial Statement' amendments shall be applied to the annual periods beginning on or after 1 January 2009;
- IAS 23 'Borrowing costs' amendments shall be applied to the annual periods beginning on or after 1 January 2009;
- IAS 27 'Consolidated Financial Statements and Accounting for Investments in Subsidiaries' amendments shall be applied to the annual periods beginning on or after 1 January 2009;
- IFRIC 11 'IFRS 2 on Group and treasury shares transactions' shall be applied to the annual periods beginning on or after 1 March 2007;
- IFRIC 12 'Service concession arrangements' shall be applied to the annual periods beginning on or after 1 January 2008;
- IFRIC 13 'Customer Loyalty Programmes' shall be applied to the annual periods beginning on or after 1 July 2008;
- IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' shall be applied to the annual periods beginning on or after 1 January 2008.


IFRS 3, IFRS 2 amendments, IAS 1 amendments, IAS 23 amendments, IFRS 27 amendments and IFRIC 12, IFRIC 13, IFRIC 14 have not yet been endorsed for use in the EU, however endorsement is expected by the time the standards and interpretations become effective. Based on management's best estimate the implementation of the standards or interpretations mentioned above will not have an impact on the Company's financial statements in the future, except:

- Implementing the IAS 23 sooner would have brought along 320 to 639 thousand euros decrease in net financial costs and respective increase in profit. The Company has not decided yet, whether or not to apply the IAS 23 in 2008, but based on the management estimate the impact of the implementation would be in the same size as the 2007 estimate.



Chairman of the Management Board:

**NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

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- Implementing the IFRS 8 sooner would not have brought along any changes to the 2007 financial statements. Hence the management considers the probable impact of IFRS 8 in further years based on the sales volumes from the new activities in extra to the main operating services. During the composition of the report the impact is not predictable.

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

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

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

Critical accounting estimates

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

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

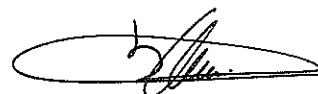
Foreign currency transactions

Foreign currency transactions are recorded on the basis of the foreign currency exchange rates of the Bank of Estonia at the date of the transaction. Monetary assets and liabilities recorded in foreign currencies in the financial statements have been converted into Estonian 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.

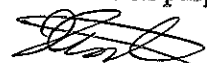
Financial assets and liabilities

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.



Chairman of the Management Board:

**NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

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.

Cash and cash equivalents

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

Receivables

Receivables are presented using the amortized cost method. Provisions for accounts receivable that are considered to be doubtful are recorded in the Income Statement under 'Other income/expenses(-)' and a respective allowance is recorded on the Balance Sheet line 'Customer receivables'. Accounts receivable from previous periods that were recorded as doubtful, but that were received during the year, are recorded on the same expense account as a reverse entry. Receivables which cannot be collected, or the collection is considered to be economically not justified, are evaluated as uncollectible by the decision of the Management Board based on individual reviews, and written-off from the Balance Sheet.

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

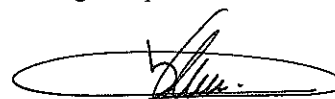
61 to 90 days	10%;
91 to 180 days	30%;
181 to 360 days	70%;
over 360 days	100%.

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

Inventories

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

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



Chairman of the Management Board:

Assets for sale

The land and buildings held for sale in the ordinary course of business are classified as assets for sale, as management has made the sale decision and will endeavour to make every effort to do so during the next financial year.

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

Tangible and intangible fixed assets

Fixed assets are the assets used for production, services or administration purposes that have a minimum useful lifetime of 1 year and with an acquisition value exceeding 639 euros. Assets that have a value less than this are only accounted as fixed assets if the item is an essential part of fixed asset or if the expected useful lifetime is considerably longer than 1 year and the asset has an important role in the provision of key business process (for example the water meters used to measure consumption).

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

Unfinished pipelines – new connections include the costs of acquiring water or sewerage pipelines. After completion of construction and the concluding of the connection contracts with customers the costs related to the acquisition of these pipelines are recorded within costs of 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:

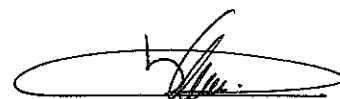
- buildings 1,25-2,0 % per annum;
- facilities 1,0-8,33 % per annum;
- machinery and equipment 3,33-50 % per annum;
- instruments, facilities etc. 10-20 % per annum;
- intangible assets 10-33 % per annum.

