AS TALLINNA VESI

Annual report
Financial year ended
31. December 2005

AS TALLINNA VESI

ANNUAL REPORT

Beginning of financial year	1 January 2005
End of financial year	31 December 2005
Name of Company	AS TALLINNA VESI
Legal form of Company	Public limited company
Commercial register number	10257326
Address	Ädala St.10, Tallinn, Estonia
Chairman of the Board	Robert John Gallienne
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 Accounts	Proposal for the profit distribution Independent auditor´s report

R. J. Gall

Chairman of the Management Board:

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R.J. Gall

Chairman of the Management Board:

2005 has been an outstanding year for the Company and all its stakeholders. Significant steps have been taken on all fronts and major improvements delivered across all spheres of our activity.

Successful listing in Tallinn Stock Exchange
In February 2005 the decision was taken by our shareholders to list the Company on the Tallinn Stock Exchange and to sell down 30% of their shareholding creating a free float of 6 million shares. This was the first new listing on the Tallinn Stock Exchange for 6 years and we were committed to carrying it out in the most professional manner and to ensure its success. The Company, with its key advisers, prepared a prospectus of the highest quality and met our target timetable to the day. Significant interest was shown by both institutional and retail investors and the offering was 6 times oversubscribed.

The IPO share price was finalized at 9.25 euros and trading in our shares on the TSE commenced on 1st June 2005. The shares have consistently been one of the most traded shares on the TSE and indeed the Baltic Exchange. By the end of the year the share price had risen to 13.50 euro an increase of 46% placing an equity value on the Company of 270 million euro or 4.2 billion kroons. The IPO was a true success both for the Company and its shareholders, but also for the Tallinn Stock Exchange, this is an achievement of which all those involved should be very proud.

Outperformance of Services Agreement
During 2005 the Company continued to outperform the service levels set within its contract with the City. Drinking water quality reached its highest level yet with 99.9% microbiological compliance and 99.7% chemical compliance. These levels demonstrate that we are already delivering the standards required from 1st January 2007 twelve months ahead of schedule. We are continuing to reduce leakage levels and we are now at a level of leakage below 18.0%, this is 50% lower than five years ago and over 8% below our contractual target. In 2005 a new and challenging level of service was introduced where no unplanned interruptions to supply should last more than 12 hours. Once again by additional investment and using all the skills and expertise available we have been able in 2005 to reduce the number of occurrences by 90% to just 3, and we will continue to look for ways to eliminate those failures completely.

Improved Environment
Our focus on the environment is unwavering and in 2005 we have continued to invest heavily in schemes and methods of operation which protect the world we live in. The first phase of the composting fields at Paljassaare has been completed and 100% of sewage sludge is being converted into fertiliser and recycled. In addition the construction of the upgrade of the nitrogen removal process at Paljassaare WWTP was completed during the year. The commissioning process is ongoing and will not be completed until the middle of 2006. At present we are on target to deliver the 25% reduction in nitrogen discharged into Tallinn Bay. Compliance with these higher waste water quality requirements will also help to protect the Baltic Sea in line with the HELCOM recommendations.

First EMAS Awarded Company
The Company is extremely proud to have been recognized by the Ministry of Environment as the first in Estonia and in the Baltics to be considered capable of achieving the EU Eco Management and Audit Scheme (EMAS) certification. Following close co-operation within the project managed by the Ministry and the Dutch Ministry of Economics and a very testing external audit I am delighted that the Company received full EMAS certificate on 14th October 2005. This recognition is a clear sign of our understanding and management of our environmental responsibilities. In addition we were also successful in June 2005, the renewal of our ISO 14001 based Environmental Management System certificate.

R.T. Gall

Chairman of the Management Board:

AS TALLINNA VESI

MANAGEMENT REPORT

Excellent Financial Performance

The financial results for 2005 have once again shown solid improvement. Our managers and their staff are continuously looking to reduce our cost of delivery and also identifying opportunities for growth in our service. As a result the Profit Before Tax (PBT) earned in 2005, was 209.7 million kroons, an increase of 5% compared with 2004, and this is after absorbing the one off costs incurred during the year.

Following the successful listing of the Company on the Tallinn Stock Exchange the decision was taken to review the long term loan structure of the Company. As a result of this approximately 50% of the EBRD loan facility was prepaid and the terms and conditions of the remaining 37.5 million euro loan renegotiated and significantly improved. In addition the prepaid proportion of the EBRD loan was replaced with a 37.5 million euro loan from Nordea Bank, again with much improved terms and conditions. The Company has now put in place a loan financing structure, which has reduced our interest costs going forward by approximately 25% per annum and also provides enhanced terms and conditions and greater flexibility in the use of our cash reserves. This provides a strong platform for the future.

Launch of Key IT Projects Supporting the Business

During 2005 the Company completed the implementation of two major IT system implementations which will deliver improved cost efficiency and customer service in 2006 and beyond. The Maximo asset management and work planning system which went live in early 2005 will enable us to analyse and understand the maintenance costs of our assets and plan the work more effectively. In the latter part of 2005 our new Customer Information and Billing System went live, initially running in parallel with the existing system, and following successful testing the old system was switched off in November. This project was a highly complex project and a huge effort was put in to deliver it on time and to budget. Due to the implementation of this system we will be able to provide a wide range of payment options, including direct debits, and also provide a full web-based access for all our customers.

