

AS Spacecom

CONSOLIDATED ANNUAL REPORT 2007

(translation of the Estonian original)

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| Auditor: | AS PricewaterhouseCoopers |
| Beginning and end of financial year: | 01.01.2007-31.12.2007 |

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MANAGEMENT REPORT

AS Spacecom was registered in Estonia in 2003. AS Spacecom is a subsidiary of Transportation Investments Holding Limited (Cyprus). AS Spacecom has two subsidiaries – AS Skinest Veeremi (Estonia) and SIA Hoover (Latvia). Also AS Spacecom holds a 25.27% participation in the associate A/S Daugavpils Lokomotivju Remonta Rupnica (Latvia).

The core activities of the Group are renting the railway tanks, rendering transportation services using the infrastructure of Estonian Railways and rendering railway cargo-forwarding services. As of 31.12.2007, the Company and its subsidiaries had 3 286 railway tanks, which all were rented out. Railway tanks are rented out for a term of 1-3 years.

In 2007, Spacecom used the infrastructure of Estonian Railways in its operations. The total volume of products transported totalled 5.1 million tons. The main type of transported items were petrochemical products. The main client of the Group in respect of railway operations is AS E.O.S., one of the biggest oil terminals in Estonia. The main routes passed through the border stations in Pechori and Valga. The company owns 10 main and 3 shunting locomotives.

AS Spacecom finished rendering railway carriage services on the Estonian Railways infrastructure in the first quarter of 2008. The main reason for that was the unprofitableness of this business activity. The railway activity expenses in 2007 significantly exceeded the revenues from respective services. The table below represents the loss from the railway carriage services that the Company suffered in 2007. The table contains revenues and expenses from direct railway services as well as those from auxiliary services such as rent of locomotives and running of the locomotive depot. The table does not contain any revenues or expenses from rent of rail tank cars and rendering of forwarding services.

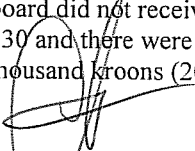
| | Thousand EEK |
|---|----------------|
| Total revenues from railway activity | 249 664 |
| Total direct expenses related to railway activity, incl. | 305 613 |
| Infrastructure usage fee | 135 503 |
| Rent of locomotives, equipping and repairs of locomotives | 79 917 |
| Purchase of main services related to use of the infrastructure | 45 743 |
| Salary expenses including taxes | 20 272 |
| Other expenses | 24 177 |
| Direct loss from railway activity | -55 948 |

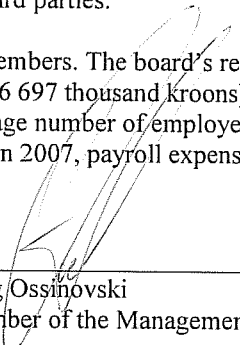
It is worth mentioning that the Company incurred other general expenses and overheads in the total amount of 44 021 thousand kroons in addition to the above expenses. The railway activity utilizes most of the staff resources as well as business processes, so it is reasonable to assume that the larger part of such expenses is also related to the railway activity. Thus the total loss is bigger. The management of the Company do not disclose within the scope of this report in more details the exact allocation of general and overhead costs to different business directions (railway activity, forwarding services, rent of rail tank cars).

The Company has a pending lawsuit with AS Eesti Raudtee (Estonian Railways). The main subject of the litigation is a dispute concerning calculation of a fair railway infrastructure usage fee.

In 2007, the Company continued renovation and development of its locomotive depot (for locomotive repair and maintenance purposes). The construction and upgrading works will continue in the year 2008. The plans have been set for active provision of locomotive repair services to the third parties.

The management board of the company consists of two members. The board's remuneration (incl. taxes) during the reporting year amounted to 6 546 thousand kroons (2006: 6 697 thousand kroons). The members of the supervisory board did not receive any remuneration in 2007. The average number of employees during the reporting period was 130 and there were 128 employees at the end of the year. In 2007, payroll expenses (incl. taxes) amounted to 42 744 thousand kroons (2006: 43 993 thousand kroons).


Siarhey Psiola
Member of the Management Board


Oleg Ossinovski
Member of the Management Board

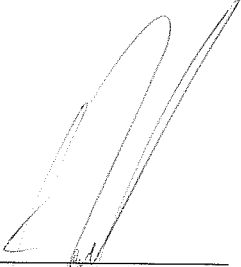
Tallinn, 11.07.2008

CONSOLIDATED FINANCIAL STATEMENTS**Management Board's confirmation of the consolidated financial statements**

The Management Board confirms the correctness and completeness of AS Spacecom 2007 financial statements as presented on pages 4-39.

The Management Board confirms that:

1. the accounting policies and presentation of information is in compliance with International Financial Reporting Standards (IFRS);
2. the financial statements present a true and fair view of the financial position, the results of the operations and the cash flows of the Group;
3. AS Spacecom and its group companies are going concerns.



Oleg Ossinovski
Member of the Management Board



Sjarhey Psiola
Member of the Management Board

Tallinn, 11.07.2008

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| PricewaterhouseCoopers, Tallinn |

CONSOLIDATED BALANCE SHEET

(In thousands of Estonian kroons and thousands of US dollars)*

| ASSETS | Notes | 31.12.2007 | | 31.12.2006 | |
|--|-------|------------------|----------------|------------------|----------------|
| | | EEK | USD | EEK | USD |
| Current assets | | | | | |
| Cash and bank | 4 | 20 264 | 1 905 | 1 876 | 158 |
| Trade receivables | 5 | 53 007 | 4 983 | 74 079 | 6 235 |
| Other receivables and prepayments | 6 | 41 723 | 3 922 | 111 884 | 9 416 |
| Total current assets | | 114 994 | 10 810 | 187 839 | 15 809 |
| Non-current assets | | | | | |
| Long-term financial investments | | | | | |
| Investments in associates | 8 | 4 243 | 399 | 11 770 | 991 |
| Long-term prepaid expenses | | 766 | 72 | 1 253 | 105 |
| Total long-term financial investments | | 5 009 | 471 | 13 023 | 1 096 |
| Property, plant and equipment | 9; 10 | 1 472 011 | 138 371 | 1 577 494 | 132 766 |
| Total property, plant and equipment | | 1 472 011 | 138 370 | 1 577 494 | 132 766 |
| Total non-current assets | | 1 477 020 | 138 841 | 1 590 517 | 133 862 |
| TOTAL ASSETS | | 1 592 014 | 149 651 | 1 778 356 | 149 671 |
| LIABILITIES AND EQUITY | | | | | |
| Current liabilities | | | | | |
| Borrowings | 11 | 225 023 | 21 152 | 359 848 | 30 286 |
| Trade payables and prepayments | 12 | 229 508 | 21 574 | 150 789 | 12 691 |
| Tax and other liabilities | 7,13 | 53 840 | 5 061 | 73 066 | 6 150 |
| Total current liabilities | | 508 371 | 47 787 | 583 703 | 49 126 |
| Non-current liabilities | | | | | |
| Borrowings | 11 | 551 635 | 51 854 | 780 739 | 65 709 |
| Other liabilities | 13 | 14 707 | 1 382 | 32 402 | 2 727 |
| Total non-current liabilities | | 566 342 | 53 237 | 813 141 | 68 436 |
| Total liabilities | | 1 074 713 | 101 024 | 1 396 844 | 117 562 |
| EQUITY | | | | | |
| Share capital at nominal value | 14 | 400 | 28 | 400 | 28 |
| Statutory legal reserve | | 40 | 3 | 40 | 3 |
| Retained earnings | | 516 861 | 42 063 | 381 072 | 30 191 |
| Currency translation differences | | 0 | 6 533 | 0 | 1 887 |
| Total equity | | 517 301 | 48 627 | 381 512 | 32 109 |
| TOTAL LIABILITIES AND EQUITY | | 1 592 014 | 149 651 | 1 778 356 | 149 671 |

* For readers' convenience, the primary financial statements are also presented in thousands of US dollars (USD).

The notes to the financial statements presented on pages 9-39 are an integral part of the Annual Report..

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CONSOLIDATED INCOME STATEMENT

(In thousands of Estonian kroons and thousands of US dollars)*

| | Notes | 01.01.07 - 31.12.07 | | 01.01.06 - 31.12.06 | |
|---|-------|---------------------|---------------|---------------------|---------------|
| | | EEK | USD | EEK | USD |
| Sales | | | | | |
| Sales | 15 | 603 843 | 52 793 | 727 230 | 58 342 |
| Other operating income | 16 | 26 736 | 2 337 | 23 711 | 1 902 |
| Total sales | | 630 579 | 55 130 | 750 941 | 60 244 |
| Operating expenses | | | | | |
| Operating expenses | 17 | 431 450 | 37 721 | 511 597 | 41 043 |
| Depreciation, amortisation and impairment | 9 | 64 077 | 5 602 | 63 468 | 5 092 |
| Total operating expenses | | 495 527 | 43 323 | 575 065 | 46 134 |
| Operating profit | | 135 052 | 11 807 | 175 876 | 14 110 |
| Profit/loss from associates | 8 | -7 527 | -658 | 1 036 | 83 |
| Financial income and expenses | 18 | 8 264 | 723 | 26 242 | 2 105 |
| Net profit for the financial year | | 135 789 | 11 872 | 203 154 | 16 298 |

* For readers' convenience, the primary financial statements are also presented in thousands of US dollars (USD).

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In thousands of Estonian kroons)

| | Share capital | Statutory legal reserve | Retained earnings | Total |
|-------------------------------------|---------------|-------------------------|-------------------|----------------|
| Balance as at 31.12.2005 | 400 | 40 | 177 918 | 178 358 |
| Net profit for the reporting period | 0 | 0 | 203 154 | 203 154 |
| Balance as at 31.12.2006 | 400 | 40 | 381 072 | 381 512 |
| Net profit for the reporting period | 0 | 0 | 135 789 | 135 789 |
| Balance as at 31.12.2007 | 400 | 40 | 516 861 | 517 301 |

(In thousands of US dollars)*

| | Share capital | Statutory legal reserve | Currency translation differences | Retained earnings | Total |
|-------------------------------------|---------------|-------------------------|----------------------------------|-------------------|---------------|
| Balance as at 31.12.2005 | 28 | 3 | -434 | 13 893 | 13 490 |
| Net profit for the reporting period | 0 | 0 | 0 | 16 298 | 16 298 |
| Currency translation differences | 0 | 0 | 2 321 | 0 | 2 321 |
| Balance as at 31.12.2006 | 28 | 3 | 1 887 | 30 191 | 32 109 |
| Net profit for the reporting period | 0 | 0 | 0 | 11 872 | 11 872 |
| Currency translation differences | 0 | 0 | 4 646 | 0 | 4 646 |
| Balance as at 31.12.2007 | 28 | 3 | 6 533 | 42 063 | 48 627 |

More detailed information on share capital and other equity items is set out in Note 14.

* For reader convenience, the primary financial statements are also presented in thousands of US dollars (USD).