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.

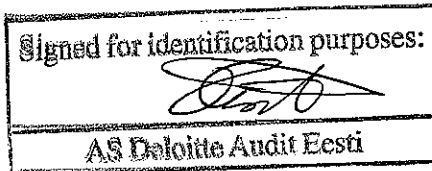
Depreciation and amortisation of fixed assets are recorded in the Income Statement according to the business’ use of the relevant asset, i.e. in ‘Cost of goods sold (main operating activities)’ or in ‘Marketing expenses’ or in ‘General administration expenses’.

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



Chairman of the Management Board:

**NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007**



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

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

Impairment of tangible and intangible assets

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

Liabilities

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

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

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

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

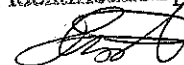
Statutory legal reserve is recorded based upon the requirements of the Commercial Code and comprises of the allocations made from net profits. The annual allocation must be at least 5% of the

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Chairman of the Management Board:

**NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

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approved net profit of the financial year until the statutory legal reserve is equal to 10% of share capital.

Accounting for leases

Lease contracts are considered as finance leases if all relevant risks and benefits with reference to the ownership of the asset are borne by the lessee, otherwise the lease contract is considered as an operating lease.

Operating lease payments are recorded as an expense during the period incurred i.e. the asset is neither recorded as a fixed asset nor is it depreciated.

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

Revenues

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

Periodical sales income from services is recorded in the period when the service has been provided, the proceeds from the provision of the service is probable and the revenue and the costs related to the provision of the service are reliably identified.

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

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

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



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NOTES TO THE ANNUAL ACCOUNTS
 FOR THE YEAR ENDED 31 DECEMBER 2007

(thousand EUR)

NOTE 2. CASH AND CASH EQUIVALENTS

	as of 31 December	
	2007	2006
Cash and equivalents	2 418	3 432
Short-term deposits	8 985	12 508
Total cash and cash equivalents	11 403	15 940

NOTE 3. CUSTOMER RECEIVABLES

	as of 31 December	
	2007	2006
Accounts receivable	6 900	4 902
Deferred contractual proceeds	5 159	0
Allowance for doubtful debts	-221	-332
Total customer receivables	11 838	4 569

Impairment costs of receivables:

for the year ended 31 December

	2007	2006
Write off of uncollectible receivables	-30	-39
Proceeds from uncollectible receivables	10	1
Change in allowance for doubtful debts	111	140

NOTE 4. ACCRUED INCOME AND PREPAID EXPENSES

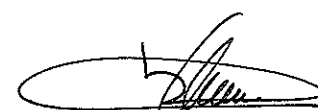
	as of 31 December	
	2007	2006
Fair value of the interest rate swap	99	28
Accrued interest	33	14
Other accrued income	0	13
Prepaid taxes	4	17
Other prepaid expenses	195	232
Total accrued income and prepaid expenses	331	304

NOTE 5. INVENTORIES

Inventories consist of raw materials and are shown net of provisions for obsolete assets. Old raw materials with a nature and value only specific to the Company are considered obsolete, subject to the assumption that management has made all reasonable efforts to sell the unnecessary assets during the year. The most likely outcome for the majority of these assets is treatment as scrap with no material revenue to the Company. In 2006 and 2007 previously discounted materials were used, utilized and sold without profit and therefore there was no need for additional discount.

NOTE 6. ASSETS FOR SALE

	as of 31 December	
	2007	2006
Asset for sale	0	0
Prepayments for the land related to the assets for sale	19	48
Total assets for sale	19	48


 Chairman of the Management Board

NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007

NOTE 7. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS

(thousand EUR)