Employees – Our Key Asset

The people who work for us are our most important asset and once again in 2005 they have all responded magnificently to the challenges they have been presented with. I thank them wholeheartedly personally and on behalf of the Management Board as a whole. We have once again carried out an independent staff opinion survey to which over 50% of our staff responded. I am very pleased to be able to report that staff satisfaction increased again in 2005 to the highest level ever. The level of response and the degree of satisfaction indicates that we are on the right track, but we will continue to strive for further improvement and we have already developed the necessary action plans to address the issues which were raised by the staff in the survey.

Our Health and Safety performance continues to be at the highest level. During 2005 there were only 2 work accidents, the same as in 2004, but the number of lost work hours and the severity of the accidents has significantly decreased. Our close co-operation with our contractors has also shown benefits and there were no accidents with contractors' employees on AS Tallinna Vesi sites during 2005.

Extensive Investments

2005 has been a major year for investments in our assets with over 223 million kroon of work being carried out, an increase of 41% over 2004. The major investments were in the network forreplacement and rehabilitation,of 53 million; network extensions 74 million; the nitrogen upgrade and extension of the compost fields at Paljassaare Wastewater treatment Plant 30 million kroon; the ongoing improvement of the raw water facilities and biomanipulation project at Ülemiste Water Treatment Plant 12 million kroons; the delivery of the new work management and customer service IT systems 13 million kroons, and the costs of privatising land at Ülemiste and Paljassaare 21 million kroons.

R.J. Gall

Chairman of the Management Board:

During 2005 major changes and developments have occurred. These have set a firm foundation for future progress in 2006 and looking forward once again the Company is aiming to further improve across a wide range of activities. Our 2006 capital investment programme will be larger at just under 250 million kroons. Once again the key areas of focus will be on network extension and rehabilitation, with particular emphasis on drinking water quality, with forecast investments of around 150 million kroons. A further 15 million kroons will be spent at Ülemiste, again concentrating on raw water quality. At Paljassaare WWTP over 50 million kroons will be invested on improving our sludge handling process and a further extension to the compost fields. These investments clearly indicate our ongoing commitment to meeting and exceeding our levels of service.

Focus on Customers

We will launch in 2006 a Guaranteed Standards Scheme for our customers, which we believe is the first of its kind and scope in the Baltics. Through this scheme the Company will declare over 20 levels of service and if we fail to meet the levels of service a monetary compensation will be paid to the customer. By operating a scheme of this kind the Company is demonstrating very powerfully, its commitment to the customer and its belief that we can deliver the service that is required. This scheme will also be supported by the improved customer service capability of the new customer information and billing system implemented in late 2005, the full year benefits of which will be received by all our customers in 2006.

Strengthening of the Governance of the Company

During 2005 there have been a number of changes in the membership of our Supervisory Council and I would like to thank all those Council members for their support during a very challenging year. As a result of the Company's listing on the Tallinn Stock Exchange we have two additional independent directors, Helo Meigas and Valdur Laid, I very much welcome both of them to the Council and look forward to working with them in the future.

The recruitment of the two new independent Supervisory Council members will only serve to strengthen still further the Corporate Governance of the Company. This is something we have continued to improve throughout 2005 by working closely with the Financial Supervision Authority on the clarity and quality of our reporting. In September 2005 the Tallinn Stock Exchange issued an expanded set of Corporate Governance recommendations. These come into effect from the financial reporting period 1 January 2006 for Tallinna Vesi, it is our intention to comply with these recommendations as required. For this reporting period all information required to be reported by the Tallinn Stock Exchange or by Estonian Accounting law not contained within this text is included in the annual accounts and notes.

Clearly we have come a long way in the year and none of this could have been achieved without all the support and total commitment of our staff who have once again been outstanding. The support and guidance we receive from our parties the City of Tallinn and the Ministry of Environment has been invaluable. During 2005 we achieved outstanding success in our quality of product, service and financial targets and I believe can now be very proud of being a world class water company.

R.J. Gall

Robert John Gallienne
Chairman of the Management Board

R.J. Gall

Chairman of the Management Board:

DECLARATION OF MANAGEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

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 2005.

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 2005, and of income and expenses during the financial year. These estimates are based on current information about AS Tallinna Vesi and consider all plans and risks as at 31 December 2005. 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 10 February 2006 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
Robert John Gallienne	Chairman of the Management Board	R.J. Gall	10/2/2006
Roch Jean Guy Antoine Cheroux	Member of the Management Board		10/2/2006
Ian John Alexander Plenderleith	Member of the Management Board	I.J.A. Plenderleith	10/2/2006

R.J. Gall

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BALANCE SHEETS
AT 31 DECEMBER 2005 AND 2004

(thousand EEK)