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CONSOLIDATED CASH FLOW STATEMENT

(In thousands of Estonian kroons and in thousands of US dollars)*

| | Note | 01.01.07 - 31.12.07 | | 01.01.06 - 31.12.06 | |
|--|---------|---------------------|----------------|---------------------|----------------|
| | | EEK | USD | EEK | USD |
| Cash flows from operating activities | | | | | |
| Operating profit | | 135 052 | 11 807 | 175 876 | 14 110 |
| Adjustments: | | | | | |
| Depreciation, amortisation and impairment losses | 9 | 64 077 | 5 602 | 63 468 | 5 092 |
| Amortization of deferred income | 10 | -21 690 | -1 896 | -21 690 | -1 740 |
| Profit/loss from disposal of fixed assets | 16 | -3 742 | -327 | -415 | -33 |
| Interest received | | -1 298 | -113 | 0 | 0 |
| Changes in receivables and prepayments related to operating activities | 5;6;7 | 29 424 | 2 572 | 4 817 | 386 |
| Changes in liabilities and prepayments related to operating activities | 7;12;13 | 75 046 | 6 561 | 11 590 | 930 |
| Interest paid | 18 | -96 918 | -8 473 | -110 303 | -8 849 |
| Total cash generated from operating activities | | 179 950 | 15 733 | 123 343 | 9 895 |
| Cash flows from investing activities | | | | | |
| Purchase of property, plant and equipment | 9 | -44 575 | -3 897 | -24 464 | -1 963 |
| Proceeds from disposal of fixed assets | 9 | 90 206 | 7 886 | 824 | 66 |
| Disposal of associates | | 0 | 0 | 39 613 | 3 178 |
| Collection of deposit | | 66 240 | 5 791 | 0 | 0 |
| Loans granted | | -4 189 | -366 | -3 159 | -253 |
| Repayments of loans granted | | 93 | 8 | 0 | 0 |
| Interest received | | 931 | 81 | 654 | 52 |
| Total cash flows generated from investing activities | | 108 706 | 9 504 | 13 468 | 1 080 |
| Cash flows from financing activities | | | | | |
| Proceeds from borrowings | 11 | 93 497 | 8 174 | 79 508 | 6 378 |
| Repayments of borrowings | 11 | -170 999 | -14 950 | -92 831 | -7 447 |
| Proceeds from lease arrangements | 10 | 32 835 | 2 871 | 45 272 | 3 632 |
| Factoring debt repayments | 11 | 4 770 | 417 | 5 162 | 414 |
| Overdraft | 11 | 20 720 | 1 811 | 3 725 | 299 |
| Finance lease payments | 11 | -249 032 | -21 772 | -241 356 | -19 363 |
| Total cash used in financing activities | | -268 209 | -23 449 | -200 521 | -16 087 |
| Total cash flows | | 20 446 | 1 788 | -63 710 | -5 111 |
| Cash and cash equivalents at the beginning of the period | 4 | 1 876 | 158 | 67 188 | 5 082 |
| Net decrease/increase in cash and cash equivalents | | 20 446 | 1 788 | -63 710 | -5 111 |
| Currency translation differences | | -2 058 | -41 | -1 602 | 187 |
| Cash and cash equivalents at the end of the period | 4 | 20 264 | 1 905 | 1 876 | 158 |

* For readers' convenience, the primary financial statements are also presented in thousands of US dollars (USD).

The notes to the financial statements presented on pages 9-39 are an integral part of the Annual Report..

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NOTES TO THE FINANCIAL STATEMENTS

Note 1. General information and summary of significant accounting policies

General information

AS Spacecom is a company incorporated under the legislation of the Republic of Estonia, with the main areas of activities include the lease of railway rolling stock, provision of railway services on the infrastructure of Estonian Railways and railway forwarding services.

AS Spacecom is registered in the Commercial Register of the Republic of Estonia (Register no. 10940566; address Pärnu mnt 139E/1, 11317, Tallinn).

The 2007 consolidated financial statements comprise following group companies:

| | Domicile | Share | | Main activity | Owner |
|--------------------|----------|-------|------|----------------------------|-------------|
| | | 2007 | 2006 | | |
| AS Skinest Veeremi | Estonia | 100% | 100% | Leasing of rolling stock | AS Spacecom |
| SIA Hoover | Latvia | 100% | 100% | Sub-lease of rolling stock | AS Spacecom |

In addition, the parent company has a 25.27% participation in the associate A/S "Daugavpils Lokomotivju Remonta Rupnica" (Latvia).

The 2007 consolidated financial statements comprise of the financial data of AS Spacecom (the parent company) and its subsidiaries (hereinafter the Group) and the Group's participation in associates.

The financial year started on 1 January 2007 and ended on 31 December 2007.

All information in the financial statements is presented in thousands of Estonian kroons and thousands of US dollars, unless otherwise stated.

The consolidated annual report has been approved of by the Group's management board on 11th July 2008. According to the Commercial Code of the Republic of Estonia, the annual report shall be approved by the supervisory board and the shareholders' meeting of the parent company.

Summary of key accounting policies

The key accounting policies used in the preparation of the Group's consolidated financial statements are presented below. The accounting policies have been consistently applied to all the years presented. Group entities use uniform accounting policies.

Bases of preparation

The consolidated financial statements of the Group for 2007 have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements have been prepared under the historical cost convention as presented in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies and management makes estimates and assumptions regarding the future. Accounting estimates may not often coincide with subsequent actual events related to them. Estimates and judgments are continually evaluated and they are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgement or complexity, or the areas where assumptions and estimates are significant to the consolidated financial statements are presented in Note 3 to these financial statements.

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Changes in accounting policies and presentation

From 1 January 2007, several amendments to the text of current standards and new IFRS standards became effective which became mandatory for the Group from the financial year beginning on 1 January 2007.

a) Below is the list of new and amended standards and interpretations which became effective for the accounting periods beginning on 1 January 2007, which have an effect on the financial statements of the Group and which the Group has applied from this period, also harmonising the comparative information:

IAS 1 (amendment) – Presentation of Financial Statements: Capital Disclosures

IFRS 7 – Financial Instruments: Disclosures

These standards IAS 1 (amendment) and IFRS 7 require the Group to disclose additional information regarding measurement and management of risks related to financial instruments as well as the structure and management of equity.

b) The following standards, revisions and interpretations are mandatory for the accounting periods beginning on 1 January 2007 but are not relevant to the Group's accounting policies:

IFRIC 7 – Applying the Restatement Approach under IAS 29 (effective from 1 March 2006)

IFRIC 8 – Scope of IFRS 2 (effective from 1 May 2006)

IFRIC 9 – Reassessment of Embedded Derivatives (effective from 1 June 2006)

IFRIC 10 – Interim Financial Reporting and Impairment (effective from November 2006)

Interpretations IFRIC 7, IFRIC 8, IFRIC 9 and IFRIC 10 are not relevant to the Group's operations and do not have an effect on the Group's accounting policies.

c) By the time of preparing these financial statements, new International Financial Reporting Standards and amendments to existing standards and interpretations have been published which become mandatory for the Group for annual periods beginning on or after 1 May 2008. An overview of these standards and the Group's management's estimate on the effect of these standards and interpretations is presented below.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment.

Amendments to IAS 23 “Borrowing costs” (effective for annual periods beginning on or after 1 January 2009). The main amendment consisted of eliminating the option of recognising all borrowing costs immediately as an expense directly attributable to assets that take a substantial period of time for their intended use or sale. Entities shall capitalise these borrowing costs as part of the cost of the asset. The amended standard is effective prospectively to the borrowing costs related to respective assets that need to be capitalised from 1 January 2009. The Group's management estimates that the amendment to the standard will not have a major impact on the Group's consolidated financial statements.

Amendments to IAS 1 “Presentation of Financial Statements” (effective for annual periods beginning on or after 1 January 2009). The main amendment to IAS 1 relates to the replacement of the income statement with the statement of comprehensive income which also includes non-owner changes in equity, such as changes in the revaluation surplus of available-for-sale financial assets. Two statements are allowed to be presented as an alternative: a separate income statement and statement of comprehensive income. The amended IAS also requires the disclosure of the financial position (balance sheet) for the opening balances of the

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comparable period when comparative information has been adjusted due to reclassifications, changes in accounting policies or correction of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

Vesting conditions and cancellations - IFRS 2 "Share-based Payment" (effective for annual periods beginning on or after 1 July 2008). The amendment explains that the transfer of ownership may be conditional upon satisfying vesting conditions and performance conditions. Other conditions of share-based payments are not vesting conditions. The amendment explains that all cancellations whether by the Group or other parties shall be accounted for similarly. The amendment to the standard is not relevant to the Group's operations and management estimates that it does not have a major impact on the Group's consolidated financial statements.

Amendments to IFRS 3 "Business Combinations" (effective for business combinations the acquisition date of which is in the first financial year beginning on or after 1 July 2009). The amendments to IFRS 3 include: the choice to disclose minority interests either at fair value or their share in the fair value of the net assets identified; a restatement of shares already held in an acquired entity to fair value, with the resulting differences to be recognised in the income statement; and additional guidance on the application of the purchase method, including the recognition of transaction costs as an expense in the period in which they were incurred; measurement of goodwill in acquiring additional shares and rules of recognition when the fair value of the consideration contingent upon additional conditions changes due to a change in the estimate after the business combination. The amendment to the standard is not relevant to the Group's operations and management estimates that it does not have a major impact on the Group's consolidated financial statements.

Amendments to IAS 27 "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009). The standard requires that the effects of transactions with minority shareholders be recognised directly in equity, on the condition that control over the entity is retained by the parent company. In addition, the standard elaborates on the accounting treatment of the loss of control over a subsidiary, i.e. it requires that the remaining shares be revalued to fair value, with the resulting differences recognised in the income statement. The amendment to the standard is not relevant to the Group's operations and management estimates that it does not have a major impact on the Group's consolidated financial statements.

IFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009). IFRS 8 supersedes IAS 14 "Segment Reporting". The standard specifies new requirements in respect of the disclosure of information on business segments, as well as information on products and services, geographical areas where the business is conducted and major customers. IFRS 8 requires a "managerial approach" to reporting the performance of business segments. The amendment to the standard is not relevant to the Group's operations and management estimates that it does not have a major impact on the Group's consolidated financial statements.

IAS 32 and amendment to IAS 1 – Puttable Instruments and Obligations Arising on Liquidation (effective for annual periods beginning on or after 1 January 2009). The amendment requires the classification of some financial instruments which meet the definition of financial liabilities as equity instruments. The amendment to the standard is not relevant to the Group's operations and management estimates that it does not have a major impact on the Group's consolidated financial statements.

IFRIC 11 "Group and Treasury Share Transactions" (effective for annual periods beginning on or after 1 March 2007). This interpretation contains guidelines on the following issues: applying IFRS 2 "Share-based Payment" for transactions of payment with shares which are entered into by two or more related entities and adopting an accounting approach in the following instances: an entity grants its employees rights to its equity instruments that may or must be repurchased from a third party in order to settle obligations towards the employees; or an entity or its owner grants the entity's employees rights to the entity's equity instruments, and the provider of those instruments is the owner of the entity. The amendment to the standard is not relevant to the Group's operations and management estimates that it does not have a major impact on the Group's consolidated financial statements.

IFRIC 12 "Service Concession Arrangements" (effective for annual periods beginning on or after 1 January). The interpretation contains guidelines on applying the existing standards by entities being parties to service concessions between the public and the private sector. IFRIC 12 pertains to arrangements where the ordering party controls what services are provided by the operator using the infrastructure, to whom it provides the services and at what price. The Group currently assessing the impact of the amended standard to its consolidated financial statements.

IFRIC 13 "Customer Loyalty Programmes" (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 includes guidance on the accounting treatment of transactions resulting from loyalty programmes implemented by an entity for its customers, such as loyalty cards or awarding of 'points'. In particular, IFRIC 13 indicates the correct accounting for the entity's obligation to provide free or discounted goods or services if and when the customers redeem the points. The amendment to the standard is not relevant to the Group's operations and management estimates that it does not have a major impact on the Group's consolidated financial statements.

IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective for annual periods beginning on or after 1 January). The interpretation contains general guidance on how to assess the limit of the surplus of fair value of a defined benefit plan over the present value of its liabilities which can be recognised as an asset, in accordance with IAS 19. In addition, IFRIC 14 explains how the statutory or contractual requirements of the minimum funding may

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affect the values of assets and liabilities of a defined benefit plan. The amendment to the standard is not relevant to the Group's operations and management estimates that it does not have a major impact on the Group's consolidated financial statements.