	Tangible assets in use			Assets in progress			Intangible assets			Total tangible and intangible non-current assets
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Unfinished assets - non connections	Unfinished pipelines - new connections	Prepayment for fixed assets	Development costs	Acquired licenses and other intangible assets	
Acquisition cost at										
31 December 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 December 2006	22 054	128 906	34 169	1 120	5 859	7 488	179	1 121	4 073	204 969
Acquisition	0	0	0	0	9 475	8 634	167	0	0	18 276
Sale of fixed assets	-96	0	-96	0	0	0	0	0	0	-192
Write-off of fixed assets	-2	-84	-880	-31	0	0	0	-22	-40	-1 059
Reclassification within balance sheet	0	0	0	0	-11	-130	0	0	0	-141
Reclassification to expenses	0	0	0	0	-29	0	0	0	0	-29
Expensed pipelines	0	0	0	0	0	-10 110	0	0	0	-10 110
Reclassification from assets in progress	1 320	7 628	3 008	42	-12 224	-126	0	116	237	0
31 December 2007	23 276	136 449	36 200	1 132	3 070	5 756	345	1 215	4 270	211 713
Accumulated depreciation at										
31 December 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 December 2006	3 801	40 970	20 812	696	0	0	0	729	1 104	68 113
Depreciation	253	2 150	2 018	70	0	0	0	123	451	5 064
Depreciation of fixed assets sold and written-off (-)	-2	-84	-971	-31	0	0	0	-22	-40	-1 150
31 December 2007	4 052	43 036	21 859	736	0	0	0	830	1 515	72 027
Net book value at										
31 December 2005	18 807	85 182	13 029	486	6 058	6 979	222	282	2 529	133 573
31 December 2006	18 253	87 935	13 356	424	5 859	7 488	179	392	2 969	136 856
31 December 2007	19 224	93 413	14 341	396	3 070	5 756	345	385	2 755	139 686

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

At 31 December 2006 the net balance sheet value of finance leases was 156 thousand euros.

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NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007

(thousand EUR)

NOTE 8. SHORT-TERM AND LONG-TERM BORROWINGS

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

Bank loans	Loan date	Loan received	Repayments and			Short-term portion	Long-term portion	Interest rate %	Maturity date
			Residual amount 31. December 2006	loan cost amortization 2007	Residual amount 31. December 2007				
EBRD	11.2005	37 500	37 500	0	37 500	2 679	34 821	4,67	05.2015
EBRD loan costs	11.2005	-1 112	-456	54	-402	-27	-375		05.2015
Nordea Bank	11.2005	37 500	37 500	0	37 500	0	37 500	6 month Euribor + 0,24	11.2015
Nordea Banga loan costs	11.2005	-19	-17	2	-15	0	-15		11.2015
Total bank loans		73 869	74 527	56	74 583	2 651	71 932		
Finance lease		1 017	30	-30	0	0	0	5,9 - 8,63	06.2007
Total borrowings		74 886	74 557	26	74 583	2 651	71 932		

All short-term debts are recorded on the Balance sheet line 'Current portion of long term borrowings'.
The long-term part of the finance lease and loans is respectively recorded on the Balance sheet lines 'Borrowings'.
The collaterals of the loans are indicated in Note 23. The repayments are indicated in Note 25.

Name Repayments period

EBRD Loan repayments start in November 2008. The repayments will be made twice a year in May and November in accordance with the repayment terms agreed in the loan agreement.
Nordea Bank Loan repayments start in May 2011. The repayments will be made twice a year in May and November in accordance with the repayment terms agreed in the loan agreement.

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NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007

(thousand EUR)

NOTE 9. TRADE AND OTHER PAYABLES

as of 31 December

Liabilities	Balance amount	Balance amount	Short-term	Long-term	Maturity date
	2006	2007	portion	portion	
Accounts payable - operating expenditures	989	832	832	0	until 31.12.2008
Accounts payable - capital expenditures	3 359	3 391	3 391	0	until 31.12.2008
Factoring	17	0	0	0	until 31.12.2008
Payables to related parties	139	261	261	0	until 31.12.2008
Payables to employees	641	734	734	0	until 31.12.2008
Interest payable	299	333	333	0	until 31.12.2008
Other accrued expenses	4	6	6	0	until 31.12.2008
Long-term guarantee deposit*	6	7	0	7	04.2102
Total trade and other payables	5 455	5 565	5 558	7	

* Long-term deposit is presented in acquisition value.