ASSETS	Note	2005	2004
CURRENT ASSETS			
Cash at bank and in hand	2	207 067	101 000
Customer receivables	3	66 737	51 644
Accrued income and prepaid expenses	4	5 286	3 952
Inventories	5	3 156	3 266
Assets for sale	6	1 390	1 621
TOTAL CURRENT ASSETS		**283 636**	**161 483**
NON-CURRENT ASSETS			
Long-term investment assets	7	0	78 868
Tangible assets	8	1 838 528	1 779 897
Intangible assets	8	43 981	18 460
Unfinished assets - non connections	8	94 793	102 634
Unfinished pipelines - new connections	8	109 190	79 675
Prepayments for fixed assets	8	3 479	3 648
TOTAL NON-CURRENT ASSETS		**2 089 971**	**2 063 182**
TOTAL ASSETS		**2 373 607**	**2 224 665**
LIABILITIES			
CURRENT LIABILITIES			
Current portion of long-term borrowings	9	1 340	88 863
Trade and other payables, incl. dividends	10	53 507	55 707
Taxes payable	11	22 724	20 534
Short-term provisions	12	289	912
Deferred income	13	68 569	18 582
TOTAL CURRENT LIABILITIES		**146 429**	**184 598**
NON-CURRENT LIABILITIES			
Finance lease	9	415	1 685
Bank loans	9	1 165 219	1 039 192
Other payables	10	100	100
TOTAL NON-CURRENT LIABILITIES		**1 165 734**	**1 040 977**
TOTAL LIABILITIES		**1 312 163**	**1 225 575**
EQUITY CAPITAL			
Share capital	14	200 001	200 001
Share premium		387 000	387 000
Statutory legal reserve	14	20 000	93 394
Accumulated profit		280 089	145 734
Net profit for the period		174 354	172 961
TOTAL EQUITY CAPITAL		**1 061 444**	**999 090**
TOTAL LIABILITIES AND EQUITY CAPITAL		**2 373 607**	**2 224 665**

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AS TALLINNA VESI

INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(thousand EEK)

	Note	2005	2004
Sales from main operating activities	15	549 918	478 814
Revenues from other operating activities	15	42 111	69 715
Net sales		**592 029**	**548 529**
Costs of goods sold (main operating activities)	16,17	-202 055	-197 255
Costs of goods sold (other operating activities)	17	-38 338	-64 410
GROSS PROFIT		**351 636**	**286 864**
Marketing expenses	16,17	-6 778	-6 134
General administration expenses	16,17	-64 257	-40 739
Other income/ expenses (-)	17	1 959	14 927
OPERATING PROFIT		**282 560**	**254 918**
Financial income / expenses (-)	18	-72 838	-55 680
PROFIT BEFORE TAXES		**209 722**	**199 238**
Income tax on dividends	19	-35 368	-26 277
NET PROFIT FOR THE PERIOD		**174 354**	**172 961**
Attributable to:			
Equity holders of A-shares		174 344	172 951
B-share holder		10	10
Earnings per share in kroons	20	**8,72**	**8,65**

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AS TALLINNA VESI

CASH FLOW STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(thousand EEK)

	Note	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		282 560	254 918
Adjustment for depreciation	17	78 741	79 506
Adjustment for income and expenses from constructions	21A	-3 773	-5 305
Other financial income and expenses		-20 012	-3 835
Profit from sale of fixed assets		-11 870	-2 844
Expensed fixed assets		394	1 900
Capitalization of operating expenses		-23 280	-38 974
Movement in current assets involved in operating activities	21B	57 754	-48 978
Movement in liabilities involved in operating activities	21B	6 414	-11 045
Interest paid		-59 854	-57 513
Total cash flow from operating activities		**307 074**	**167 830**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of shares of associated company		0	6 259
Acquisition of fixed assets (incl pipelines construction)	21C	-199 875	-133 705
Proceeds from pipelines financed by construction income	21A	52 494	59 370
Proceeds from sale of and prepayments received for fixed assets		47 345	3 799
Proceeds from sale of real estate investments		11 700	2 250
Interest received		5 067	2 661
Total cash flow from investing activities		**-83 269**	**-59 366**
CASH FLOWS FROM FINANCING ACTIVITIES			
Received long-term loans	9	696 318	31 293
Repayment of long-term loans	9	-664 981	-19 001
Finance lease payments	9	-1 707	-2 632
Dividends paid	19	-112 000	-75 000
Income tax on dividends	19	-35 368	-26 277
Total cash flow from financing activities		**-117 738**	**-91 617**
Change in cash and bank accounts		**106 067**	**16 847**
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**101 000**	**84 153**
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	2	**207 067**	**101 000**

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STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(thousand EEK)

	Share capital	Share premium	Statutory legal reserve	Accumulated profit	Net profit	Total equity
31 December 2003	**200 001**	**387 000**	**93 394**	**116 193**	**104 541**	**901 129**
Transfer of financial year profit to the accumulated profit	0	0	0	104 541	-104 541	0
Dividends	0	0	0	-75 000	0	-75 000
Net profit of the financial year	0	0	0	0	172 961	172 961
31 December 2004	**200 001**	**387 000**	**93 394**	**145 734**	**172 961**	**999 090**
Transfer of financial year profit to the accumulated profit	0	0	0	172 961	-172 961	0
Transfer of statutory legal reserve to the accumulated profit	0	0	-73 394	73 394	0	0
Dividends	0	0	0	-112 000	0	-112 000
Net profit of the financial year	0	0	0	0	174 354	174 354
31 December 2005	**200 001**	**387 000**	**20 000**	**280 089**	**174 354**	**1 061 444**

Chairman of the Management Board:

NOTE 1. ACCOUNTING PRINCIPLES

The annual accounts for the financial year 2005 (hereinafter financial statements) have been prepared according to International Financial Reporting Standards (hereinafter IFRS) as adopted by the European Union. All IFRS standards effective from 1 January 2005, and applicable to the Company have been adopted in the preparation of the statements. The IFRS 7 "Financial Instruments: Disclosures", which is not effective yet, is not adopted in the preparation of the statements and the Company considers the possible impact from the adaptation of the standard to be immaterial.

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

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

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

Foreign currency transactions

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

Financial assets and liabilities

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

Financial assets and liabilities are recognized at acquisition cost, which is assumed to be a fair value paid for or gained from that asset or liability. Financial assets and liabilities are recorded in the Balance Sheet when the Company acquires ownership according to the financial asset or liability contract conditions.