Investments in subsidiaries

Subsidiaries are entities controlled by the parent company. Control is presumed to exist when the parent company owns, directly or indirectly through subsidiaries, more than a half of the voting rights of the subsidiary (unless control accompanies ownership) or the Group has the power to control the operational and financial policy of the subsidiary. When the Group acquired or transferred control over the subsidiary during the period, the respective subsidiary is consolidated from the date of its acquisition until the date of its disposal.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed on the date of exchange, plus costs directly attributable to the acquisition. Under the purchase method, all separately identifiable assets and liabilities of the acquired subsidiary are reported at their fair values as of the date of acquisition irrespective of the extent of any minority interest, and the cost exceeding the fair value of the net assets of the acquisition is reported as goodwill. If the cost is less than the fair value of the net assets of the acquired subsidiary, the difference is immediately recognised as revenue in the income statement.

Goodwill is the excess of the cost of the holding acquired in a business combination over the fair value of the net assets acquired, reflecting that portion of cost which was paid for such assets of the entity which cannot be separated and recognised separately. Goodwill which arose in the acquisition of subsidiaries is reported as an intangible asset in a separate balance sheet line. Goodwill which arose in a business combination is not subject to amortisation, but it is tested once a year for impairment whereby the carrying amount of the asset is compared with its recoverable amount. For the purpose of an impairment test, goodwill is allocated to the cash-generating units and the present value of the expected future cash flows of the cash-generating unit is calculated to determine the recoverable amount. Goodwill is written down in the amount by which its recoverable amount is less than the carrying amount. Impairment losses of goodwill are not reversed.

The financial information of all subsidiaries under the control of the parent company is combined on a line-by-line basis in the consolidated financial statements. Intercompany transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated unless the cost cannot be recovered. Net profit and equity attributable to minority interest is included within equity in the consolidated balance sheet separately from equity attributable to majority shareholders and in a separate line in the income statement.

Investments in associates

An associate is an entity over which the Group has significant influence, but which it does not control. Generally significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of the investee.

Investments in associates are accounted for under the equity method of accounting in the Group's financial statements. Under the equity method, the Group's investments are adjusted to recognise the Group's share of profit (loss) of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset.

Separate financial statements of the parent company

The separate primary financial statements of the consolidating entity (parent company) are disclosed in the notes to the consolidated financial statements. The accounting policies applied for the preparation of the separate financial statements of the parent company are the same as those which have been used for the preparation of the current consolidated financial statements.

In the separate financial statements of the parent company, investments in subsidiaries and associates are recognised at cost (less any impairment losses) (see Note 24).

Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements have been prepared in Estonian kroons (EEK), which is the functional and presentation currency of the parent company.

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For the convenience of users, the primary financial statements have also been translated from Estonian kroons to US dollars (USD). Translation to USD is carried out according to IAS 21 (revised 2003) "The Effects of Changes in Foreign Exchange Rates"

- Assets and liabilities (incl. comparative information) for each balance sheet presented are translated to USD based on the foreign currency exchange rates of the Bank of Estonia at the date of that balance sheet.
- Income and expenses (incl. comparative information) are translated at the average exchange rates of the reporting period.
- Equity items (incl. comparative information but excluding the net profit or loss for the period) are translated based on the foreign currency exchange rates of the Bank of Estonia at the date of each reporting period presented.
- All exchange differences resulting from translation are recognized directly in equity in the line "Currency translation differences"

The financial statements are presented in thousands of Estonian kroons, rounded to the nearest thousand.

Transactions in foreign currencies

Foreign currency transactions are recorded based on the exchange rates of the Bank of Estonia officially valid on the transaction date. On the balance sheet date, monetary assets and liabilities denominated in foreign currencies have been translated into Estonian kroons based on the exchange rates of the Bank of Estonia officially valid on the balance sheet date. Gains and losses resulting from the settlement of such transactions are recorded as income or expenses in the income statement.

Cash and cash equivalents

In the cash flow statement, cash and cash equivalents include cash, bank account balances (except for overdraft), and term deposits with original maturities of three months or less. Cash with a limited use has been eliminated from cash and cash equivalents. Overdraft is included within short-term borrowings in the balance sheet. Cash and cash equivalents are reported at fair value.

Factoring

Factoring is the sale of receivables. Depending on the type of the factoring contract the buyer has the right to resell the transferred receivable within time agreed (factoring with recourse) or there is no right for resale and all the risks and benefits associated with the receivable are transferred from the seller to the buyer (factoring without recourse).

Factoring with recourse is recorded as financing transaction (that is as a borrowing with collateral). The amount is recognized in the balance sheet as a receivable until collection or until expiration of the recourse. The related liability is recorded similarly to other borrowings. Expenses related to factoring transactions are recorded either as financial expense or as operating expense depending on whether the factoring transaction was undertaken for the purposes of cash flow management or credit risk mitigation.

Financial assets

Depending on the purpose for which the financial assets were acquired and management's intentions, financial assets are classified at initial recognition in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments; and
- available-for-sale financial assets.

As of 31 December 2007 (and as of 31 December 2006), the Group had only the financial assets classified as loans and receivables.

Purchases and sales of investments are recognised on the trade date on which the Group assumes the obligation to purchase or sell the asset. Financial assets are derecognised when the rights to the cash flows derived from investments expire and all risks and rewards incidental to ownership are transferred to the buyer.

Management makes a decision regarding classification on each balance sheet date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are initially recognised at fair value plus transaction costs. After initial recognition, loans and receivables are carried at amortised cost using the effective interest rate method. This method is used in subsequent periods to calculate interest income on receivables.

Receivables are generally included within current assets when their due date is within 12 months after the balance sheet date. Receivables the due date of which is later than 12 months after the balance sheet date are classified as non-current assets.

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Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less a provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 3 months overdue) are considered as indicators that the trade receivable is impaired. The estimated collectibility of trade receivables is assessed individually, if individual assessment is applicable. The amount of the provision is the difference between the asset's carrying amount and the recoverable amount which is the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within other operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating expenses in the income statement.

Non-current trade receivables are reported at the present value of probable collection. The difference between the nominal value and the present value of collectible receivables is recognised as interest income during the time remaining until the collection of the receivables.

Impairment of assets

Intangible assets with indefinite useful lives (goodwill) are not subject to amortisation but they are tested once a year for impairment by comparing their carrying amount with the recoverable amount.

Depreciable assets and assets with indefinite useful lives (land) are evaluated for any evidence of impairment. Whenever such evidence exists, the recoverable amount of the assets is assessed and compared with the carrying amount.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for a possible reversal of impairment on each balance sheet date. The reversal of impairment is recognised as a reduction of impairment cost of non-current assets. Impairment losses of goodwill are not reversed.

Property, plant and equipment

Property, plant and equipment are assets that are used in the operations of the Company with a useful life of over 1 year.

Property, plant and equipment is initially recorded at cost, being the purchase price (incl. customs tax and other non-refundable taxes), and other expenses directly associated with the acquisition of those assets, which are necessary for bringing the assets to its operating condition and location. Property, plant and equipment are stated at historical cost less any accumulated depreciation and any impairment losses.

Subsequent expenditure relating to an item of property, plant and equipment is added to the carrying amount of the asset when it is probable that future economic benefits will flow to the entity. Other maintenance and repair costs are expensed when incurred.

For assets with significant residual value, only the excess of the residual value over cost is depreciated over the useful life of the asset. When the residual value exceeds its carrying amount, the depreciation is ceased.

Depreciation is calculated on the straight-line method to write off the cost of each asset to their residual value over their estimated useful lives as follow:

- | | | |
|---|---------------------------------|-------------|
| • | Railway tanks | 15-25 years |
| • | Other property and IT equipment | 3-7 years |
| • | Buildings and constructions | 30 years |

Land is not depreciated.

If an item of property, plant and equipment consists of different components with different useful lives, these components are accounted for as separate assets and depreciated in accordance with their useful lives.

The expected useful lives of non-current assets are reviewed on each balance sheet date, when recognising subsequent expenditure and in case of significant changes in the Group's development plans. When the estimate of the useful life of the asset differs significantly from the previous estimate, the remaining useful life of the asset is revalued. As a result, the depreciation charge calculated for the asset changes in subsequent periods.

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On each balance sheet date, management estimates whether there is any known indication of the impairment of asset. If there is such indication of impairment, management determines the recoverable amount (i.e. higher of assets net sales price and its value in use). If the asset's recoverable amount is less than its carrying amount, the items of property, plant and equipment are written down to their recoverable amount. When the circumstances of assessing the recoverable amount of the asset have changed, the previous impairment loss is reversed.

Gains and losses from the sale of items of property, plant and equipment which are derived by subtracting the residual value from consideration received from the sale are reported in the line items "Other operating income" or "Other operating expenses" in the income statement.

Borrowing costs (e.g. interest) related to the construction or acquisition of items of property, plant and equipment are expensed when incurred.

Accounting for leases

A lease is classified as a finance lease, when all substantial risks and returns related to the ownership of the asset are transferred to the lessee. Other lease agreements are classified as operating leases.

The Group is the lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges (interest) so as to achieve a constant rate on the finance balance outstanding. The assets leased under finance leases are depreciated similarly to acquired non-current assets, whereby the depreciation period is the shorter of the useful life of the asset and the lease term.

Payments made under operating leases are charged to the income statement on a straight-line basis over the lease period.

The Group is the lessor

When assets are leased out under a finance lease, the amount equal to the net investment in the lease is recognised as a receivable (the aggregate of: the present value of the lease payments receivable by the lessor under a finance lease, and no guaranteed residual value accruing to the lessor). Each lease payment received is allocated between the receivable and finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income is recognised on a straight-line basis over the lease term.

Sale-leaseback transactions

Recognition of a sale and leaseback transaction depends on whether the leaseback results in an operating or a finance lease and in the case of the former, whether the transaction occurs at a market price or not.

If a sale and leaseback transaction results in a finance lease, the transaction is recorded as a financing transaction. The asset "sold" is not derecognised from the balance sheet of the seller and the "sales proceeds" are recognised as finance lease liability. The difference between the sales price and the present value of minimum lease payments is recognised over the term of the lease as an interest expense similarly to regular finance lease agreements.

If the sale leaseback transaction results in an operating lease, the transaction is recorded as a sales transaction and any profit/loss is recorded immediately, except if:

- the sales price is below the fair value and if the loss is compensated for by future interest rate at below the market rate;
- the sales price is above fair value

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, the transaction is regarded as a regular sales transaction and any profit or loss is recognised immediately.

If the sale price is below the fair value, any profit or loss is recognised immediately except that, if the loss is compensated for by future lease payments at below market price. In such a case, the difference between the sales price and fair value is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used.

If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value shall be recognised immediately.

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Financial liabilities

All financial liabilities (supplier payables, borrowings, accrued expenses and other short and long-term borrowings) are initially recorded at their fair value and are subsequently stated at amortised cost, using the effective interest rate method. The amortised cost of current financial liabilities normally equals their nominal value; therefore current financial liabilities are stated in the balance sheet in their redemption value. To calculate the amortised cost of non-current financial liabilities, they are initially recognised at fair value of the proceeds received (net of transaction costs incurred) and an interest cost is calculated on the liability in subsequent periods using the effective interest rate method.

Financial liabilities are classified as current when they are due to be settled within twelve months after the balance sheet date; or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Borrowings that are due within 12 months after the balance sheet date, but which are refinanced after the balance sheet date as non-current, are presented as current. Also, borrowings are classified as current if the lender had on the balance sheet date the contractual right to demand immediate repayment of the borrowing due to the breach of conditions set forth in the agreement.

Employee benefitsShort-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) which fall due within twelve months after the end of the period in which the employees render the related services. Short-term employee benefits include items such as wages, salaries and social security contributions; benefits related to temporary suspension of the employment contract (such as paid annual leave).

Termination benefits

Termination benefits are employee benefits payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits. The Group recognises termination benefits as a liability and an expense when, and only when, the Group is demonstrably committed to either terminating the employment of an employee or a group of employees before the normal retirement date; or providing termination benefits as a result of an offer made in order to encourage voluntary redundancy.

Provisions and contingent liabilities

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of past events and it is probable that the meeting of this obligation leads to lower resources embodying economic benefits and the amount of the liability can be measured reliably. The provisions are recognised based on management's estimates regarding the amount and timing of the expected outflows. The amount recognised as a provision is the management's best estimate of the expenditure required to settle the present obligation on the balance sheet date or to transfer it to a third party at that time.

Provisions are only used to cover those expenses which they had been set up for.

Other possible or present obligations that arise from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability, are disclosed in the notes to the financial statements as contingent liabilities.

TaxationCorporate income tax

According to the Income Tax Act of the Republic of Estonia, the net profit earned by entities is not taxed and thus no deferred tax assets and liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to income tax of 21/79 of net dividend paid (until 31 December 2006, the tax rate was 22/78 and until 31 December 2005, the tax rate was 23/77) from which the income tax paid before 1 January 2000 can be deducted using the respective coefficient. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid for.

In accordance with the Income Tax Act of Latvia, the net profits of companies located in Latvia, adjusted for the permanent and temporary differences as stipulated by law, are subject to corporate income tax (the income tax rate is 15% in Latvia). Deferred income tax is calculated on all significant temporary differences between the tax bases of assets and liabilities and their carrying values in the balance sheet. The main temporary differences arise from the depreciation and the tax loss carry-forward. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Other taxes

The Group's costs are impacted by the following taxes:

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| Tax | Tax rate |
|---|--|
| Social tax | 33% of the payroll and the fringe benefits paid to the employees |
| Unemployment insurance premium | 0.3% of the payroll paid to the employees |
| Fringe benefit income tax | 22/78 in 2007 on the fringe benefits to the employees (from 01.01.08 21/79) |
| Income tax on expenses not related to business activities | 22/78 in 2007 on expenses not related to business activities (from 01.01.08 21/79) |

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, taking into account all discounts and rebates. Revenue excludes value added tax, refunds, discounts and intragroup sales transactions.

Revenue is recognised when all significant risks and rewards of ownership have been transferred to the buyer and the transaction cost can be determined reliably. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group's estimates are based on historical experience considering the type of each client and transaction, as well as special terms and conditions.

Revenue from rendering of services is recognised after the rendering of the service or if a service is performed over a longer period of time, based on the stage of completion.

Interest income, royalties and income from dividends are recognised when it is highly probable that benefits will flow to the Group and the amount of income can be measured reliably. Interest income is recognised using the effective interest method. Dividend income is recognised when the right to receive payment is established.

Statutory legal reserve

Statutory legal reserve is formed to comply with the requirements of the Commercial Code. During each financial year, at least one-twentieth of the net profit shall be transferred to the statutory legal reserve, until the reserve reaches one-tenth of share capital. Statutory legal reserve may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from statutory legal reserve.

Note 2. Management of financial risks

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (includes foreign exchange risk, interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on unforeseen changes in the financial markets and attempts to alleviate potential unfavourable effects on the Group's financial activities. The goal of the management of financial risks is the hedging of financial risks and lowering the volatility of financial performance.

Liquidity risk

For the Group, liquidity risk is its inability to settle the liabilities it has assumed in time. For managing liquidity risk, the Group has assumed loans from commercial banks and owners. In its daily activities, management attempts to maintain adequate liquid assets to meet its financial obligations, continuously monitoring cash flow forecasts for the following three months. In addition, the Group has entered into a contract for the use of overdraft with a reputable commercial bank in order to ensure reasonable amounts of cash for extraordinary expenditures. The contract has been concluded using the prevailing market interest rates and it is available for use immediately.

The following table shows the liquidity analysis of the Group's financial liabilities according to the terms of the contracts.

| | Up to 3 months | Between 4 months and 1 year | Between 1 and 5 years | Over 5 years | Total undiscounted cash flows | Carrying amount |
|--|----------------|-----------------------------|-----------------------|--------------|-------------------------------|-----------------|
| As at 31.12.2007 | | | | | | |
| Repayments of long-term bank loans (see Note 11) | 54 689 | 142 390 | 330 597 | 7 184 | 534 860 | 477 291 |
| Repayments of short-term bank loans (see Note 11) | 0 | 36 487 | 0 | 0 | 36 487 | 34 377 |
| Repayments of other loans | 0 | 0 | 328 588 | 0 | 328 588 | 264 990 |
| Supplier payables | 161 146 | 0 | 0 | 0 | 161 146 | 161 146 |
| Other payables | 7 269 | 28 876 | 0 | 0 | 36 145 | 36 145 |
| Total cash flows related to financial obligations | 223 104 | 207 753 | 659 185 | 7 184 | 1 097 226 | 973 949 |

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| | Up to 3 months | Between 4 months and 1 year | Between 1 and 5 years | Over 5 years | Total undiscounted cash flows | Carrying amount |
|--|----------------|-----------------------------|-----------------------|---------------|-------------------------------|------------------|
| As at 31.12.2006 | | | | | | |
| Repayments of long-term bank loans | 72 289 | 212 409 | 559 735 | 14 442 | 858 875 | 757 559 |
| Repayments of short-term bank loans | 0 | 9 400 | 0 | 0 | 9 400 | 8 887 |
| Repayments of other loans | 0 | 0 | 463 935 | 0 | 463 935 | 374 141 |
| Supplier payables | 148 222 | 0 | 0 | 0 | 148 222 | 148 222 |
| Other payables | 11 401 | 39 975 | 0 | 0 | 51 376 | 51 376 |
| Total cash flows related to financial obligations | 231 912 | 261 784 | 1 023 670 | 14 442 | 1 531 808 | 1 340 185 |

The cash flows presented in the table have not been discounted and therefore, these amounts do not correspond to the amounts disclosed in Note 11 *Borrowings and finance lease liabilities*. As the bank loans and loans from the owners are denominated in US dollars, the exchange rate of USD 1 =EEK 10.6382 (31.12.2006: USD 1=EEK 10.8818) prevailing on 31.12.2007 has been used.

Undiscounted cash flows have been determined according to the current payment schedules valid as of the end of the period. For bank loans with floating interest rates, the LIBOR rate prevailing on the balance sheet date has been used. See also Note 23 *Group's liquidity*.

| | 31.12.2007 | 31.12.2006 |
|--|------------|------------|
| Interest rates used in analysis | | |
| Bank loans | 5.25%-8% | 5.25%-8% |
| Loans from owners | 12% | 0-12% |
| Supplier payables and other payables | 0% | 0% |

Credit risk

Credit risk is the risk that the Group's clients and counterparties fail to fulfil their obligations. The following financial instruments are exposed to credit risk: cash in bank, trade receivables and granted loans. Cash is deposited in commercial banks with a high credit rating, bank ratings are presented in Note 4. The Group's sales transactions are concluded with four major business partners that the Group has long-term collaboration experience with and whose solvency has been tested, and management has not deemed it necessary to assign credit limits to them. One to two-week payment terms are valid for the buyers, providing fast feedback to the Group in case of payment difficulties (Note 5).

Market risks

The Group is exposed to foreign exchange risk and interest rate risk. The Group is not exposed to price risk, because it does not hold any securities traded in the open market.

Foreign exchange risk

The Group's functional currency is the Estonian kroon (EEK). A major share of loans is denominated in US dollars (USD). The Group's financial instruments affected by the market risk include cash (overnight deposits both in EEK as well as USD), trade receivables (invoices issued in USD), loans (all in USD) and an intragroup loan from the subsidiary to the parent company (in USD).

An overview of the financial assets and financial liabilities denominated in foreign currencies is presented below. The tables present the amounts in thousands of Estonian kroons by underlying currencies of the respective monetary assets and liabilities.

| 31.12.2007 | USD | EEK | Other currencies | Total |
|-------------------------------|---------|---------|------------------|---------|
| Cash | 1 108 | 18 414 | 742 | 20 264 |
| Current receivables | 56 254 | 36 764 | 1 712 | 94 730 |
| Non-current receivables | 0 | 766 | 0 | 766 |
| Current borrowings | 735 121 | 39 415 | 2 122 | 776 658 |
| Other current liabilities | 32 049 | 248 470 | 2 829 | 283 348 |
| Other non-current liabilities | 0 | 14 707 | 0 | 14 707 |

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| 31.12.2006 | USD | EEK | Other currencies | Total |
|-------------------------------|-----------|---------|------------------|-----------|
| Cash | 649 | 832 | 394 | 1 876 |
| Current receivables | 50 492 | 126 514 | 8 957 | 185 963 |
| Non-current receivables | 0 | 1 253 | 0 | 1 253 |
| Current borrowings | 1 123 326 | 15 139 | 2 122 | 1 140 587 |
| Other current liabilities | 43 965 | 173 432 | 6 457 | 223 855 |
| Other non-current liabilities | 0 | 32 402 | 0 | 32 402 |

Interest rate risk

The Group's cash flow interest rate risk is primarily related to long-term borrowings (bank loans) with floating interest rates. Interest rate risk is primarily related to potential fluctuations of LIBOR and the changing of the average interest rates of banks.

The Group's long-term borrowings (bank loans) as of 31 December 2007 and 31 December 2006 had floating interest rates based on the 6-month LIBOR (see also Note 11). The effect of interest rate risk on the Group's results of operations is reviewed on a regular basis. During the analysis, different options are considered to hedge the risks. These options include refinancing, renewal of current positions and alternative financing.

Financial instruments have not been used in the current and previous financial years to hedge interest rate risk.

Based on the movements and volatility in previous periods of the variables presented below as well as management knowledge and experience of the financial markets, the Group considers the following changes reasonable over the following 12 months.

- Proportionate movement in the USD exchange rate – 10% appreciation of USD (depreciation of EEK) and 10% depreciation of USD (appreciation of EEK); USD 1 = EEK 10.6382 on 31.12.2007 (USD 1 = EEK 11.8818 on 31.12.2006).
- Parallel change +100 basis points/-100 basis points in the interest rates of the USD credit market as compared to the year-end rate.

The following table presents the effects of foreign exchange and interest rate risks on the Group's operations.

| 31.12.2007 | Foreign exchange risk | | Interest rate risk | |
|--|---|---|--|--|
| | USD appreciates 10% | USD depreciates 10% | Interest rate increases 100 basis points | Interest rate decreases 100 basis points |
| Carrying amount thousand EEK | Effect on income statement thousand EEK | Effect on income statement thousand EEK | Effect on income statement thousand EEK | Effect on income statement thousand EEK |
| Financial assets | | | | |
| Cash and bank | 20 264 | 111 | -111 | 0 |
| Trade receivables | 53 007 | 5 035 | -5 035 | 0 |
| Other receivables | 41 723 | 590 | -590 | 0 |
| Total effect on financial assets | | 5 736 | -5 736 | 0 |
| Financial liabilities | | | | |
| Borrowings | 776 658 | -73 512 | 73 512 | -3 778 |
| Supplier payables | 161 146 | -344 | 344 | 0 |
| Other payables | 36 145 | -2 861 | 2 861 | 0 |
| Total effect on financial liabilities | | -76 717 | 76 717 | -3 778 |
| Total effect on income statement | | -70 981 | 70 981 | -3 778 |

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| | 31.12.2006 | Foreign exchange risk | | Interest rate risk | |
|--|------------|------------------------------|--|--|---|
| | | Carrying amount thousand EEK | USD appreciates 10% Effect on income statement thousand EEK | USD depreciates 10% Effect on income statement thousand EEK | Interest rate increases 100 basis points Effect on income statement thousand EEK |
| Financial assets | | | | | |
| Cash and bank | 1 876 | 65 | -65 | 0 | 0 |
| Trade receivables | 74 079 | 4 820 | -4 820 | 0 | 0 |
| Other receivables | 111 884 | 229 | -229 | 0 | 0 |
| Total effect on financial assets | | 5 114 | -5 114 | 0 | 0 |
| Financial liabilities | | | | | |
| Borrowings | 1 140 587 | -112 333 | 112 333 | -6 261 | -6 261 |
| Supplier payables | 148 222 | -459 | 459 | 0 | 0 |
| Other payables | 51 376 | -3 938 | 3 938 | 0 | 0 |
| Total effect on financial liabilities | | -116 729 | 116 729 | -6 261 | -6 261 |
| Total effect on income statement | | -111 615 | 111 615 | -6 261 | -6 261 |

If as of 31.12.2007, the EEK exchange rate had appreciated against the USD by 10%, and all other variables had remained constant, the net profit for the reporting period would have been EEK 70 981 thousand (2006: EEK 111 615 thousand) higher, primarily related to the revaluation of USD loans, offset by costs in USD from revaluation of cash and receivables. And vice versa, if the EEK exchange rate had depreciated against the USD and all other variables had remained constant, the net profit of the reporting period would have been EEK 70 981 thousand (2006: EEK 111 615 thousand) lower. The net profit in 2007 is less impacted by changed in the USD/EEK exchange rate than in 2006 because the amounts of the loans assumed in USD have decreased.

If as of 31.12.2007, the interest rates in the USD credit market had been 100 basis points higher/lower and all other variables had remained constant, the net profit for the financial year would have been EEK 3 778 thousand (31.12.2006: EEK 6 261 thousand) lower/higher.

Capital risk management

The goal of the Group's capital risk management is to continue as a going concern in order to generate returns for the owners and maintain the optimum capital structure, in order to lower the cost of capital.

For the Group, capital includes loans and equity. According to the loan contracts entered into with the banks, no substantial requirements have been set for various financial ratios. However, the parent company of the Group, AS Spacecom has concluded a guarantee contract with the bank (Note 20), specifying the EBITDA to borrowings ratio. When these requirements are not met, the bank may require premature payment of the loan.

| | Bank's requirement as of 31.12.2007 | AS Spacecom actual ratio on 31.12.2007 | Bank's requirement as of 31.12.2006 | AS Spacecom actual ratio on 31.12.2006 |
|-------------------------|-------------------------------------|--|-------------------------------------|--|
| Net borrowings / EBITDA | Maximum 8 | 4.9 | Maximum 8 | 5.8 |

Borrowings include loans assumed, finance lease liabilities and other transactions to borrow funds.

Fair value

The Group estimates that the fair values of assets and liabilities reported at amortised cost do not materially differ from the net book values reported in the Group's consolidated balance sheet as of 31.12.2007 and 31.12.2006. Trade receivables and the residual value of unpaid invoices less any impairment losses equal their estimated fair value.

The fair value of financial liabilities is determined for disclosure purposes by discounting the future contractual cash flows with the market interest rate which is available for similar financial instruments of the Group.

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The Group refinanced its bank loans at the beginning of 2007. The margins were not changed during refinancing, because there were no major changes in the risk profile of the Company and the sector. Management estimates that the conditions of recent transactions provide an indication for determining the market price of financial liabilities as of the balance sheet date. Because of the absence of evidence to the contrary, the Company's management has assumed that no changes have occurred in the price spread that existed at the date the loan was granted. As a result, the fair values of liabilities do not materially differ from their carrying amounts.

Changes in global financial markets

Since the second half of 2007, there has been a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. Europe still looks better than the US. However, the stronger euro, tighter credit conditions and higher inflation may impact the volatility and liquidity in the Group's retail markets. Such circumstances may also impact the ability of the Group to obtain new borrowings and refinance its existing borrowings at terms and conditions that applied to similar transactions in recent periods. The changed economic climate may impact the liquidity of the Group's clients which in turn could impact their payment behaviour and ability to settle their liabilities on time. Management is unable to reliably estimate the effects of any further possible deterioration in the liquidity of the financial markets and their increased volatility on the Group's financial position.

Note 3. Key accounting estimates

According to International Financial Reporting Standards, management needs to make certain decisions and pass judgement which may impact the assets and liabilities reported in the financial statements in the next financial year. Management estimates and judgements have been reviewed on an ongoing basis and they are based on previous experience and other factors considered reasonable under current conditions. In addition to estimates, management makes decisions regarding the use of accounting policies. The areas which have required more significant management decisions and which have the most significant impact on the amounts recognised in the financial statements and estimates which may lead to major adjustments in the carrying amount of assets and liabilities in the next financial year include: *Useful lives of property, plant and equipment* (Note 9), *Estimated impairment of property, plant and equipment* (Note 9) and *Provisions and contingent liabilities* (Note 20).

Useful lives of property, plant and equipment

Management has evaluated the useful lives of items of property, plant and equipment while considering business conditions and volumes, historical experience in this area and potential future use. The depreciation charge of the Group in the reporting period totalled 64 million kroons. If the depreciation rates are increased/reduced by 10%, the annual depreciation charge will increase/decrease by approximately 6.4 million kroons.

Depreciation rates are provided below in the section of accounting principles of property, plant and equipment.

Estimated impairment of property, plant and equipment

The carrying amount of the Group's property, plant and equipment is reassessed at least annually and additionally whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverable amount is the higher of the net realisable value and value in use of the asset. A write-down consists of the difference between carrying amount and recoverable amount. Value in use is measured as expected future discounted cash flows associated with the asset being reassessed. The discount rate used in the calculation of the present value is the rate that reasonably reflects the level of risk of respective assets and the expected return on these assets.

If circumstances change in the future then an additional impairment charge is recognised or the previous impairment charge is reversed either partly or wholly.

Provisions and contingent liabilities

In estimating the probability of realisation of contingent liabilities the management considers historical experience, general information about the economical and social environment and the assumptions and conditions of the possible events in the future based on the best knowledge of the situation.

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Note 4. Cash and bank

| | 31.12.2007 thousands EEK | 31.12.2006 thousands EEK |
|--------------------|-----------------------------|-----------------------------|
| Cash at bank | 866 | 1 054 |
| Overnight deposits | 19 398 | 821 |
| Cash at hand | 0 | 1 |
| Total | 20 264 | 1 876 |

The average interest rate on the deposit in 2007 was 3.42% (2006: 4.24%)

According to the ratings by the international rating agency Moody's, the Group's monetary funds have been deposited in financial institutions as follows:

| | 31.12.2007 thousands EEK | 31.12.2006 thousands EEK |
|--|-----------------------------|-----------------------------|
| Cash and cash equivalents | | |
| Aa2 | 20 264 | 1 876 |
| Total cash and cash equivalents | 20 264 | 1 876 |

Note 5. Trade receivables

| | 31.12.2007 thousands EEK | 31.12.2006 thousands EEK |
|---|-----------------------------|-----------------------------|
| Receivables from non-related parties | | |
| <i>Accounts receivable for lease of railway tanks</i> | 48 312 | 46 583 |
| <i>Accounts receivable for forwarding</i> | 1 709 | 9 029 |
| <i>Accounts receivable for freight transportation</i> | 1 326 | 6 753 |
| <i>Other receivables</i> | 64 | 3 129 |
| Total: | 51 411 | 65 494 |
| Allowance for doubtful receivables (see Note 17) | -1 645 | -233 |
| Total from non-related parties | 49 766 | 65 261 |
| Receivables from related parties | | |
| <i>Accounts receivable for lease of railway tanks</i> | 23 | 0 |
| <i>Accounts receivable for forwarding</i> | 0 | 4 |
| <i>Accounts receivable for freight transportation</i> | 0 | 7 450 |
| <i>Other receivables</i> | 3 218 | 1 364 |
| Total: | 3 241 | 8 818 |
| Allowance for doubtful receivables | 0 | 0 |
| Total from related parties (see Note 19) | 3 241 | 8 818 |
| Total: | 53 007 | 74 079 |

During the period, the Group set up allowances for doubtful receivables and expensed them in the amount of EEK 1.6 million (2006: EEK 223 thousand)

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Trade receivables by due dates:

| | 31.12.2007 | | 31.12.2006 | |
|--------------------------------|---------------|------------------|---------------|------------------|
| | Receivables | <i>incl. VAT</i> | Receivables | <i>incl. VAT</i> |
| Not overdue | 29 392 | | 56 138 | |
| Overdue up to 2 weeks | 1 642 | 1 605 | 3 596 | 2 011 |
| Overdue 2 - 4 weeks | 3 495 | 104 | 3 452 | 0 |
| Overdue 1 - 2 months | 2 835 | 2 165 | 2 174 | 1 665 |
| Overdue 2 - 3 months | 1 954 | 1 743 | 2 067 | 2 013 |
| Overdue over 3 months | 13 690 | 9 027 | 6 652 | 5 108 |
| Total trade receivables | 53 007 | 14 643 | 74 079 | 10 798 |

The VAT receivable arises from the fact the Group leases out some of its railway tanks (Note 10) to a lessee registered in the European Union. According to the Value Added Tax Act, the value added tax paid for the carriages leased from the Estonian lessor by a company registered in the European Union is refunded on the basis of quarterly applications during six months after submitting the application. There is an agreement between the lessee and the Group that the lessee pays a respective share of VAT to the Group when it gets a refund from the Customs and Tax Board. The Group's management does not see any major risks related to the non-collection of the amounts due.

Note 6. Other receivables and prepayments

| | 31.12.2007 thousands EEK | 31.12.2006 thousands EEK |
|--|-----------------------------|-----------------------------|
| Prepaid expenses (see table below) | 16 094 | 25 783 |
| Court deposit* | 0 | 82 800 |
| Bank deposit (Note 4) ** | 16 560 | 0 |
| Loans granted | 7 366 | 3 236 |
| <i>Incl. related parties (Note 19)</i> | <i>6 881</i> | <i>2 657</i> |
| Interests on loans granted | 396 | 28 |
| <i>Incl. related parties (Note 19)</i> | <i>345</i> | <i>8</i> |
| Other receivables | 0 | 22 |
| Prepaid and deferred taxes (Note 7) | 1 307 | 15 |
| Total | 41 723 | 111 884 |

* At the present time, AS Spacecom has an outstanding litigation with AS Ecsti Raudtee (Estonian Railways) over the amount of the railway infrastructure usage fee for the period 31 May 2004 - 31 May 2005. The calculation of the amount of the railway infrastructure fee is regulated by the Railway Act and the Estonian Railway Inspectorate regulations.

As the fee calculated by AS Spacecom was considerably lower than the fee calculated by Estonian Railways, the company paid Estonian Railways only some of the invoices for infrastructure usage fee that was considered as the fair fee. At the same time these invoices were recognised in full as expenses in the books of the Group (see also Note 12).

AS Spacecom has filed a petition with Tallinn City Court to calculate the fair amount of the infrastructure usage fee. As a result of the petition filed by Estonian Railways to Tallinn City Court the Court resolved that AS Spacecom should deposit cash funds or provide a bank guarantee as collateral in the total amount of 82 800 thousand kroons. AS Spacecom transferred the cash to the court deposit at the end of 2004 in the amount of 13 800 thousand kroons and in January 2005, in the amount of 69 000 thousand kroons. These funds shall be used to cover payment for the infrastructure fee in the case of the unfavourable decision of the court.

As it has already been mentioned, the Group has recognised all infrastructure fee expenses in full. Therefore, even the most unfavourable outcome of the litigation will not lead to any additional material losses to the group.

At the current time the litigation is not yet finished and its duration and the outcome are not predictable today. In 2005, the Estonian Railway Inspectorate established the infrastructure fee for the period starting from 31 May 2005 in the amount which is closer to Spacecom's calculations than Estonian Railways' ones. According to the management estimates this fact will affect the court decision and therefore the company believes that the outcome of the litigation will be favourable to the company. At the end of 2006, the Group obtained a bank guarantee letter against which the court released 82 800 thousand kroons from the court deposit at the beginning of 2007.

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**According to the guarantee contract entered into with the bank, AS Spacecom needed to transfer 16 560 thousand kroons to the bank account in 2007, which is part of the guarantee. As the use of cash in this deposit is restricted, the respective amount is not included within cash and cash equivalents but receivables. Loans from owners were paid off from the amounts released from the court deposit and the funds transferred to the bank deposit.