NOTE 10. TAXES PAYABLE

as of 31 December

	2007	2006	Most common tax rates
	Income tax	124	
VAT	1 016	376	18%
Water usage tax	168	161	0,02 - 0,05 euros/m ³ (2006: 0,02 - 0,05 euros/m ³)
Pollution taxes*	112	1 058	261 - 8 321 euros/t (2006: 218 - 6 937 euros/t)
Social security tax	246	217	33%
Other	27	28	0,3 -22%
Total	1 693	1 950	

* Within pollution taxes was an accrual for 850 thousand euros at 31 December 2006. This accrual is recorded was order to cover the full value of the taxes that the Company had been exempted up to 31 December 2006. This relates to tax on Nitrogen waived by the Ministry of the Environment in return for the upgrade of the Waste Water Treatment Works. At this moment in time the Company had not received a reply to the final report of Nitrogen removal improvement project from the Ministry of the Environment, therefore a liability had been recorded. In February 2007 a liability has been removed in accordance with the resolution of Ministry of the Environment.

**NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

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(thousand EUR)

NOTE 11. SHORT-TERM PROVISIONS

as of 31 December

Provisions include expected losses from estimated servitudes:

	2007	2006
Servitudes	143	34

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

NOTE 12. DEFERRED INCOME

as of 31 December

	2007	2006
Operating revenues incl connection revenues	2 691	2 091
Prepayments for sale of fixed assets	0	230
Total deferred income	2 691	2 322

NOTE 13. SHARE CAPITAL

At 31 December 2007 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 of about 0,64 euro (10 kroons) per share (A-share) and one preferred share with a nominal value of about 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).

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

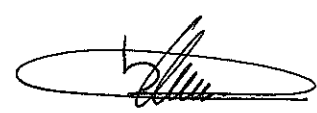
Restrictions on transfer of shares are disclosed in chapter 'Description of capital stock and corporate governance' of the IPO offering circular of AS Tallinna Vesi shares. The circular is available from the Company's website (www.tallinnavesi.ee).

As of 31 December 2006 and 31 December 2007 United Utilities (Tallinn) B.V. owns 7 060 870 (35,3%) A- shares, the City of Tallinn owns 6 939 130 (34,7%) A- shares and one B-share, with 6 000 000 shares in free float.

United Utilities (Tallinn) B.V. has agreed not to sell its remaining A-shares in the Company until 1 January 2010 without express written consent of the City of Tallinn.

Nordea Bank Finland PLC customers 1 542 491 (7,71%) and Morgan Stanley + Co International PLC customers owned 1 361 459 (6,81%) shares. Other direct shareholders owned less than 5% of the shares as of 31 December 2007.

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


 Chairman of the Management Board

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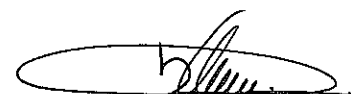
**NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

(thousand EUR)

NOTE 14. NET SALES	for the year ended 31 December	
	2007	2006
Revenues from main operating activities		
Total water supply and waste water disposal service, incl:	38 322	35 086
<u>Domestic clients, incl:</u>	<u>20 385</u>	<u>18 452</u>
Water supply service	11 405	10 349
Waste water disposal service	8 980	8 103
<u>Corporate clients, incl:</u>	<u>16 148</u>	<u>15 021</u>
Water supply service	8 864	8 092
Waste water disposal service	7 284	6 929
<u>Outside area clients, incl:</u>	<u>1 130</u>	<u>855</u>
Water supply service	98	45
Waste water disposal service	1 031	810
<u>Overpollution</u>	<u>659</u>	<u>758</u>
Stormwater treatment and disposal service	2 392	1 921
Fire hydrants service	151	192
Other works and services	571	456
Total revenues from main operating activities	41 436	37 655
Revenues from other operating activities		
Water, sewerage and storm water connections construction income	11 021	6 650
TOTAL NET SALES	52 457	44 305

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

NOTE 15. PERSONNEL EXPENSES	for the year ended 31 December	
	2007	2006
Salaries and wages	-3 686	-3 230
Social security taxation	-1 227	-1 076
Staff costs total	-4 913	-4 305
Number of employees at the end of reporting period	312	318



Chairman of the Management Board:

**NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

(thousand EUR)