Loans are recorded at the value of the proceeds received, net of direct transaction costs, which are accounted for on an accruals basis proportionally to the income statement during the loan agreement validity period. As the transaction costs have been considered immaterial compared to the loans received, no effective interest method is implemented.

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.

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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 expenses" and a respective allowance is recorded on the Balance Sheet line "Customer receivables". Accounts receivable from previous periods that were recorded as doubtful, but that were received during the year, are recorded on the same expense account as a reverse entry. Receivables which cannot be collected, or the collection is considered to be economically not justified, are evaluated as un-collectible and written-off from the Balance Sheet.

For evaluation of the doubtful debts the individual debts are grouped by age and the following percentages are applied in the doubtful debt calculation:

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

Inventories

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

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

Assets for sale

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

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

Tangible and intangible fixed assets

Assets with useful life more than one year and with a minimum value of 2 000 EEK are capitalised as fixed assets. Fixed assets are recorded at acquisition cost, which comprises of purchase price, non-recoverable taxes and all other direct costs required to take the fixed asset object into operation, including internal 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.

The interest cost of Company debt during the acquisition period of any fixed assets is capitalized during the construction process, incl. unfinished pipelines – new connections, which are calculated as the proportion of the amount of construction in progress compared to the balance of the corresponding debt.

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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 20-33 % 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.

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

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

All costs of identifiable and controllable development projects which are likely to earn future revenues, and the acquisition costs of computer software are capitalised as intangible assets on the Balance Sheet and amortised on a straight-line basis for a period of up to 5 years. If the software is necessary to take computer hardware into use, the acquisition cost of such software is capitalised in the acquisition cost of the hardware and depreciated according to the useful life of the hardware. Research costs are expensed.

Impairment of tangible and intangible assets

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

Liabilities

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

No long-term employee benefit schemes are applicable to the Company. The company has made an internal decision to pay bonuses to the employees based on the accounting year results of the

Chairman of the Management Board:

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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 11 and 23.

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 excluded from recognition in the balance sheet. The Company had no known contingent liabilities at the time of the preparation of the financial statements.

Reserves

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

Accounting for leases

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

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

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

Revenues

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

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

Chairman of the Management Board:

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

Chairman of the Management Board:

FOR THE YEAR ENDED 31 DECEMBER 2005 (thousand EEK)

NOTE 2. CASH AND CASH EQUIVALENTS

	2005	2004
Cash and bank accounts	46 822	85 253
Short-term deposits	160 245	15 747
Total cash and cash equivalents	**207 067**	**101 000**

NOTE 3. CUSTOMER RECEIVABLES

	2005	2004
Accounts receivable	74 133	59 383
Allowance for doubtful debts	-7 396	-7 739
Total customer receivables	**66 737**	**51 644**
Impairment costs of receivables:		
Write off of uncollectible receivables	-1 074	-1 723
Proceeds from uncollectible receivables	216	190
Change in allowance for doubtful debts	343	4 273

NOTE 4. ACCRUED INCOME AND PREPAID EXPENSES

	2005	2004
Accrued interest	173	274
Other accrued income	20	92
Prepaid taxes	1 105	3
Other prepaid expenses	3 988	3 583
Total accrued income and prepaid expenses	**5 286**	**3 952**

NOTE 5. INVENTORIES

Inventories consist of raw materials and are shown net of provisions for obsolete assets.

Old raw materials with a nature and value only specific to the Company are considered obsolete, subject to the assumption that management has made all reasonable efforts to sell the unnecesary assets during the year. The most likely outcome for the majority of these assets is treatment as scrap with no material revenue to the Company. These items have been fully provided in the accounts, 222 thousand kroons and 1 508 thousand kroons as of 31 December 2005 and 2004 respectively. Any subsequent revenues received on the sale of these assets have been immaterial in value and have been offset against the value written off.

Chairman of the Management Board

FOR THE YEAR ENDED 31 DECEMBER 2005 (thousand EEK)

NOTE 6. ASSETS FOR SALE

	2005	2004
Land and buildings for sale	494	693
Prepayments for the land related to the assets for sale	896	928
Total assets for sale	**1 390**	**1 621**

NOTE 7. LONG-TERM INVESTMENT ASSETS

	2005	2004
Long-term deposit	0	77 538
Investment property (acquisition value)	0	1786
Accumulated depreciation of investment property (-)	0	-456
Total long-term investment assets	**0**	**78 868**

Long-term investment assets included the long-term deposit and the real estate investment at address Järvevana Street 3, Tallinn in years 2004 and 2005. The obligation to hold on long-term deposit an amount of approximately 80 million kroons was a requirement of the terms and conditions of the original European Bank for Reconstruction and Development (hereinafter EBRD) loan concluded in 2002. This obligation was removed when the company refinanced and made amendements to the loan agreement in 2005 (see note 9). The property was sold in the 1st quarter of 2005 with the sales profit of 10.4 million kroons recorded in the row "Other income/expenses" of the income statement.

	2005*	2004
Rental revenue from the investment, excluding VAT	266	1 064
Direct operating expenses that generated rental income	98	456
The occupation rate of the property (average of the reporting year)	84%	93%

* Data recorded for the first quarter only when the asset was sold by the company.