Additional information on contingent liabilities is provided in Note 20.

| Prepaid expenses | 31.12.2007 thousand EEK | 31.12.2006 thousand EEK |
|--|----------------------------|----------------------------|
| Forwarding expenses | 937 | 717 |
| Prepayment of infrastructure usage fee | 8 962 | 9 178 |
| Prepaid VAT | 1 427 | 617 |
| Prepaid expenses | 722 | 7 155 |
| Other expenses | 2 558 | 6 758 |
| Inventory at warehouse | 1 488 | 1 358 |
| Total | 16 094 | 25 783 |

Note 7. Taxes

(in thousands of Estonian kroons)

| | 31.12.2007 | | 31.12.2006 | |
|---|--------------|--------------|------------|--------------|
| | Prepayment | Payable | Prepayment | Payable |
| VAT | 1 307 | 589 | 15 | 2 123 |
| Personal income tax | 0 | 258 | 0 | 663 |
| Social security tax | 0 | 182 | 0 | 1 134 |
| Unemployment insurance premium | 0 | 24 | 0 | 24 |
| Contributions to mandatory funded pension | 0 | 43 | 0 | 45 |
| Income tax from fringe benefits | 0 | 64 | 0 | 97 |
| Total | 1 307 | 1 160 | 15 | 4 086 |

Note 8. Investments in associates

| | 31.12.2007 thousands EEK | 31.12.2006 thousands EEK |
|---------------------|-----------------------------|-----------------------------|
| Shares of associate | 4 243 | 11 770 |
| Total | 4 243 | 11 770 |

(in thousands of Estonian kroons)

| | |
|--|--|
| | AS Daugavpils Lokomotivju Remonta Rupnica |
| Country of incorporation | Latvia |
| Date of purchase | 22.06.2004 |
| Main activity | Repair of railway tanks and locomotives |
| % of shares at the beginning of reporting period | 25.27% |
| Cost of investment at the beginning of reporting period | 10 586 |
| Book value of shares at the beginning of reporting period | 11 770 |

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| | |
|--|---------------|
| Profit / loss from equity participation | -7 527 |
| % of shares at the end of reporting period | 25.27% |
| Cost of investment at the end of reporting period | 10 586 |
| Book value of shares at the end of reporting period | 4 243 |

Condensed financial information

| | 31.12.2007 | 31.12.2006 |
|---|----------------|----------------|
| | thousands EEK | thousands EEK |
| Cash and bank accounts | 2 709 | 247 |
| Property, plant and equipment | 158 246 | 98 303 |
| Other assets | 202 639 | 187 072 |
| Total assets | 363 594 | 285 622 |
| Short-term liabilities | 177 268 | 121 051 |
| Long-term liabilities | 58 244 | 62 589 |
| Owners' equity | 128 081 | 101 982 |
| Total liabilities and owners' equity | 363 594 | 285 622 |

| | 2007 | 2006 |
|--|----------------|---------------|
| | thousands EEK | thousands EEK |
| Sales | 353 040 | 418 226 |
| Other income | 8 315 | 8 771 |
| Operating expenses | 384 906 | 421 075 |
| Operating profit (-loss) | -23 551 | 5 922 |
| Taxes | 1 833 | 1 817 |
| Net profit (-loss) for the financial year | -21 718 | 4 105 |

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Note 9. Property, plant and equipment

(in thousands of Estonian kroons)

| | Land | Buildings | Railway tanks and locomotives | Machinery | Other equipment | Prepayment | Total |
|---------------------------------|--------------|---------------|-------------------------------|--------------|-----------------|------------|------------------|
| Balance as at 31.12.2005 | | | | | | | |
| Acquisition cost | 2 555 | 2 659 | 1 726 754 | 297 | 1 257 | 867 | 1 734 389 |
| Accumulated depreciation | 0 | -5 | -119 747 | -13 | -293 | 0 | -120 058 |
| Net book value | 2 555 | 2 654 | 1 607 007 | 284 | 964 | 867 | 1 614 331 |
| Changes in 2006 | | | | | | | |
| Additions | 0 | 11 667 | 10 489 | 5 243 | 188 | -573 | 27 014 |
| Disposals | 0 | 0 | -383 | 0 | 0 | 0 | -383 |
| Depreciation for the period | 0 | -209 | -62 631 | -363 | -265 | 0 | -63 468 |
| Balance as at 31.12.2006 | | | | | | | |
| Acquisition cost | 2 555 | 14 326 | 1 736 804 | 5 540 | 1 445 | 294 | 1 760 964 |
| Accumulated depreciation | 0 | -214 | -182 322 | -376 | -558 | 0 | -183 470 |
| Net book value | 2 555 | 14 112 | 1 554 482 | 5 164 | 887 | 294 | 1 577 494 |
| Changes in 2007 | | | | | | | |
| Additions | 0 | 13 039 | 31 658 | 123 | 643 | 86 | 45 549 |
| Disposals | 0 | 0 | -86 933 | -2 | 0 | 0 | -86 935 |
| Depreciation for the period | 0 | -701 | -62 178 | -896 | -302 | 0 | -64 077 |
| Balance as at 31.12.2007 | | | | | | | |
| Acquisition cost | 2 555 | 27 365 | 1 667 977 | 5 632 | 2 088 | 380 | 1 705 997 |
| Accumulated depreciation | 0 | -915 | -230 948 | -1 263 | -860 | 0 | -233 986 |
| Net book value | 2 555 | 26 450 | 1 437 029 | 4 369 | 1 228 | 380 | 1 472 011 |

Information on items of property, plant and equipment pledged as collateral for the bank guarantee is provided in Note 20. Information on leased assets is provided in Note 10.

Note 10. Finance and operating lease**Finance lease****The group as a lessee:**

The Group has concluded long-term sale-leaseback contracts for re-financing of the purchase of railway tanks. The term of contracts is 4-7 years. The contracts are accounted for in the balance sheet as a finance lease. The interest rate for the sale and leaseback contracts consists of USD LIBOR or Euribor and a fixed risk margin. The abovementioned contracts were used for financing the purchase of 3 286 railway tanks (2006: 3 412) and the purchase of 13 locomotives (2006: 13).

Railway tanks and locomotives acquired under finance lease (additional information in Notes 9, 11):

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| | thousands EEK |
|----------------------------------|------------------|
| Acquisition cost 31.12.2006 | 1 736 803 |
| Accumulated depreciation | 182 322 |
| Net book value 31.12.2006 | 1 554 481 |
| Acquisition cost 31.12.2007 | 1 667 977 |
| Accumulated depreciation | 230 948 |
| Net book value 31.12.2007 | 1 437 029 |

The excess of sales proceeds over the carrying amount of assets sold in sale-leaseback transactions implemented until 01.01.2006 is amortised into profit over the lease term (see Note 13).

| | thousands EEK |
|---|---------------|
| Net book value as at 31.12.05 | 75 782 |
| Amortised to profit in 2006 (Note 16) | -21 690 |
| Net book value as at 31.12.06 (see also Note 13) | 54 092 |
| Amortised to profit in 2007 (Note 16) | -21 690 |
| Net book value as at 31.12.07 (see also Note 13) | 32 402 |

Minimum lease payments

The minimum lease payments of the abovementioned sale and leaseback contracts are as follows:

| | 31.12.2007 thousands EEK | 31.12.2006 thousands EEK |
|---|-----------------------------|-----------------------------|
| Minimum lease payments | 534 859 | 858 875 |
| Unrealised financial expenses | -57 568 | -101 316 |
| Present value of minimum lease payments (Note 11) | 477 291 | 757 559 |

| | thousands EEK | Present value of minimum lease payments |
|--------------------|------------------------|---|
| | Minimum lease payments | |
| 31.12.2007 | | |
| Total | 534 860 | 477 291 |
| incl. up to 1 year | 197 079 | 169 371 |
| 1-5 years | 330 597 | 300 969 |
| more than 5 years | 7 184 | 6 951 |
| 31.12.2006 | | |
| Total | 858 875 | 757 559 |
| incl. up to 1 year | 284 698 | 237 460 |
| 1-5 years | 559 735 | 506 462 |
| more than 5 years | 14 442 | 13 637 |

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All leased property is rented out under the sublease. The income from the sublease is reported below.
The information about finance lease is presented in note 11.

Operating lease**The Group as a lessee:**

The Group has rented cars and production and office facilities under the operating lease terms

| | 2007 thousands EEK | 2006 thousands EEK |
|--|-----------------------|-----------------------|
| Operating lease payments during the period | 3 129 | 3 128 |

The Group as a lessor:

| | 31.12.2007 | 31.12.2006 |
|---|--------------|--------------|
| The Group leases out 3 286 railway tanks under operating lease: | | |
| leased to related parties | 598 | 500 |
| leased to non-related parties | 2 688 | 2 912 |
| Total: | 3 286 | 3 412 |

The book value of the property, plant and equipment leased out is presented below:

| | thousands EEK |
|------------------------------------|------------------|
| Acquisition cost 31.12.2006 | 1 570 449 |
| Accumulated depreciation | 167 545 |
| Net book value 31.12.2006 | 1 402 904 |
| Acquisition cost 31.12.2007 | 1 501 623 |
| Accumulated depreciation | 208 287 |
| Net book value 31.12.2007 | 1 293 336 |

| | thousands EEK |
|---|---------------|
| 2007 | |
| Income from operating lease (Note 17) | 317 807 |
| The income from non-cancellable lease contracts over upcoming periods: <i>incl. up to 1 year</i> | 27 797 |
| Expected rental income in 2008 based on existing contracts as at 31.12.2007 | 302 700 |
| 2006 | |
| Income from operating lease (Note 17) | 373 048 |
| The income from non-cancellable lease contracts over upcoming periods: <i>incl. up to 1 year</i> | 35 393 |
| Expected rental income in 2007 based on existing contracts as at 31.12.2006 | 317 621 |

The legal right of ownership of railway tanks leased out belongs to financial institutions.

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Note 11. Borrowings and finance lease liabilities

(in thousands of Estonian kroons)

2007

| | Balance as at 31.12.2007 | incl. current portion | incl. non- current portion | Maturity | Interest rate |
|---|-----------------------------|-----------------------------|----------------------------------|-----------|---|
| Borrowings | | | | | |
| Loans from group companies | 227 656 | 21 275 | 206 381 | 2008-2009 | 5% - 12% |
| Loans from other related parties | 37 334 | 0 | 37 334 | 2009 | 12% |
| Total borrowings from non-financial institutions (Note 19) | 264 990 | 21 275 | 243 715 | | |
| Finance lease liabilities (Note 10) | | | | | |
| Factoring | 9 932 | 9 932 | 0 | 2007 | 5,25% |
| Overdraft | 24 445 | 24 445 | 0 | 2 007 | 1 month Talibor+2,9% |
| Total borrowings | 776 658 | 225 023 | 551 635 | | 1-6 months Libor + 1.7-3%; 6-month Euribor+1.6-1.7% |

2006

| | Balance as at 31.12.2006 | incl. short- term | incl. long- term | Maturity | Interest rate |
|--|-----------------------------|-------------------------|---------------------|-----------|--|
| Borrowings | | | | | |
| Loans from group companies (Note 19) | 332 691 | 77 232 | 255 459 | 2007-2008 | 5% - 12% |
| Loans from other related parties (Note 19) | 26 895 | 16 456 | 10 439 | 2007-2008 | 12% |
| Other loans | 14 555 | 14 555 | 0 | 2 007 | 0% - 12% |
| Loans from non-financial institutions | 374 141 | 108 243 | 265 898 | | |
| Finance lease liabilities (Note 10) | | | | | |
| Factoring | 5 162 | 5 162 | 0 | 2 007 | 5.25% |
| Overdraft | 3 725 | 3 725 | 0 | 2 007 | 1 month Talibor+2,9% |
| Total borrowings | 1 140 587 | 359 848 | 780 739 | | 1-6-month Libor + 1.7-3% 6-month Euribor + 1.6-1.7% |

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The exposure of the Group's borrowings to interest-rate changes and the contractual reprising dates is as follows:

As at 31.12.2007

(in thousands of Estonian kroons)

| | 1 month | 6-12 month | 1-5 years | Total |
|---------------------------|---------------|----------------|----------------|----------------|
| Borrowings | 0 | 0 | 264 990 | 264 990 |
| Finance lease liabilities | 9 954 | 436 128 | 31 209 | 477 291 |
| Factoring | 0 | 0 | 9 932 | 9 932 |
| Overdraft | 24 445 | 0 | 0 | 24 445 |
| Total: | 34 399 | 436 128 | 296 199 | 776 658 |

As at 31.12.2006

(in thousands of Estonian kroons)

| | 1 month | 6-12 month | 1-5 years | Total |
|---------------------------|----------------|----------------|----------------|------------------|
| Borrowings | 0 | 0 | 374 141 | 374 141 |
| Finance lease liabilities | 108 745 | 578 109 | 70 705 | 757 559 |
| Factoring | 0 | 0 | 5 162 | 5 162 |
| Overdraft | 3 725 | 0 | 0 | 3 725 |
| Total: | 112 470 | 578 109 | 444 846 | 1 140 587 |

Borrowings presented in the column "1-5 years" carry fixed interest rates.

Note 12. Trade payables and prepayments

(in thousands of Estonian kroons)

| | 31.12.2007 | 31.12.2006 |
|--|-----------------------|----------------|
| Trade payables | 161 146 | 148 222 |
| <i>incl. related parties (see Note 19)</i> | 5 283 | 6 333 |
| Prepayment to suppliers | 68 362 | 2 567 |
| <i>incl. related parties (see Note 19)</i> | 67 515 | 0 |
| Total: | Total: 229 508 | 150 789 |

Note 13. Other liabilities

(in thousands of Estonian kroons)

| | Short-term part | | Long-term part | | Total | |
|-------------------------------|-----------------|---------------|----------------|---------------|---------------|----------------|
| | 31.12.2007 | 31.12.2006 | 31.12.2007 | 31.12.2006 | 31.12.2007 | 31.12.2006 |
| Payables to employees | 3 572 | 3 773 | 0 | 0 | 3 572 | 3 773 |
| Vacation pay accrual | 1 764 | 1 774 | 0 | 0 | 1 764 | 1 774 |
| Interest debt (see Note 11) | 29 593 | 41 111 | 0 | 0 | 29 593 | 41 111 |
| Deferred income (see Note 10) | 17 695 | 21 690 | 14 707 | 32 402 | 32 402 | 54 092 |
| Other | 56 | 632 | 0 | 0 | 56 | 632 |
| Total: | 52 680 | 68 980 | 14 707 | 32 402 | 67 387 | 101 382 |

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|--|

| Interest liabilities | 31.12.2007 | 31.12.2006 |
|---|----------------------|----------------------|
| | thousands EEK | thousands EEK |
| Interest liabilities related to lease contracts | 717 | 1 136 |
| Interest liabilities related to loans | | |
| -to group companies (Note 19) | 24 396 | 36 600 |
| -to other related parties (Note 19) | 4 480 | 3 023 |
| -to non-related parties | 0 | 352 |
| Total loan interest liabilities | 28 876 | 39 975 |
| Total: | 29 593 | 41 111 |

Note 14. Equity

The share capital consists of 40 000 common shares with the nominal value of 10 kroons. All issued shares have been fully paid for. The maximum allowed number of common shares is 160 000 as set by the Articles of Association of the Company. There were no changes in the share capital and Articles of Association of the Company compared to 2006..

The unrestricted equity of the company as at 31. December 2007 was 517 301 thousands kroons (2006: 381 072 thousands kroons).

As at balance sheet date it is possible to pay out dividends to the shareholders in the amount of 408 320 thousands kroons (2006: 297 236 thousands and the corresponding income tax would amount to 108 541 thousands kroons (2006: 83 836 thousands kroons).

Note 15. Sales

(in thousands of Estonian kroons)

AS SPACECOM's consolidated sales are divided as follows:

| <i>by activities</i> | EMTAK code | 2007 | 2006 |
|---|------------|----------------|----------------|
| Lease of railway tanks and locomotives (note 10) | 77391 | 317 807 | 373 048 |
| Forwarding services | 52291 | 36 314 | 204 637 |
| Railway transportation services | 49201 | 224 650 | 140 314 |
| Repair and maintenance services | 33171 | 832 | 2 561 |
| Others | 82991 | 24 240 | 6 670 |
| Total: | | 603 843 | 727 230 |

| <i>by geographical regions</i> | 2007 | 2006 |
|--------------------------------|----------------|----------------|
| Estonia | 283 208 | 390 241 |
| Russia | 0 | 8 318 |
| Latvia | 40 | 18 |
| Lithuania | 18 490 | 20 378 |
| Kazakhstan | 156 982 | 185 858 |
| Finland | 126 811 | 112 802 |
| Other | 18 312 | 9 615 |
| Total: | 603 843 | 727 230 |

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Note 16. Other income and expenses

(in thousands of Estonian kroons)

| | 2007 | 2006 |
|---|---------------|---------------|
| Amortisation of deferred income (see Note 10) | 21 690 | 21 690 |
| Profit from disposal of fixed assets | 2 940 | 415 |
| Interest income | 1 298 | 938 |
| Other | 808 | 668 |
| Total: | 26 736 | 23 711 |

Note 17. Operating expenses

(in thousands of Estonian kroons)

| | 2007 | 2006 |
|---|----------------|----------------|
| Maintenance and rent of railway tanks and locomotives | 148 798 | 145 743 |
| Forwarding expenses | 35 134 | 196 695 |
| Railway infrastructure usage fee and expenses | 183 918 | 105 146 |
| Doubtful receivables (see Note 5) | 1 645 | 233 |
| Personnel related costs (see below) | 42 744 | 43 993 |
| Other operating expenses | 19 211 | 19 787 |
| Total: | 431 450 | 511 597 |

Personnel related costs

(in thousands of Estonian kroons)

| | 2007 | 2006 |
|---|---------------|---------------|
| Wages and salaries | 29 581 | 30 602 |
| <i>incl. remuneration to members of the Management Board</i> | 4 922 | 5 035 |
| <i>incl. remuneration to members of the Supervisory Board</i> | 0 | 477 |
| Vacation pay | 2 495 | 2 414 |
| Social security taxes | 10 668 | 10 977 |
| Total: | 42 744 | 43 993 |

Note 18. Financial income and expenses

(in thousands of Estonian kroons)

| | 2007 | 2006 |
|---|---------------|----------------|
| Interest expenses | | |
| on loans | 34 557 | 40 041 |
| on finance lease | 50 771 | 69 560 |
| other | 1 686 | 0 |
| Total: | 87 014 | 109 601 |
| | | |
| Profit from currency translation differences | 95 278 | 135 843 |
| | | |
| Total financial income and expenses | 8 264 | 26 242 |

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Note 19. Related party transactions

In preparing the financial statements of the Group the following entities have been considered as related parties:

- a. owners (parent company and owners of the parent company);
- b. other group companies;
- c. management and supervisory board members;
- d. close relatives of the persons mentioned above and the companies related to them.

The parent of AS Spacecom is Transportation Investments Holding Limited (registered in Cyprus).

AS Spacecom and its group companies have purchased and sold its goods and rendered services to the following related parties:

| | thousands EEK | |
|--|---------------|----------------|
| | Purchases | Sales |
| Lease of railway tanks | 0 | 0 |
| Railway transportation services | 0 | 221 754 |
| Other services | 3 940 | 9 585 |
| Total transactions with group companies | 3 940 | 231 339 |
| Other services (companies related to the management) | 43 957 | 262 |
| Purchase/sale of non-current assets (associates) | 1 685 | 40 |
| Total | 49 582 | 231 641 |

| | thousands EEK | |
|--|---------------|----------------|
| | Purchases | Sales |
| Lease of railway tanks | 0 | 7 958 |
| Railway transportation services | 0 | 136 776 |
| Other services | 17 788 | 11 033 |
| Total transactions with group companies | 17 788 | 155 767 |
| Other services (companies related to the management) | 25 239 | 372 |
| Purchases-disposals of non-current assets (associates) | 408 | 9 |
| Total | 43 435 | 156 148 |

Balances with related parties:

| | 31.12.2007 thousands EEK | 31.12.2006 thousands EEK |
|--|-----------------------------|-----------------------------|
| Short-term receivables | | |
| Group companies | 3 213 | 8 789 |
| Companies related to the management | 5 | 18 |
| Other related parties | 23 | 11 |
| Total short-term receivables (see Note 5) | 3 241 | 8 818 |

Other receivables

| | | |
|---|--------------|--------------|
| Loans granted to group companies | 3 617 | 2 657 |
| Loans granted to companies related to management | 3 191 | 0 |
| Loans granted to other related parties | 73 | 0 |
| Interests receivable from group companies | 272 | 8 |
| Interest receivables from companies related to management | 65 | 0 |
| Interest receivables from other related parties | 8 | 0 |
| Total other receivables (Note 6) | 7 226 | 2 665 |

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| | | |
|--|----------------------|----------------------|
| Interest liabilities | | |
| Group companies | 24 396 | 36 600 |
| Companies related the management | 1 148 | 1 597 |
| Other | 3 332 | 1 426 |
| Total interest liabilities (see Note 13) | 28 876 | 39 623 |
| Other liabilities | | |
| Other liabilities to group companies | 67 539 | 120 |
| Other liabilities to companies related to the management | 4 256 | 6 213 |
| Other liabilities to related parties | 1 003 | 0 |
| Total other liabilities (see Note 12) | 72 798 | 6 333 |
| Borrowings | | |
| Group companies | 0 | 77 232 |
| Other related companies | 0 | 16 456 |
| Total short-term loans (Note 11) | 0 | 93 688 |
| Total current liabilities | 101 674 | 139 644 |
| | 31.12.2007 | 31.12.2006 |
| | thousands EEK | thousands EEK |
| Group companies | 227 656 | 255 459 |
| Companies related to the management | 9 568 | 10 439 |
| Other related companies | 27 766 | 0 |
| Total loans received from related parties (see Note 11) | 264 990 | 265 898 |
| Total long-term liabilities | 264 990 | 265 898 |

Remuneration paid to the members of the management board and supervisory board are disclosed in Note 17 . Upon premature termination of an employment contract with members of the management board, they are paid compensation totalling up to 6-month remuneration.

Note 20. Contingent liabilities

Contingent liabilities arising from possible tax inspection

The tax authorities have not inspected the books and records of the Group during the years 2006-2007.

The tax authorities may at any time inspect the books and records within 6 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. There has been no tax audit for the last 6 years. The Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

Other contingent liabilities

The Group has a legal dispute with a third party, which has been sued by the Group and which in its turn has countersued the Group demanding payment of a liability and fines for delay. The legal dispute and circumstances and amounts related to the dispute are not disclosed in the financial statements as the management believes that disclosure would harm the Group's position in the court proceedings. The Group management's opinion is that the counterclaim is ungrounded and it does not cause material expenses to the Group and therefore no liabilities have been recognised in the Group's financial statements and no provision has been set up to cover potential costs.

The group has litigation with AS Eesti Raudtee (Estonian Railways) over the infrastructure usage fee. The litigation is disclosed in detail in Note 6.

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The Group's subsidiary has a contingent liability related to the change in activities in the amount of up to 300 thousand euros (up to EEK 4 700 thousand, the same amount as at 31.12.2006). According to the management's estimate, the realisation of the liability is not likely and no provision has been recognised to cover the potential loss.

Guarantees issued

The Group concluded a bank guarantee contract at the end of 2006 in order to free funds from the court deposit (Note 6). The guarantee is used as collateral for possible expenses in case the litigation with AS Eesti Raudtee (Estonian Railways) does not have a favourable outcome for the Group. The amount of the guarantee makes up a total of 82 800 thousands kroons. The court accepted the application of the Group to substitute the funds for the guarantee and freed the amount of 82 800 thousand kroons from the court deposit at the beginning of 2007.

According to the conditions of the guarantee contract, the Group had to deposit 16 560 thousand kroons in the bank deposit as part of the collateral for the guarantee (see also Note 6).

The Group pledged the railway tank as collateral for the bank guarantee in favour of the bank in the amount of 563 403 thousands kroons (Note 11) and transferred 16 560 thousand kroons to the bank deposit (31.12.2006: carrying amount of the railway tanks: 617 184 thousand kroons, bank deposit 0 kroon) (see Note 11).

Note 21. Commitments

The Group had as at 31.12.2007 contractual obligations to invest during the year 2008 in the reconstruction of the locomotive depot the amount of 3 200 thousands kroons (31.12.06: 2 200 thousand kroons).

Note 22. Events after the balance sheet date

The Group has decided to terminate the provision of the railway transportation services from the end of May 2008. This decision was adopted in 2007 and the Group did not participate in the competition of the railway infrastructure throughput capacity.

By the time of preparing the financial statements, the Group's management has reached an agreement for the sale of 5 locomotives. The sales transaction is planned to be completed in the first half of 2008. The Group's management estimates that no losses will be incurred from the sale of engines.

The Group's management considers different options for the future use of the remaining locomotives and the engine depot. According to the plans under discussion, the locomotives can be either leased out or sold. The Group currently holds negotiations with the clients for the provision of the service related to the repair of railway tanks in the railway depot owned by the Group.

Note 23. Liquidity of the Group

As at 31. December 2007, the short-term liabilities of the Group exceeded current assets by 393 millions kroons (396 millions kroons 31.12.2006).

Such situation is related to the fact that:

- The lease of the railway tanks acquired has been accounted for as finance lease (thus the future lease payments are recognised as a liability in the balance sheet; see Notes 10 and 11) and transactions to lease out the railway tanks have been recognised as operating lease (thus the future rent receivables are accounted for off balance sheet). Lease receivables during the year 2007 are shown in Note 10.

The rent of railway tanks to customers is covered by long-term or extendable contracts. At the end of 2007, the rental tariffs of tanks were increased, the effect of which will be experienced in full in 2008. The Group has been able to increase the rental tariffs of tanks by 20-30%.

By 30.06.2008, the finance lease agreements for 500 tanks will expire resulting in almost 300 thousand dollar (about 3 200 thousand kroons) additional cash flows per month.

The Group will discontinue the provision of railway transportation services in May 2008. Railway transportation has become an unprofitable activity for the Group after the so-called April 2007 events leading to a significant decrease of transportation volume on the infrastructure of Estonian Railways and as a result of which, Estonian Railways has set higher tariffs for the use of its infrastructure for other operators. The termination of railway transportation will help the Group improve its profitability as compared to 2007.

Considering the above the management confirms that neither the parent company nor the group as a whole have liquidity problems.

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Note 24. Supplementary disclosures on the parent company of the Group

The financial information of the Parent Company comprises separate primary statements of the Parent Company, the disclosure of which is required by the Estonian Accounting Act. The separate primary statements of the Parent Company have been prepared using the same accounting policies that have been used for the preparation of the consolidated financial statements, except for investments into subsidiaries, which are reported at cost in the Parent Company's separate statements.

| Balance sheet | 31.12.2007 | 31.12.2006 |
|---|----------------------|----------------------|
| Assets | thousands EEK | thousands EEK |
| Current assets | | |
| Cash and bank | 20 241 | 1 848 |
| Trade receivables | 53 007 | 74 054 |
| Other receivables | 40 253 | 111 675 |
| Prepaid and deferred taxes | 1 307 | 0 |
| Total current assets | 114 808 | 187 577 |
| Non-current assets | | |
| Long-term financial assets | | |
| Investments in subsidiaries and associates | 90 731 | 90 731 |
| Other long-term assets | 766 | 1 253 |
| Total long-term financial assets | 91 497 | 91 984 |
| Property, plant and equipment | 1 274 761 | 1 371 148 |
| Prepayments for property, plant and equipment | 380 | 294 |
| Total property, plant and equipment | 1 275 141 | 1 371 442 |
| Total non-current assets | 1 366 638 | 1 463 426 |
| TOTAL ASSETS | 1 481 446 | 1 651 003 |
| Liabilities and owners' equity | | |
| Current liabilities | | |
| Loans and lease liabilities | 174 203 | 328 732 |
| Trade payables and prepayments | 240 742 | 159 746 |
| Indirect tax liabilities | 571 | 3 430 |
| Other liabilities | 62 101 | 75 289 |
| Total current liabilities | 477 617 | 567 197 |
| Non-current liabilities | | |
| Loans and lease liabilities | 601 414 | 779 325 |
| Other liabilities | 13 887 | 31 035 |
| Total non-current liabilities | 615 301 | 810 360 |
| Total liabilities | 1 092 918 | 1 377 557 |
| Owners' equity | | |
| Share capital at nominal value | 400 | 400 |
| Statutory legal reserve | 40 | 40 |
| Retained earnings | 273 006 | 109 791 |
| Net profit for the financial year | 115 082 | 163 215 |
| Total equity | 388 528 | 273 446 |
| TOTAL LIABILITIES AND OWNERS' EQUITY | 1 481 446 | 1 651 003 |

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Income statement

(in thousands of Estonian kroons)

| | 01.01.07 - 31.12.07 | 01.01.06 - 31.12.06 |
|--|---------------------|---------------------|
| Sales | | |
| Sales | 605 247 | 719 276 |
| Other operating income | 26 816 | 22 909 |
| Total sales | 632 063 | 742 185 |
| Operating expenses | | |
| Operating expenses | 474 005 | 551 911 |
| Depreciation, amortisation and impairment losses | 55 522 | 54 902 |
| Total operating expenses | 529 527 | 606 813 |
| Operating profit | 102 536 | 135 372 |
| Financial income and expenses | 12 546 | 27 843 |
| Net profit for the period | 115 082 | 163 215 |

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Statement of changes in owner's equity

(in thousands of Estonian kroons)

| | Share capital | Statutory legal reserve | Retained earnings | Total |
|--|---------------|-------------------------|-------------------|----------------|
| Balance as at 31.12.2005 | 400 | 40 | 109 791 | 110 231 |
| Net profit for the reporting period | 0 | 0 | 163 215 | 163 215 |
| Balance as at 31.12.2006 | 400 | 40 | 273 006 | 273 446 |
| Carrying amount of investments in subsidiaries | | | | -90 731 |
| Value of investments in subsidiaries using equity method | | | | 198 797 |
| Adjusted unconsolidated owners' equity as at 31.12.2006 | | | | 381 512 |
| Balance as at 31.12.2006 | 400 | 40 | 273 006 | 273 446 |
| Net profit for the reporting period | | | 115 082 | 115 082 |
| Balance as at 31.12.2007 | 400 | 40 | 388 088 | 388 528 |
| Carrying amount of investments in subsidiaries | | | | -90 731 |
| Value of investments in subsidiaries using equity method | | | | 219 504 |
| Adjusted unconsolidated owners' equity as at 31.12.2007 | | | | 517 301 |

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Cash flow statement

(in thousands of Estonian kroons)

| | 01.01.07 - 31.12.07 | 01.01.06 - 31.12.06 |
|--|---------------------|---------------------|
| Cash flows from operating activities | | |
| Operating profit | 102 536 | 135 372 |
| Non-monetary adjustments: | | |
| Depreciation, amortisation and impairment losses | 55 522 | 54 902 |
| Amortisation of deferred income | -21 143 | -21 143 |
| Profit/loss from disposals of fixed assets | -3 568 | -415 |
| Interest income | -1 297 | |
| Changes in receivables and prepayments related to operating activities | 29 385 | 334 |
| Changes in payables and prepayments related to operating activities | 77 350 | 19 026 |
| Interest paid | -89 170 | -99 744 |
| Total cash flows from operating activities | 149 615 | 88 331 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | -45 377 | -24 464 |
| Proceeds from disposal of property, plant and equipment | 90 206 | 824 |
| Acquisitions of subsidiaries | 0 | 0 |
| Disposal of associates | 0 | 39 613 |
| Collection of deposit | 66 240 | |
| Loans granted | -4 189 | -3 159 |
| Repayments of loans granted | 93 | 0 |
| Interest received | 930 | 654 |
| Total cash flows from investing activities | 107 903 | 13 468 |
| Cash flows from financing activities | | |
| Proceeds from borrowings | 93 497 | 85 538 |
| Repayment of borrowings | -170 999 | -92 831 |
| Receipts from sale - leaseback transactions | | |
| Factoring debt repayments | 32 835 | 45 272 |
| Overdraft | 4 770 | 5 162 |
| Finance lease principle payments | 20 720 | 3 725 |
| Total cash flows from financing activities | -218 836 | -210 087 |
| Cash flows from financing activities | -238 013 | -163 221 |
| Net decrease/increase in cash and cash equivalents | 19 504 | -61 421 |
| Cash and cash equivalents at the beginning of the period | 1 848 | 64 503 |
| Net decrease/increase in cash and cash equivalents | 19 504 | -61 421 |
| Currency translation differences | -1 111 | -1 234 |
| Cash and cash equivalents at the end of the period | 20 241 | 1 848 |

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Spacecom

We have audited the accompanying consolidated financial statements of AS Spacecom and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated 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 Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements 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 consolidated financial statements 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 financial statements 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 financial statements.

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 accompanying consolidated financial statements give a true and fair view of the financial position of the Group 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.



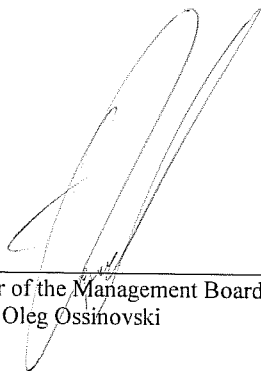
Tiit Raimla
AS PricewaterhouseCoopers

11 July 2008

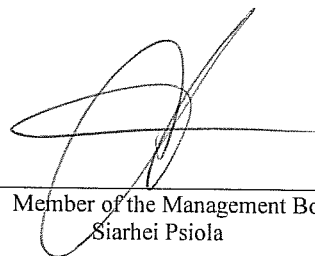
** This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

PROFIT ALLOCATION PROPOSAL

The management board of AS Spacecom proposes to the General Meeting of Shareholders to transfer net profit for 2007 in amount of 135 789 thousands kroons to retained earnings.



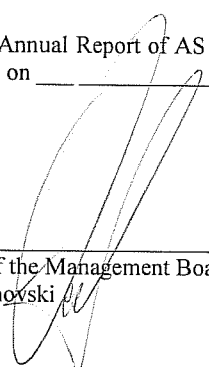
Member of the Management Board
Oleg Ossinovski



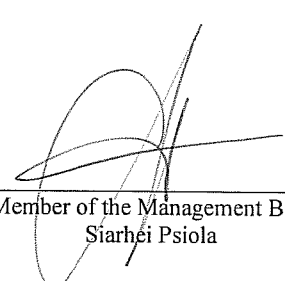
Member of the Management Board
Siarhei Psiola

Signatures of the Management Board and the Supervisory Board to the 2007 Annual Report

The 2007 Annual Report of AS SPACECOM, approved of by the General Meeting of Shareholders on _____ 2008 and signed on _____ 2008:



Member of the Management Board
Oleg Ossinovski



Member of the Management Board
Siarhei Psiola

Chairman of the Supervisory Board
Vasily Barashkov

Member of the Supervisory Board
Sergey Tolmachev

Member of the Supervisory Board
Dmitry Frolov

Member of the Supervisory Board
Dmitry Trofimov