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

	for the year ended 31 December	
	2007	2006
Cost of goods sold (main operating activities)		
Tax on special use of water	-671	-642
Chemicals	-1 341	-1 319
Electricity	-1 686	-1 572
Pollution tax	397	-766
Staff costs	-3 299	-2 973
Research & development	-6	-8
Depreciation and amortization	-4 653	-4 683
Other costs of goods sold	-2 589	-2 131
Total cost of goods sold (main operating activities)	-13 848	-14 095
Cost of goods sold (other operating activities)		
Water, sewerage and storm water connections construction cost	-10 110	-6 206
Marketing Expenses		
Staff costs	-390	-301
Depreciation and amortization	-227	-157
Other marketing expenses	-248	-154
Total cost of marketing expenses	-866	-612
General Administration Expenses		
Staff costs	-1 224	-1 031
Depreciation and amortization	-184	-340
Other general administration expenses	-2 225	-1 909
Total cost of general administration expenses	-3 633	-3 280

Other income/expenses - in both 2006 and 2007 other income/expenses includes the profits recognised on the sale of fixed assets during the period, the movement of the bad debt provision during the year and provisions recognised and released throughout the financial period. It also includes income and costs generated from a consultancy project in the Republic of Tajikistan.



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AS TALLINNA VESI

NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007

(thousand EUR)

NOTE 17. FINANCIAL INCOME AND EXPENSES

for the year ended 31 December

	2007	2006
Interest income	694	450
Interest expense	-3 420	-3 096
Other financial expenses	-101	-100
Total financial income / expenses	-2 827	-2 747

NOTE 18. DIVIDENDS

2007

2006

Dividends declared during the period	12 527	10 034
Dividends paid during the period	12 527	10 034
Income tax on dividends declared	-3 533	-2 997
Income tax accounted	-3 533	-2 997

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

NOTE 19. EARNINGS AND DIVIDENDS PER SHARE

as of 31 December

	2007	2006
Earnings per share from continuing operations:		
Earnings for the purposes of basic earnings per share (net profit for the period minus B-share preference rights)	17 757	15 852
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	0,89	0,79
Dividends per A-share in euros	0,63	0,50
Dividends per B-share in euros	639	639

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



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**NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

(thousand EUR)

NOTE 20. NOTES TO THE CASH FLOW STATEMENT

for the year ended 31 December

NOTE 20A. PIPELINES FINANCED BY CONNECTION FEES

	2007	2006
Revenue		
Connection fees from pipelines taken into use	11 021	6 650
Increase in prepayments for pipelines	589	606
Change in accounts receivable from pipelines	-5 101	-55
Connection fees received	6 509	7 200
Acquisition cost of pipelines taken into use	-10 110	-6 206

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 "Cashflows from investing activities". The net amounts eliminated were respectively -911 thousand and -444 thousand euros in 2007 and in 2006.

NOTE 20B. CHANGE IN CURRENT ASSETS AND LIABILITIES

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

	2007	2006
Current assets		
Change in balance sheet	-2 757	-2 992
<u>Adjustments:</u>		
Change in money balance	-4 537	2 706
Changes between fixed assets and current assets	141	5
Assets sold from assets for sale	-15	-71
Change in deferred interests	19	31
Change in construction income debt	5 101	55
Total change in current assets	-2 049	-265
Current liabilities		
Change in balance sheet	2 951	426
<u>Adjustments:</u>		
Change in finance lease and loan costs	-2 599	20
Change in payables for capital investments	-15	-2 141
Prepayments for the sale of fixed assets	230	2 684
Change in construction income prepayments	-588	-606
Total change in current liabilities	-21	383

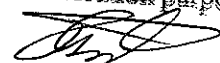
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**NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

(thousand EUR)

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

for the year ended 31 December

NOTE 20C. PAYMENTS FOR FIXED ASSETS

	2007	2006
Acquisition of fixed assets	-18 276	-15 753
<u>Adjustments:</u>		
Change in accounts payable related to investments	15	2 141
Capitalization of operating expenses	1 263	1 337
Total payments for fixed assets	-16 997	-12 274

NOTE 21. COMMITMENTS

as of 31 December

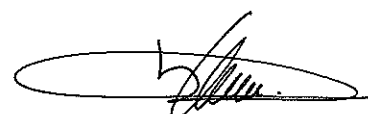
Leased assets

	2007	2006
Total operating lease expense for computers and vehicles	465	342

Minimum operating lease payments are as follows:

Less than 1 year	444
1-5 years	579
Total minimum lease payments	1 023

As of 31 December 2007 the Company had taken commitments for capital investments, i.e. concluded contracts and requested works with purchase orders in the amount of 2 527 thousand euros.