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NOTE 8. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS

(thousand EEK)

	Tangible assets in use				Assets in progress			Intangible assets		
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Unfinished assets - non connections	Unfinished pipelines - new connections	Prepayment for fixed assets	Development costs	Acquired licenses and other intangible assets	Total tangible and intangible non-current assets
Acquisition cost at										
31.12.2003	303 802	1 863 685	472 187	14 905	62 797	93 176	8 565	8 375	25 421	2 852 913
Acquisition	0	0	0	0	104 254	54 125	0	0	0	158 379
Sale of fixed assets	-1 462	0	-2 204	-6	0	0	0	0	0	-3 672
Write-off of fixed assets	-205	-2 885	-4 504	-412	0	0	0	0	0	-8 006
Reclassification within balance sheet	331	0	0	0	173	0	-81	0	0	423
Reclassification to expenses	0	0	0	0	-495	-1	0	0	0	-496
Expensed pipelines	0	0	0	0	0	-64 410	0	0	0	-64 410
Reclassification from assets in progress	9 004	38 719	19 416	1 848	-64 095	-3 215	-4 836	1 223	1 936	0
31.12.2004	311 470	1 899 519	484 895	16 335	102 634	79 675	3 648	9 598	27 357	2 935 131
Acquisition	0	0	0	0	128 979	74 363	19 803	0	0	223 145
Sale of fixed assets	-83	-126	-2 994	-5	0	0	0	0	0	-3 208
Write-off of fixed assets	-1 011	-3 212	-15 943	-181	0	0	0	0	-184	-20 531
Reclassification within balance sheet	0	229	0	0	0	0	0	0	0	229
Reclassification to expenses	0	0	0	0	-59	-3	-169	0	0	-231
Expensed pipelines	0	0	0	0	0	-38 339	0	0	0	-38 339
Reclassification from assets in progress	39 565	49 711	37 630	2 994	-136 761	-6 506	-19 803	4 243	28 927	0
31.12.2005	349 941	1 946 121	503 588	19 143	94 793	109 190	3 479	13 841	56 100	3 096 196
Accumulated depreciation										
31.12.2003	49 466	561 724	248 581	9 669	0	0	0	6 136	6 299	881 875
Depreciation	4 141	27 883	40 275	1 102	0	0	0	905	5 155	79 461
Depreciation of fixed assets sold and written-off (-)	-718	-2 857	-6 530	-414	0	0	0	0	0	-10 519
Reclassification	0	-3	3	0	0	0	0	0	0	0
31.12.2004	52 889	586 747	282 329	10 357	0	0	0	7 041	11 454	950 817
Depreciation	3 886	29 905	35 934	1 359	0	0	0	2 389	5 261	78 734
Depreciation of fixed assets sold and written-off (-)	-1 094	-3 334	-18 531	-182	0	0	0	0	-185	-23 326
31.12.2005	55 681	613 318	299 732	11 534	0	0	0	9 430	16 530	1 006 225
Net book value										
31.12.2003	254 336	1 301 961	223 606	5 236	62 797	93 176	8 565	2 239	19 122	1 971 038
31.12.2004	258 581	1 312 772	202 566	5 978	102 634	79 675	3 648	2 557	15 903	1 984 314
31.12.2005	294 260	1 332 803	203 856	7 609	94 793	109 190	3 479	4 411	39 570	2 089 971

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

Net balance sheet value of finance leases was 4 283 thousand kroons and 9 434 thousand kroons in 2005 and 2004 respectively.

Interest capitalised to fixed assets was 1 075 thousand kroons and 2 689 thousand kroons in 2005 and 2004 respectively.

Chairman of the Management Board:

(thousand EEK)

NOTE 9. SHORT-TERM AND LONG-TERM DEBT OBLIGATIONS

The Company's short-term and long-term debt obligations as of 31.12.2005 and the changes recorded during 2005 in the respective debts were as follows:

Bank loans	Loan date	Loan received	Residual amount 31.12.2004	Repayments during 2005	Drawdowns in 2005	Residual amount 31.12.2005	Short-term portion	Long-term portion	Interest rate %	Maturity date
EBRD	12.2002	1 251 731	1 142 157	-664 983	109 574	586 747	0	586 747		05.2015
incl. A loan		860 565	785 233	-273 817	75 332	586 747	0	586 747	4,67	
incl. B loan		391 166	356 924	-391 166	34 242	0	0	0	6 month Euribor + 1,5	
EBRD loan costs	12.2002	-17 404	-15 879	0	0	-7 985	0	-7 985		05.2015
Nordea Bank	11.2005	586 747	0	0	586 747	586 747	0	586 747	6 month Euribor + 0,24	05.2015
Nordea Bank loan costs	11.2005	-290	0	0	0	-290	0	-290		05.2015
Total bank loans		**1 820 784**	**1 126 278**	**-664 983**	**696 321**	**1 165 219**	**0**	**1 165 219**		
Finance lease		**15 905**	**3 462**	**1 707**	**0**	**1 755**	**1 340**	**415**	3,56-9,28	06.2007
Total debt obligations		**1 836 689**	**1 129 740**	**-663 276**	**696 321**	**1 166 974**	**1 340**	**1 165 634**		

In November 2005 the EBRD loan was restructured and amended- the whole amount of B loan and a proportion of the A loan were repaid, and the interest rate of the A loan was reduced from 5,69% to 4,67%.
All short-term debts are recorded on the Balance sheet line "Current portion of long term borrowings".
The long-term part of the finance lease and loans are respectively recorded on the Balance sheet lines "Finance lease" and "Bank loans".
The underwriting of the loans are indicated in Note 24.