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**NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

(thousand EUR)

NOTE 22. CONTINGENT INCOME TAX ON DIVIDENDS

According to the Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to tax, as tax is charged only on dividend distributions. Pursuant to the Income Tax Act Section 50, effective since 1 January 2003, resident legal entities are liable to income tax on all dividends paid and other profit distributions irrespective of the recipient. The tax rate applicable is 22/78 on the amount of the dividends payable in 2007; in 2006 the rate was 23/77. Since 1 January 2008 the rate is 21/79.

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

The Company's distributable retained earnings as at 31 December 2005 amounted to 40 093 thousand euros. Consequently, the maximum possible tax liability which would become payable if retained earnings were fully distributed is 10 658 thousand euros.

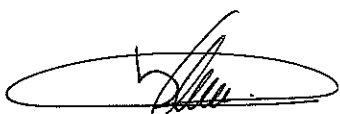
NOTES 23. COLLATERAL OF LOANS AND PLEDGED ASSETS

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 Ülemiste 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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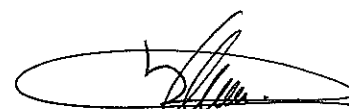
NOTE 24. RELATED PARTIES

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. The transactions with related parties in 2007 and 2006 and respective balances as of 31 December 2007 and 31 December 2006 are recorded as follows:

	Tallinn City Government and related boards	The companies belonging to the same group with the United Utilities (Tallinn) B.V.
2007		
Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi		
Accounts receivable	7 071	0
Accounts payable - short-term trade and other payables	0	261
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	373
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	10 145	0
General administration expenses	0	1 126
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 other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	741
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	5 412	0
General administration expenses	0	941
Other expenses	0	1
	for the year ended 31 December	
	2007	2006
Management Board fees excluding social tax	135	134
Supervisory Board fees excluding social tax	37	32

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.



Chairman of the Management Board:

**NOTES TO THE ANNUAL ACCOUNTS
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(thousand EUR)

NOTE 25. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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

	2007	2006
Financial assets		
Receivables (incl cash and cash equivalents)	23 278	20 553
Swap contract	99	28
Financial liabilities		
Financial liabilities by amortised cost	81 842	81 962

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

Foreign exchange risk

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

Interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company has no significant interest-bearing assets. Interest bearing financial liabilities are loans and swap contract.

AS Tallinna Vesi is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed interest rate borrowings (4,19% + 48 basis points) from EBRD, and floating rate borrowings (6 month EURIBOR + 24 basis points) from Nordea by the use of interest rate swap contract, the aim of which is fixing the floating interest rate at certain dates depending on the respective spot rate of the 6 month EURIBOR.

Interest rate swap contract:

Maturity date: 28.05.2009
Notional amount: 22 186 thousand euros

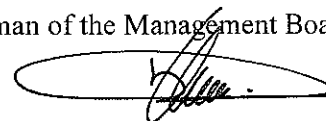
The fair value of the interest rate swap contract is 99 thousand euros as at 31.12.2007.

If interest rates had been 50 basis points higher and all other variables were held constant, ASTV's profit before tax for the year ended 31 December 2007 would decrease by 293 thousand euros. If interest rates had been 50 basis points lower and all other variables were held constant, ASTV's profit before tax for the year ended 31 December 2007 would increase by 113 thousand euros.

Credit risk

The Company has no significant concentrations of credit risk. The Company has procedures in place to ensure that sales of products and services and purchases are only made in accordance with the Company's policies. The debt management team participates in the determination of payment

Chairman of the Management Board:





AS Deloitte Audit Eesti

**NOTES TO THE ANNUAL ACCOUNTS
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(thousand EUR)

terms and schedules to facilitate the collection of debt and controls the payment discipline of customers as part of a daily routine, for example by sending out invoice reminders, making debt follow up phone calls and other debt management tools.

The Company's maximum credit risk equals the carrying amount of financial assets. Non of the receivables from one customer exceeds 5 % of the total receivables, except City of Tallinn, which is 7 mln euros.