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

The repayments, by due dates, are as follows:

	Less than 1 year	1-5 years	Over 5 years	Total	Repayment period from
EBRD	0	335 284	251 463	586 747	9 years
Nordea Bank	0	117 349	469 398	586 747	9 years
Finance lease	1 340	415	0	1 755	2 years
Total	**1 340**	**453 048**	**720 861**	**1 175 249**	

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Chairman of the Management Board:

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(thousand EEK)

NOTE 10. TRADE AND OTHER PAYABLES

Liabilities	Balance amount 31.12.2004	Balance amount 31.12.2005	Short-term portion 31.12.2005	Long-term portion 31.12.2005	Maturity date
Accounts payable - operating expenditures	15 025	15 984	15 984	0	until 31.12.2006
Accounts payable - capital expenditures	20 855	19 318	19 318	0	until 31.12.2006
Factoring	282	0	0	0	until 31.12.2006
Payables to parent company	1 523	2 423	2 423	0	until 31.12.2006
Payables to employees	12 865	11 597	11 597	0	until 31.12.2006
Interest payable	5 120	4 131	4 131	0	until 31.12.2006
Other accrued expenses	37	54	54	0	until 31.12.2006
Long-term guarantee deposit*	100	100	0	100	04.2102
Total trade and other payables	**55 807**	**53 607**	**53 507**	**100**	

* Long-term deposit is presented in aquisition value.

NOTE 11. TAXES PAYABLE

	31.12.2005	31.12.2004
Income tax	1 515	1 593
VAT	4 588	4 147
Water usage tax	2 333	2 289
Pollution taxes*	11 259	9 274
Social security tax	2 859	2 815
Other	170	416
Total	**22 724**	**20 534**

* Within pollution taxes is an accrual for 10.5 mln kroons. This accrual is recorded in order to cover the full value of the taxes that the Company has been exempted up to 31 December 2005. This relates to tax on Nitrogen waived by the Ministry of the Environment in return for the upgrade of the Waste Water Treatment Works undertaken by the Company. At this moment in time the Company is unable to predict with any degree of certainty the results of measurements to be taken at the end of the second quarter of 2006 that will determine if these taxes have to be re-paid, therefore a liability has been recorded.

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(thousand EEK)

NOTE 12. PROVISIONS

Provisions include expected losses from the following:

	2005	2004
Contractual obligations	0	912
Servitudes	289	0
Total provisions	**289**	**912**

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

NOTE 13. DEFERRED INCOME

	2005	2004
Operating revenues incl connection revenues	22 969	18 582
Prepayments for sale of fixed assets*	45 600	0
Total deferred income	**68 569**	**18 582**

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

NOTE 14. SHARE CAPITAL AND STATUTORY LEGAL RESERVE

At 31 December 2005 the nominal value of the share capital is 200 001 000 (two hundred million one thousand) kroons, composed of 20 000 000 shares with nominal value of 10 kroons per share and one preferred share with a nominal value of 1 000 kroons.

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

In 2004 United Utilities (Tallinn) B.V. owned 10 086 957 (50,4%) A- shares and the City of Tallinn owned 9 913 043 A-shares (49,6%) and 1 B- share. In May 2005 an initial public offering (hereinafter IPO) took place, with the existing shareholders selling down total 6 000 000 shares in direct proportion to their original shareholding. The shares of the Company were listed on the Tallinn Stock Exchange on 1 June 2005. As result United Utilities (Tallinn) B.V. owns 7 060 870 (35,3%) A- shares, the City of Tallinn owns 6 939 130 (34,7%) A- shares, with 6 000 000 shares in free float.

Nordea Bank Finland Plc customers owned 2 312 667 (11,6%) shares as of 31.12.2005. Other shareholders owned less than 5% of the shares as of 31.12.2005.

From Supervisory and Management Board members only Ian John Alexander Plenderleith and Roch Jean Guy Antoine Cheroux owned 110 and 262 shares respectively, both proportion in shareholding was approximately 0 as of 31.12.2005.

The shareholders reduced the statutory legal reserve from 93 394 thousand kroons to 20 000 thousand kroons on 3 February 2005. The share capital was reduced in 2002, but the statutory legal reserve, which has to be 10% of the share capital, was not revised at this time.

Chairman of the Management Board

FOR THE YEAR ENDED 31 DECEMBER 2005 (thousand EEK)

NOTE 15. NET SALES

	2005	2004
Revenues from main operating activities		
Water supply service	262 693	220 688
Waste water disposal service	232 852	204 494
Stormwater treatment and disposal service	46 574	44 731
Fire hydrants service	2 040	1 959
Other works and services	5 759	6 942
Total revenues from main operating activities	**549 918**	**478 814**
Revenues from other operating activites		
Water, sewerage and storm water connections construction income	42 111	69 715
TOTAL NET SALES	**592 029**	**548 529**

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

NOTE 16. PERSONNEL EXPENSES

	2005	2004
Salaries and wages	-52 949	-48 461
Social security taxation	-17 739	-16 235
Staff costs total	**-70 688**	**-64 696**
Average number of employees during the reporting period	**337**	**343**

(thousand EEK)