Liquidity risk

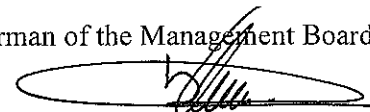
In liquidity risk management the Company has taken a prudent view, maintaining sufficient cash balance and availability of short-term marketable securities to fulfil its financial liabilities. Continuous cash flow forecasting and control are essential tools in the day-to-day liquidity risk management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

Maturities of the non-derivative financial assets and liabilities:

2007	Intrest rate %	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Financial assets							
Non-interest bearing	-	6 266	5 575	-	-	-	11 842
Fixed interest rate instruments	3,72	11 454	-	-	-	-	11 454
		17 721	5 575	0	0	0	23 296
Financial liabilities							
Non-interest bearing	-	6 552	699	-	-	7	7 258
Variable interest rate instruments	6 months Euribor + 0,24	-	-	1 745	36 337	7 767	45 850
Fixed interest rate instruments	4,67	-	-	4 435	32 104	8 410	44 948
		6 552	699	6 180	68 440	16 184	98 056


2006	Intrest rate %	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Financial assets							
Non-interest bearing	-	4 505	94	-	-	-	4 599
Fixed interest rate instruments	6,94	15 961	-	-	-	-	15 961
		20 465	94	0	0	0	20 559
Financial liabilities							
Non-interest bearing	-	5 404	1 994	-	-	6	7 405
Financial lease liability	4,5 - 8,63	-	-	30	-	-	30
Variable interest rate instruments	6 months Euribor + 0,24	-	-	1 681	29 960	15 890	47 531
Fixed interest rate instruments	4,67	-	-	1 751	21 512	23 437	46 699
		5 404	1 994	3 463	51 471	39 333	101 665

Chairman of the Management Board:



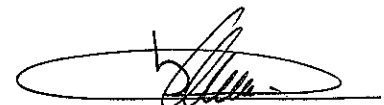
AS TALLINNA VESI

**NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

Signed for identification purposes:

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(thousand EUR)

Requirements to the capital

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



Chairman of the Management Board:





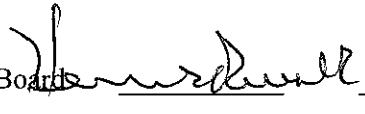
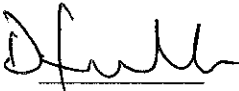
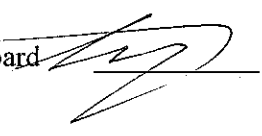
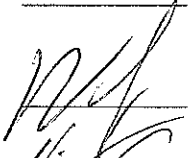
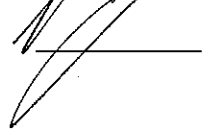
AS TALLINNA VESI

CONFIRMATION OF THE MANAGEMENT AND SUPERVISORY BOARDS TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

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

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

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

Name	Position	Signature	Date
Roch Jean Guy Antoine Chéroux	Chairman of the Management Board		<u>10.03.08</u>
David Nigel Hetherington	Member of the Management Board		<u>10.03.08</u>
Siiri Lahe	Member of the Management Board		<u>10.03.08</u>
Robert John Gallienne	Chairman of the Supervisory Board	_____	_____
Ian John Alexander Plenderleith	Member of the Supervisory Board		<u>11/3/08</u>
Henry Emanuel Russell	Member of the Supervisory Board		<u>10/3/08</u>
David Leonard Fuller	Member of the Supervisory Board		<u>10.03.08</u>
Mart Mägi	Member of the Supervisory Board		<u>11.03.08</u>
Rein Ratas	Member of the Supervisory Board	_____	_____
Elmar Sepp	Member of the Supervisory Board	_____	_____
Deniss Boroditš	Member of the Supervisory Board		<u>11.03.08</u>
Valdur Laid	Member of the Supervisory Board		<u>11.03.08</u>

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS Tallinna Vesi:

We have audited the accompanying annual accounts (page 15 to 40) of AS Tallinna Vesi, which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Annual Accounts

Management Board is responsible for the preparation and fair presentation of these annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in 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 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



Sander Kallasmaa
Certified Auditor
15 February 2008



AS Deloitte Audit Eesti