NOTE 17. COSTS AND EXPENSES

Cost of goods sold (main operating activities)		
Tax on special use of water	-9 049	-9 272
Chemicals	-13 477	-9 387
Electricity	-23 628	-26 151
Pollution tax	-6 905	-8 380
Staff costs	-45 692	-44 643
Research & development	-186	-85
Depreciation and amortization	-73 582	-74 873
Other costs of goods sold	-29 536	-24 464
Total cost of goods sold (main operating activities)	**-202 055**	**-197 255**
Cost of goods sold (other operating activities)		
Water, sewerage and storm water connections construction cost	-38 338	-64 410
Marketing Expenses		
Staff costs	-4 777	-4 240
Depreciation and amortization	-192	-113
Other marketing expenses	-1 809	-1 781
Total cost of marketing expenses	**-6 778**	**-6 134**
General Administration Expenses		
Staff costs	-14 151	-15 813
IPO bonus to employees	-6 068	0
IPO services	-11 445	0
Depreciation and amortization	-4 967	-4 520
Other general administration expenses	-27 626	-20 406
Total cost of general administration expenses	**-64 257**	**-40 739**

Other income/expenses include 8 490 thousand kroons of IPO costs in 2005, in years 2004 and 2005 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 Republic of Tajikistan.

In total, the costs for the period ended 31 December 2005 include IPO costs of 26 003 thousand kroons, being made up of 19 935 thousand kroons for services and 6 068 thousand kroons for staff bonus costs as referred to above.

Chairman of the Management Board:

FOR THE YEAR ENDED 31 DECEMBER 2005 (thousand EEK)

NOTE 18. FINANCIAL INCOME AND EXPENSES

	2005	2004
Interest income	4 966	2 780
Interest expense	-57 791	-54 757
Loans restructuring costs	-19 497	0
Other financial income / expenses (-)	-811	-3 504
Foreign exchange gain/loss (-)	295	-199
Total financial income / expenses	**-72 838**	**-55 680**

NOTE 19. DIVIDENDS

	2005	2004
Dividends declared during the period	112 000	75 000
Dividends paid during the period	112 000	75 000
Income tax on dividends declared	-35 368	-26 351
Income tax paid on dividends received	0	74
Income tax accounted	-35 368	-26 277

The income tax rates were 26/74 and 24/76 respectively in 2004 and 2005.

NOTE 20. EARNINGS AND DIVIDENDS PER SHARE

Earnings per share from continuing operations:	2005	2004
Earnings for the purposes of basic earnings per share (net profit for the period minus B-share preference rights)	174 344	172 951
Weighted average number of ordinary shares for the purposes of basic earnings per share	20 000 000	20 000 000
Earnings per share in kroons	8,72	8,65
Dividends per A-share in kroons	5,60	3,75
Dividends per B-share in kroons	10 000,00	10 000,00

Diluted earnings per share for the periods ended 31 December 2005 and 31 December 2004 are equal to the earnings per share figures stated above.

Chairman of the Management Board:

FOR THE YEAR ENDED 31 DECEMBER 2005 (thousand EEK)

NOTE 21. NOTES TO THE CASH FLOW STATEMENT

NOTE 21A. PIPELINES FINANCED BY CONNECTION FEES

	2005	2004
Revenue		
Connection fees from pipelines taken into use	42 111	69 715
Increase/decrease (-) in prepayments for pipelines	7 750	-19 088
Decrease in accounts receivable from pipelines	3 340	8 743
Offset with liabilities	-707	0
Connection fees received	**52 494**	**59 370**
Acquisition cost of pipelines taken into use	-38 338	-64 410

The connection fees from and the aquisition costs of pipelines taken into use are eliminated from "Cash flows of operating activies" as these are recorded within "Cash flows from investing activites". The net amounts eliminated were respectively -3773 thousand and -5305 thousand kroons in 2005 and in 2004.

NOTE 21B. CHANGE IN CURRENT ASSETS AND LIABILITIES

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

	2005	2004
Current assets		
Change in balance sheet	-122 154	-8 438
Adjustments:		
Change in money balance	106 067	16 847
Changes between fixed assets and current assets	-229	-423
Assets sold from assets for sale	0	-2 250
Change in deferred interests and long-term loans	-101	119
Offset of debts	-26	0
Change in construction income debt	-3 340	-8 743
Cash from/to long-term deposit	77 537	-46 090
Total change in current assets	**57 754**	**-48 978**
Liabilities		
Change in balance sheet	-39 048	20 040
Adjustments:		
Change in finance lease and loan costs	96 994	-67 163
Change in payables for capital investments	1 818	16 990
Prepayments for the sale of fixed assets	-45 600	0
Change in construction income prepayments	-7 750	19 088
Total change in liabilities	**6 414**	**-11 045**

Chairman of the Management Board:

FOR THE YEAR ENDED 31 DECEMBER 2005 (thousand EEK)

NOTE 21. NOTES TO THE CASH FLOW STATEMENT (continued)

NOTE 21C. PAYMENTS FOR FIXED ASSETS

	2005	2004
Acquisition of fixed assets	-223 145	-158 379
Adjustments:		
Decrease in accounts payable related to investments	-1 818	-16 990
Offsetting of payments for investments	733	0
Interest capitalization	1 075	2 690
Capitalization of operating expenses	23 280	38 974
Total payments for fixed assets	**-199 875**	**-133 705**

NOTE 22. COMMITMENTS

Leased assets

	2005	2004
Total operating lease expense for computers and vehicles	4 804	4 077

Minimum operating lease payments are as follows:

Less than 1 year	5 005
1-5 years	6 103
Total minimum lease payments	**11 108**

As of 31.12.2005 the Company had taken commitments for capital investments, i.e. concluded contracts and requested works with purchase orders to the value of 77 355 thousand kroons.

Chairman of the Management Board:

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NOTE 23. INCOME TAX ON DIVIDENDS

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

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 454 443 thousand kroons. Consequently, the maximum possible tax liability which would become payable if retained earnings were fully distributed is 135 743 thousand kroons.

NOTES 24. COLLATERAL OF LOANS AND PLEDGED ASSETS

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

a) Commercial Pledge Agreement in favour of EBRD to the value of 1 877 592 thousand kroons;

b) Separate Mortgage Agreements in favour of EBRD regarding the properties of Ülemiste water treatment plant and Paljassaare waste water treatment plant whereby both pledges are to the value of 293 374 thousand kroons;

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

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

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

Chairman of the Management Board

(thousand EEK)

NOTE 25. RELATED PARTIES

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

The transactions with related parties in 2004 and 2005 and respective balances as of 31.12.2004 and 31.12.2005 are recorded as follows:

	Tallinn City Government and related boards	**The companies belonging to the same group with the United Utilities (Tallinn) B.V.**
2004		
Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi		
Customer receivables	1 551	0
Accounts payable - short-term trade and other payables	0	1 523
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	99 216	40
General administration expenses	0	7 663
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	14 306
2005		
Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi		
Deferred income	71	0
Accounts payable - short-term trade and other payables, incl. dividends	0	2 423
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	77 465	0
General administration expenses	0	12 990
Other income (-)/ expenses	0	504
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	13 480

	2005	**2004**
Management Board fees excluding social tax	2 121	2 059
Supervisory Board fees excluding social tax	70	18

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.

NOTE 26. RECLASSIFICATION

Due to the reclassification of impairment loss the following reclassifications are recorded in the Income Statement of 2004:

Line of Income Statement	Opening balance	Reclassification	Closing balance
Costs of goods sold (main operating activities)	-195 486	-1 769	-197 255
Other income/ expenses (-)	13 158	1 769	14 927

The net sales and the gost of goods sold, both recorded in one line of the Income Statement of 2004, are both split between main operating and other operating activites as recorded in the Income Statement of the financial reports.

Chairman of the Management Board:

NOTE 27. FINANCIAL RISK MANAGEMENT

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

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

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company has no significant interest-bearing assets. The Company has two loans, from which the first is at a fixed interest rate, the second loan is split into two parts: the first part is calculated by reference to the Euribor 6 Months rate with an upper and lower cap to limit exposure, the rest of the balance, which is immaterial, is at market rates.

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

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

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

Chairman of the Management Board:

FOR THE YEAR ENDED 31 DECEMBER 2005 (thousand EEK)

NOTE 28. FINANCIAL INDICATORS

	2005	2004
Operating Margin (1)	47,7%	46,5%
Net profit margin (2)	29,5%	31,5%
Return on equity (3)	16,9%	18,2%
Return on assets (4)	7,6%	8,0%
Debt to equity ratio (5)	1,2	1,2
Current ratio (6)	1,9	0,9

Notes:

(1) Operating profit as a percentage of net sales

(2) Net profit as a percentage of net sales

(3) Net profit as a percentage of average total equity capital

(4) Net profit as a percentage of average total assets

(5) Total liabilities divided by total equity capital

(6) Total current assets divided by total current liabilities

Chairman of the Management Board:

AS TALLINNA VESI

PROFIT DISTRIBUTION PROPOSAL

The distributable equity capital of AS Tallinna Vesi as of 31 December 2005 is as follows:

Accumulated profit	280 089 thousand kroons
Net profit for the period	174 354 thousand kroons
Total	**454 443 thousand kroons**

The Management Board of AS Tallinna Vesi proposes to distribute 157 000 thousand kroons to shareholders as dividends from the available equity capital accumulated by end of the year 2005.

10 February 2006

R.J. Gall

Robert John Gallienne
Chairman of the Management Board

R.J. Gall

Chairman of the Management Board:

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of AS Tallinna Vesi:

We have audited the annual accounts of AS Tallinna Vesi ("the Company") for the year ended 31 December 2005. These annual accounts are the responsibility of the Company's Management Board. 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 plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the annual accounts. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the annual accounts present fairly, in all material respects, the financial position of the Company as of 31 December 2005, the results of its operations and its cash flows for the years then ended, in accordance with Estonian Accounting Law and International Financial Reporting Standards as adopted by the EU.

Deloitte

Sander Kallasmaa
Certified Auditor
10 February 2006

AS Deloitte Audit Eesti

AS TALLINNA VESI

CONFIRMATION OF THE MANAGEMENT AND SUPERVISORY BOARDS TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2005

The Management Board has prepared the management report and the annual accounts of AS Tallinna Vesi on 10 February 2006.

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

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

Name	Position	Signature	Date
Robert John Gallienne	Chairman of the Management Board		10/2/2006
Roch Jean Guy Antoine Chèroux	Member of the Management Board		10/2/2006
Ian John Alexander Plenderleith	Member of the Management Board	I.J.A. Plenderleith	10/2/2006
Michael James Southworth	Head of the Supervisory Board		6/4/06
Karl Olof Joakim Forsberg	Member of the Supervisory Board		22/03/2006
David John Kilgour	Member of the Supervisory Board		6/4/06.
Marion Elaine Price	Member of the Supervisory Board		14/3/06
Toivo Tootsen	Member of the Supervisory Board		14.03.06
Rein Ratas	Member of the Supervisory Board		14.03.06
Elmar Sepp	Member of the Supervisory Board		14.03.2006
Helo Meigas	Member of the Supervisory Board		14.03.06
Valdur Laid	Member of the Supervisory Board		14/3/06

Chairman of the Management Board: