# AS Spacecom

## CONSOLIDATED ANNUAL REPORT 2006
(translation of the Estonian original)

| | |
|---|---|
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| Auditor: | AS PricewaterhouseCoopers |
| Fiscal period: | 01.01.2006-31.12.2006 |

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# MANAGEMENT REPORT

AS Spacecom was registered in Estonia in 2003. AS Spacecom was a subsidiary of Leverret Holding Limited until 3rd quarter of 2004, since then AS Spacecom is a subsidiary of Transportation Investments Holding Limited. AS Spacecom group consists of two subsidiaries – AS Skinest Veeremi (Estonia), SIA Hoover (Latvia). In addition to that Spacecom holds a participation in the associate A/S Daugavpils Lokomotivju Remonta Rupnica (Latvia). In 2005 AS Spacecom sold part of its investment in DLRR and the share of AS Spacecom in DLRR decreased to 25.27%.

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 31.12.2006 the Company and its subsidiaries had 3 412 railway tanks, which all were rented out. All of the rail-cars are rented out for 2 to 5 years. The Group has cargo-forwarding contracts with the Latvian Railways, Belarus Railways, Estonian Railways, Lithuanian Railways and some regular customers.

In the year 2006 Spacecom operated using the infrastructure of Estonian Railways. The total volume of products transported totalled 3 406 thousand tons. Main transported products were oil and oil 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. Main operational routes passed through border stations in Pechori and Valga. The company owns 10 main and 3 shunting locomotives.

In 2007 AS Spacecom plans to continue its operational services using the infrastructure of Estonian Railways through border stations in Pechori and Valga. The Company plans to deliver 4 025 th. tons of oil products to its clients.

Presently the Company has a court case against AS Eesti Raudtee (Estonian Railways). The main reason of court proceedings is a dispute concerning the calculation of a fair railway infrastructure usage fee.

Also in 2006 AS Spacecom was renovating, developing and investing in its locomotive depot for locomotive repair and maintenance purposes. The works will continue in the year 2007.

In the future the company plans to develop and extend the amount and quality of cargo-forwarding services.

The managing board of the company consists of two members. The boards's remuneration during the reporting year comprised 6 697 thousand kroons. The supervisory board remunerations were 634 thousand kroons. The average number of employees during the reporting period was 130 and 134 as at the end of the year. In 2006 salary expenses amounted to 43 993 thousand kroons.

Oleg Ossinovski,
Member of the Management Board

Siarhey Psiola
Member of the Management Board

Tallinn, ............. 2007

# CONSOLIDATED FINANCIAL STATEMENTS

## Management Board's confirmation of the consolidated financial statements

The Management Board confirms the correctness and completeness of AS Spacecom 2005 financial statements as presented on pages 4-36.

The Management Board confirms that:

1. the accounting policies and preparation 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 concern.

Oleg Ossinovski
Member of the Board

Siarhey Psiola
Member of the Board

Tallinn, 24.05.2007

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# BALANCE SHEET

(In thousands Estonian kroons and thousands US dollars)*

| ASSETS | Note | 31.12.2006 thousands EEK | 31.12.2006 thousands USD | 31.12.2005 thousands EEK | 31.12.2005 thousands USD |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash and bank | 4 | 1 876 | 158 | 67 188 | 5 082 |
| Trade receivables | 5 | 74 079 | 6 235 | 70 827 | 5 357 |
| Other receivables and prepayments | 6 | 111 884 | 9 416 | 147 498 | 11 157 |
| **Total current assets** | | **187 839** | **15 809** | **285 513** | **21 596** |
| **Non-current assets** | | | | | |
| **Long-term financial assets** | | | | | |
| Investments in associates | 8;9 | 11 770 | 991 | 10 734 | 812 |
| Long-term prepaid expenses | 10 | 1 253 | 105 | 8 452 | 639 |
| **Total long-term financial assets** | | **13 023** | **1 096** | **19 186** | **1 451** |
| Property, plant and equipment | 11;12 | 1 577 200 | 132 741 | 1 613 464 | 122 042 |
| Prepayments for property, plant and equipment | 11 | 294 | 25 | 867 | 66 |
| **Total property, plant and equipment** | | **1 577 494** | **132 766** | **1 614 331** | **122 107** |
| **Total non-current assets** | | **1 590 517** | **133 862** | **1 633 517** | **123 558** |
| TOTAL ASSETS | | **1 778 356** | **149 671** | **1 919 030** | **145 154** |

| LIABILITIES AND OWNERS' EQUITY | Note | 31.12.2006 thousands EEK | 31.12.2006 thousands USD | 31.12.2005 thousands EEK | 31.12.2005 thousands USD |
|---|---|---|---|---|---|
| **Current liabilities** | | | | | |
| Loans and lease liabilities | 13 | 359 848 | 30 286 | 285 120 | 21 566 |
| Trade payables and prepayments | 14 | 150 789 | 12 691 | 140 233 | 10 607 |
| Indirect tax liabilities | 7 | 4 086 | 344 | 3 238 | 245 |
| Other liabilities | 15 | 68 980 | 5 806 | 69 532 | 5 259 |
| **Total current liabilities** | | **583 703** | **49 126** | **498 123** | **37 678** |
| **Non-current liabilities** | | | | | |
| Loans and lease liabilities | 13 | 780 739 | 65 709 | 1 188 465 | 89 895 |
| Other liabilities | 15 | 32 402 | 2 727 | 54 092 | 4 091 |
| **Total non-current liabilities** | | **813 141** | **68 436** | **1 242 557** | **93 986** |
| **Total liabilities** | | **1 396 844** | **117 562** | **1 740 680** | **131 664** |
| **Owners' equity** | | | | | |
| Share capital at nominal value | 16 | 400 | 34 | 400 | 30 |
| Statutory legal reserve | | 40 | 3 | 40 | 3 |
| Retained earnings | | 381 072 | 30 191 | 177 918 | 13 893 |
| Currency translation differences | | 0 | 1 881 | 0 | -436 |
| **Total equity** | | **381 512** | **32 109** | **178 358** | **13 490** |
| **TOTAL LIABILITIES AND OWNERS' EQUITY** | | **1 778 356** | **149 671** | **1 919 038** | **145 155** |

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

The notes to the financial statements presented on pages 9-36 are an integral part of the Annual Report.

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## INCOME STATEMENT

(In thousands Estonian kroons and thousands US dollars)*

| | Notes | 01.01.06 - 31.12.06 thousands EEK | thousands USD | 01.01.05 - 31.12.05 thousands EEK | thousands USD |
|---|---|---|---|---|---|
| **Sales** | | | | | |
| Sales | 17 | 727 230 | 58 342 | 559 643 | 44 451 |
| Other operating income | 18 | 23 711 | 1 902 | 39 903 | 3 169 |
| **Total Sales** | | **750 941** | **60 244** | **599 546** | **47 621** |
| **Operating expenses** | | | | | |
| Operating expenses | 19 | 511 597 | 41 043 | 342 403 | 27 196 |
| Depreciation | 11 | 63 468 | 5 092 | 56 582 | 4 494 |
| **Total Operating expenses** | | **575 065** | **46 134** | **398 985** | **31 691** |
| **Operating profit** | | **175 876** | **14 110** | **200 561** | **15 930** |
| Share of associates results | 9 | 1 036 | 83 | 148 | 12 |
| Net finance costs | 20 | 26 242 | 2 105 | -284 977 | -22 635 |
| **Net profit for the period** | | **203 154** | **16 298** | **-84 268** | **-6 693** |

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

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# STATEMENT OF CHANGES IN OWNER'S EQUITY

(In thousands Estonian kroons)

| | Share capital | Statutory legal reserve | Retained earnings | Total |
|---|---|---|---|---|
| Balance as at 31.12.2004 | 400 | 40 | 262 186 | **262 626** |
| Profit for the reporting period | 0 | 0 | -84 268 | **-84 268** |
| **Balance as at 31.12.2005** | 400 | 40 | 177 918 | **178 358** |
| | | | | |
| Balance as at 31.12.2005 | 400 | 40 | 177 918 | **178 358** |
| Profit for the reporting period | 0 | 0 | 203 154 | **203 154** |
| **Balance as at 31.12.2006** | 400 | 40 | 381 072 | **381 512** |

(in thousands US dollars)*

| | Share capital | Statutory legal reserve | Retained earnings | Currency translation differences | Total |
|---|---|---|---|---|---|
| **Balance as at 31.12.2004** | 35 | 3 | 20 586 | 2 270 | **22 894** |
| Profit for the reporting period | 0 | 0 | -6 693 | 0 | **-6 693** |
| Currency translation differences | -5 | 0 | 0 | -2 706 | **-2 711** |
| **Balance as at 31.12.2005** | 30 | 3 | 13 893 | -436 | **13 490** |
| | | | | | |
| Balance as at 31.12.2005 | 30 | 3 | 13 893 | -436 | **13 490** |
| Profit for the reporting period | 0 | 0 | 16 298 | 0 | **16 298** |
| Currency translation differences | 4 | 0 | 0 | 2 317 | **2 321** |
| **Balance as at 31.12.2006** | 34 | 3 | 30 191 | 1 881 | **32 109** |

Additional information about share capital is presented in Note 16.

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

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# CASH FLOW STATEMENT

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

| | Note | 01.01.06 - 31.12.06 thousands EEK | thousands USD | 01.01.05 - 31.12.05 thousands EEK | thousands USD |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Operating profit | | **175 876** | **14 110** | **200 561** | **15 930** |
| **Non-monetary adjustments:** | | | | | |
| Depreciation | 11 | 63 468 | 5 092 | 56 582 | 4 494 |
| Amortization of deferred income | 12 | -21 690 | -1 740 | -21 805 | -1 732 |
| Profit/loss from disposals of fixed assets | 18 | -415 | -33 | -6 536 | -519 |
| Changes in receivables and prepayments | 5;6;7;10 | 4 817 | 386 | -81 021 | -6 435 |
| Changes in payables and prepayments | 7;14;15 | 11 590 | 930 | 81 046 | 6 437 |
| Interest paid | 20 | -110 303 | -8 849 | -96 655 | -7 677 |
| **Total cash flow from operating activities** | | **123 342** | **9 895** | **132 172** | **10 498** |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | 11 | -24 464 | -1 963 | -289 905 | -23 027 |
| Proceeds from disposal of fixed assets | 11 | 824 | 66 | 14 036 | 1 115 |
| Disposal of associates | 9 | 39 613 | 3 178 | 4 646 | 369 |
| Loans granted | 6 | -3 159 | -253 | -29 813 | -2 368 |
| Repayments of loans granted | 6 | 0 | 0 | 32 602 | 2 590 |
| Interest | 20 | 654 | 52 | 0 | 0 |
| **Total cash flow from investing activities** | | **13 468** | **1 080** | **-268 433** | **-21 321** |
| **Cash flows from financing activities** | | | | | |
| Proceeds from borrowings | 13 | 79 508 | 6 378 | 355 797 | 28 260 |
| Repayment of borrowings | 13 | -92 831 | -7 447 | -404 093 | -32 096 |
| Receipts from sale - leaseback transactions | 12 | 45 272 | 3 632 | 357 643 | 28 407 |
| Factoring debt repayments | 13 | 5 162 | 414 | 0 | 0 |
| Overdraft | 13 | 3 725 | 299 | 0 | 0 |
| Finance lease payments | 13 | -241 356 | -19 363 | -203 701 | -16 180 |
| **Total cash flow from financing activities** | | **-200 521** | **-16 087** | **105 646** | **8 391** |
| **Net decrease/increase in cash and cash equivalents** | | **-63 710** | **-5 111** | **-30 614** | **-2 432** |
| **Cash and cash equivalents at the beginning of the period** | 4 | **67 188** | **5 082** | **106 864** | **9 316** |
| **Net decrease/increase in cash and cash equivalents** | | **-63 710** | **-5 111** | **-30 614** | **-2 432** |
| Currency translation differences | | -1 602 | 187 | -9 062 | -1 802 |
| **Cash and cash equivalents at the end of the period** | 4 | **1 876** | **158** | **67 188** | **5 082** |

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

The notes to the financial statements presented on pages 9-36 are an integral part of the Annual Report.

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# NOTES TO THE FINANCIAL STATEMENTS

## Note 1. Accounting policies and methods used in the preparation of the financial statements

### General information

AS Spacecom is a company incorporated under the legislation of the Republic of Estonia. The principle activities of the company include the rent of railway rolling stock, railway services on the infrastructure of Estonian Railways and railway forwarding services.

Consolidated financial statements comprise financial data of AS Spacecom (the parent company, commercial registry nr. 10940566; address Pärnu mnt 139E/1, 11317, Tallinn), AS Skinest Veeremi (Estonia) and SIA Hoover (Latvia). In addition the parent company has a 25,27% participation in the associate A/S „Daugavpils Lokomotivju Remonta Rupnica" (Latvia).

The fiscal year started on 1 January 2006 and ended on 31 December 2006. All information in the financial statements is presented in thousands of Estonian kroons, unless otherwise stated.

The consolidated financial statements of AS Spacecom (hereafter Group) for 2006 have been prepared in accordance with the International Financial Reporting Standards (IFRS).

The financial statements have been prepared under the historical cost convention as modified by the certain principles presented below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements have been approved of by the Group's management on 24th May 2007.

### A. New IFRS standards, accounting policies and presentation

Certain new IFRSs became effective for the Group from 1 January 2006. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies.

- IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006)
- IAS 39 (Amendment) – The Fair Value Option (effective from 1 January 2006)
- IAS 39 (Amendment) - Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)
- IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006)
- IAS 21 (Amendment) - Net Investment in a Foreign Operation (effective from 1 January 2006)
- IAS 19 (Amendment) - Employee Benefits (effective from 1 January 2006).

The adoption of the above standards caused no significant changes to the existing recognition and measurement policies and had no impact on the profit of the Group. However, the adoption of the above revised standards has resulted in certain changes in the disclosure and presentation of the financial information and some additional information has been disclosed in the notes to the financial statements. Comparative figures have been presented in accordance with the new format.

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods and which the entity has not early adopted:

- IAS 1 (amendment) – First-time adoption of IFRS
- IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007)
- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009)
- IAS 23 – Borrowing costs

**Other new standards or interpretations**. The Group has not early adopted the following other new standards or interpretations:

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, which is from 1 January 2007).
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, which is from 1 January 2007).
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006);

- IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).

The new standards and interpretations are not expected to significantly affect the Group's financial statements.

**B. Consolidation**

Entities where the Group has control over the financial and operating policies of the entity are considered to be subsidiaries. All subsidiaries are consolidated. The existence of control is assumed when the Group's share in the subsidiary is more than 50% or the Group has the power to control the operational and financial policy of the subsidiary.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries, except for the transactions between entities under common control. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill.

The financial data of the parent and its subsidiaries are consolidated on a line-by-line basis. Intra-group transactions, balances and resulting unrealized gains and losses on transactions between group companies are eliminated in full.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The following subsidiaries are included in the 2006 consolidated financial statements of the Group.

| | | Share | | | |
|---|---|---|---|---|---|
| | Domicile | 2006 | 2005 | Principle activity | Owner |
| AS Skinest Veeremi | Eesti | 100% | 100% | Rent of railway tanks | AS Spacecom |
| SIA Hoover | Latvia | 100% | 100% | Sub-rent of railway tanks | AS Spacecom |

**C. Associates**

Entities, where the Group has directly or indirectly significant influence, but not control over the financial and operating policies are considered to be associates. Significant influence is assumed when the Group's share in the entity is 20-50%. Investments in associates are accounted for by the equity method of accounting in the Group's financial statements.

Group's interest in the associates' result is accounted for from the date on which significant influence is obtained by the Group and it is no longer accounted for from the date at which significant influence ceases.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated except for the losses incurred by impairment of assets.

**D. Accounting for subsidiaries and associates in the separate financial statements of the parent company**

According to the Accounting Act of Estonia the balance sheet, income statement, cash flow statement and statement of changes in equity of the parent company shall be presented in the notes to the consolidated financial statements. The accounting policies applied for the preparation of the separate financial statements of the parent company is the same as those which have been used for the preparation of the current consolidated financial statements. The financial statements of the parent company are presented in note 26.

According to the revised IAS 27 "Consolidated and Separate Financial Statements" the accounting principle for the measurement of investment in subsidiaries is changed.

The subsidiaries are carried in the balance sheet of the parent company at acquisition cost less impairment charges.

## E. Foreign currency

### a. 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, which is the functional and presentation currency of the parent company.

Financial statements of foreign operations

The results and financial position of each Group entity are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- and expenses for each income statement are translated at average exchange rates.
- equity items other than the net profit or loss for the period are translated at the closing rate existing 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".

All numbers are rounded to the nearest thousand. For the convenience of users, the 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*":

### b. 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. Gains and losses resulting from the settlement of such transactions are recorded in the income statement. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies and non-monetary financial assets and liabilities measured at fair value 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 in the income statement.

## F. The current/non-current distinction

In the balance sheet assets and liabilities are classified as current or non-current. The assets are regarded as current if they are expected to be realized or are held for sale or consumption within one year. The liabilities are regarded as current if they are expected to be settled within one year. All other assets and liabilities are regarded as non-current. Borrowings, that are due within 12 months from the balance sheet date, but which are prolonged after the balance sheet date as long-term ones, are presented as current ones. In addition, borrowings are classified as current if the lender had at 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.

## G. Financial assets

The purchases and sales of financial assets are recognized at the trade date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Depending on the purpose for which financial assets were acquired as well as management's intentions, financial assets are classified into the different categories at initial recognition.

*Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method, less allowance for impairment.

When it is probable that the Group is unable to collect all amounts due according to the original terms of receivables, an allowance is set up for the impairment of these receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount. The recoverable amount is the expected future cash flows discounted at the market rate of interest for similar borrowers. Impairment losses are charged to the income statement.

Neither in 2006 nor in 2005 had the Group held the financial assets accounted for at fair value through profit or loss.

### H. Cash and cash equivalents

For the proposes of the balance sheet and the cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

### I. 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 to the receivable are transferred from seller to purchaser (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 similar 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 undertook for the purposes of cash flow management or credit risk mitigation.

### J. Property, plant and equipment

Property, plant and equipment are assets that are used in production, providing services or in administrative purposes 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 into an operational state and location. Property, plant and equipment are stated at historical cost less depreciation and impairment.

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 enterprise. Other maintenances and repairs are expensed when incurred.

The difference between the acquisition cost and the residual value of an item of property, plant and equipment is depreciated over the useful life of the asset. At each balance sheet, the appropriateness of depreciation rates, methods and the residual value is assessed. 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 3-5 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.

Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount.

Interest costs on borrowings to finance the construction of fixed assets are expensed when occurred.

### K. Impairment of assets

Assets that have an indefinite useful life (both tangible (land) and intangible (goodwill)) are not subject to depreciation and are tested annually for impairment, by comparing their carrying amont with the recoverable amount.

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If such circumstances exist, the recoverable amount is compared with the carrying amount.

An impairment loss is recognized 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 purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit).

Assets, which were written down, are reviewed on each balance sheet date to determine whether their recoverable value has arisen. The reversal of the impairment loss is recorded in the income statement of the financial year as a reduction of the impairment losses (except for the impairment of goodwill, which is not reversible).

## L. 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 company. Other lease agreements are classified as operating leases.

### a. The Group is the lessee

Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The tangible assets acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

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

### b. 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 recognized 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 recognized 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 recognized on a straight-line basis over the lease term.

### c. Sale and Leaseback Transactions

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.

If a sale and leaseback transaction results in a finance lease, the transaction is recorded as a financing transaction. The asset "sold" is not derecognized from the balance sheet of the seller and the "sales proceeds" are recognized as finance lease liability. The difference between the sales price and the present value of minimum lease payments is recognized over the term of the lease as finance charge (interest expense) on the same bases as in the ordinary finance lease.

If the sale leaseback transaction results in 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 usual sales transaction and any profit or loss is recognized immediately

If the sale price is below the fair value, any profit or loss shall be recognized immediately except that, if the loss is compensated for by future lease payments at below market price, it shall be deferred and amortized 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 shall be deferred and amortized 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 recognized immediately.

## M. Financial liabilities

After initial recognition, all financial liabilities (trade payables, other short and long-term payables, borrowings, bonds) are measured at amortized cost using the effective interest rate method.

Amortized cost of the short-term liabilities normally equals to their nominal value, therefore the short-term liabilities are stated in the balance sheet in their redemption value. Long-term liabilities are recognized initially at fair value of the proceeds received (net of transaction costs incurred) and subsequently measured at amortized cost; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest rate method.

Financial liabilities are classified as current when it is due to be settled within twelve months after the balance sheet date; or the entity 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 from the balance sheet date, but which are prolonged after the balance sheet date as long-term ones, are presented as current ones. In addition, borrowings are classified as current if the lender had at 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.

## N. Provisions and contingent liabilities

A provision is recognized when group has a present obligation (legal or constructive) as a result of a past event but the timing or amount of liability is uncertain. In recording the provisions in the balance sheet, the estimates of outcome and financial effect are determined by the judgment of the management of the Group. The amount recognized as a provision is the management's best estimate of the expenditure required to settle the present obligation at the balance sheet date or to transfer it to a third party at that time.

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.

## O. Taxation

### a. Corporate income tax

According to the Income Tax Act of the Republic of Estonia the net profit earned by enterprises is not taxed. Thus, there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets and liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to income tax 22/78 of net dividend paid (until 31 December 2006 the tax rate was 23/77 and until 31 December 2004 the tax rate was 24/76). 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 profit of companies located in Latvia is 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 utilized.

### b. Other taxes

The Group's result is affected by the following taxes:

| Tax | Tax rate |
|---|---|
| Social insurance tax | 33% of the payroll paid to the employees and of the fringe benefits |
| Unemployment tax | 0,3 % of the payroll paid to the employees (till 31.12.2005 - 0,5%) |
| Fringe benefits tax | 23/77 of the fringe benefits to the employees (starting from 01.01.07 22/78) |
| Income tax on expenses not related to business activities | 23/77 of the expenses not related to business activities (starting from 01.01.07 22/78) |

## P. Revenue recognition

Sales comprise the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Sales are shown net of value-added tax, returns and rebates. Revenue from the sale of goods is recognized when significant risks and rewards of ownership of the goods are transferred to the buyer. Sales from rendering of services are based on the stage of completion determined by reference to services performed to date as a percentage of total services to be performed.

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

### Q. 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 to one-tenth of the 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. Financial risks

The Group's financial risk management focuses on the mitigation of financial risks and seeks to minimize potential adverse effects on the financial performance of the Group.

**a. Liquidity risk**

Liquidity risk is the risk that the Group would be unable to cover its current liabilities and investment needs due to insufficient cash flows. Liquidity risk is mitigated by the fact that all railway tanks of the Group are covered by long-term lease agreements which guarantee rental income in a long run regardless the fact whether the lessee uses leased assets or not. Additional information about Group's solvency is presented in note 25.

**b. Credit risk**

Credit risk is the risk that clients and counterparties fail to fulfill their obligations. The Group does not have any significant concentration of the credit risk. For mitigating the risk, management continually assesses solvency of the clients. Doubtful receivables are written down. Spare cash is deposited with reliably financial institution. Management of the Group estimates that the Group does not have a significant credit risk.

**c. Interest rate risk**

The interest risk emerges from floating interest rate borrowings, resulting in danger that the borrowing interest payments significantly increase. Sensitivity analysis is used for assessing the interest rate risk.

**d. Exchange rate risk**

The main cash inflows and outflows of the Group are fixed in US dollars. To avoid exchange risks, main contracts are concluded in US dollars as well. All long-term borrowing, lease and lease-out contracts are also fixed in US dollars.

**e. Fair value risk**

Fair value risk is the risk of decline of the values of the assets below their carrying values. The risk is mitigated by using long-term rent agreements which ensure continuing cash flows from using the assets. According to the management estimates the carrying values of Group's assets and liabilities do not significantly differ from their fair value.

**e. Political risk**

The rent of railway tanks and railway operations being part of the transit are closely interrelated with Russia and therefore the financial and operational results of the Group are dependant on relationships between Estonia and Russia. This risk bears a political character and means that business activities of the Group may impair if the political relationships between the two countries are tense.

## Note 3. Critical accounting estimates and judgments in applying accounting policies

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 Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The effect of changes in management estimates are accounted for prospectively as incurred.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are presented below.

*Useful lives of property, plant and equipment*
The estimated useful lives of fixed assets are based on management's estimate on the period during which the assets will be used, specifics of business environment in which the assets will be used and usage prospective. The depreciation charge of the group in the reporting period comprised 63,5 million kroons. If the depreciation rates were increased / reduced by 10%, the annual depreciation charge would grow / decrease around 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 value of the Group's property, plan and equipment is reassessed at least annually and additionally whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The recoverable amount is the highest of the net realizable value or value in use of the asset. A write-down consists of the difference between carrying value and recoverable value. 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 recognized or the previous impairment charge is reversed either partly or wholly.

*Provisions and contingent liabilities*
In estimating the probability of realization 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.

## Note 4. Cash and bank

| | 31.12.2006 thousands EEK | 31.12.2005 thousands EEK |
|---|---|---|
| Cash at bank | 1 054 | 453 |
| Overnight deposits | 821 | 66 731 |
| Cash in hand | 1 | 4 |
| **Total** | **1 876** | **67 188** |

The average interest rate on the deposit in 2006 4.24% (2005: 2.09%)

## Note 5. Trade receivables

| | 31.12.2006 thousands EEK | 31.12.2005 thousands EEK |
|---|---|---|
| **Receivables from non-related parties** | 46 583 | 44 742 |
| Accounts receivable for railway tanks rent | 9 029 | 5 427 |
| Accounts receivable for forwarding | 6 753 | 4 023 |
| Accounts receivable for freight transportation | 3 129 | 4 327 |
| **Total:** | **65 494** | **58 519** |
| Allowance for doubtful receivables (Note 19) | -233 | -1 035 |
| **Total receivables from non-related parties** | **65 261** | **57 484** |
| **Receivables from related parties** | | |
| Accounts receivable for railway tanks rent | 0 | 1 346 |
| Accounts receivable for forwarding | 4 | 56 |
| Accounts receivable for freight transportation | 7 450 | 14 039 |
| Other receivables | 1 364 | 59 |
| **Total:** | **8 818** | **15 500** |
| Allowance for doubtful receivables | 0 | -2 157 |
| **Total receivables from related parties (Note 21)** | **8 818** | **13 343** |
| **Total** | **74 079** | **70 827** |

During the period the Group made allowances for doubtful receivables in the amount of 233 th. EEK (2005: 1 035 th. EEK).

## Note 6. Other receivables and prepayments

| | 31.12.2006 thousands EEK | 31.12.2005 thousands EEK |
|---|---|---|
| Prepaid expenses (see table below) | 25 783 | 26 333 |
| Court deposit ** | 82 800 | 82 800 |
| Loans granted | 3 236 | 0 |
| *Incl. related parties (Note 21)* | *2 657* | *0* |
| Interests on loans granted | 28 | 0 |
| *Incl. related parties (Note 21)* | *8* | *0* |
| Receivables for shares sold* | 0 | 37 876 |
| Other receivables | 22 | 489 |
| Taxes prepaid (Note 7) | 15 | 8 |
| **Total** | **111 884** | **147 506** |

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* In 2004 AS Spacecom made a prepayment in the amount of 37 876 thousand kroons for a 50% share of an Estonian company. AS Spacecom obtained sharegolder's rights in respect of the acquired share in 2005, but in 2005 AS Spacecom sold this shareholding. The money for the shares sold was received at the beginning of 2006.

** At the present time AS Spacecom has an outstanding litigation with AS Eesti Raudtee (Estonian Railways) over the amount of the 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 Railway Act and 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 invoices for infrastructure usage fee only partly in the amount that was considered as the fair fee. At the same time these invoices were recognized in full as expenses in the books of the Group (see also Note 19).

AS Spacecom has filed a petition to 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 unfavorable decision of the court.

As it has already been mentioned, the group has recognized all infrastructure fee expenses in full. Therefore, even the most unfavorable outcome of the litigation will not incur 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 favorable to the company. At the end of 2006 the Group obtained a bank guarantee letter against witch the court freed 82 800 thousand kroons from the court deposit at the beginning of 2007. Additional information on contingent liabilities is provided in Note 22.

**Prepaid expenses**

| | 31.12.2006<br>thousands EEK | 31.12.2005<br>thousands EEK |
|---|---|---|
| Forwarding expenses | 717 | 1 563 |
| Prepayment of infrastructure usage fee | 9 178 | 8 527 |
| Prepaid VAT | 617 | 0 |
| Prepaid expenses* | 7 155 | 14 373 |
| Other | 6 758 | 1 870 |
| Inventory | 1 358 | 0 |
| **Total** | **25 783** | **26 333** |

* In 2004 the company capitalized initial direct costs incurred specifically to conclude a rent agreement to lease out railway tanks in the amount of 34 020 thousand kroons. Initial direct costs related to a second agreement were capitalized in 2005 in the amount of 4 982 thousand kroons making a total of 22 360 thousand kroons at the end of the year (incl. short-term part 14 373 thousand kroons and long-term part 7 987 thousand kroons, see Note 10). These expenses are amortized over the lease term (3 years).

## Note 7. Taxes

(in thousands Estonian kroons)

| | 31.12.2006 | | 31.12.2005 | |
|---|---|---|---|---|
| | Receivable | Payable | Receivable | Payable |
| VAT | 15 | 2 123 | 8 | 1 416 |
| Personal income tax | 0 | 663 | 0 | 635 |
| Social security tax | 0 | 1 134 | 0 | 1 031 |
| Unemployment insurance premium | 0 | 24 | 0 | 35 |
| Contributions to mandatory funded pension | 0 | 45 | 0 | 32 |
| Income tax from fringe benefits | 0 | 97 | 0 | 89 |
| **Total** | **15** | **4 086** | **8** | **3 238** |

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## Note 8. Subsidiaries

In the year 2006 AS Spacecom held shares of the following subsidiaries:

| | AS Skinest Veeremi | SIA Hoover |
|---|---|---|
| Country of incorporation | Estonia | Latvia |
| Date of purchase | 27.01.2004 | 16.07.2004 |
| Main activity | Rent of railway tanks | Rent of railway tanks |
| % of shares at the beginning of the period | **100** | **100** |
| % of shares at the end of the period | **100** | **100** |

There were no changes in shares of subsidiaries in 2005.

<u>Skinest Veeremi AS</u>

In January 2004 AS Spacecom acquired a 100% share in Skinest Veeremi AS. The main assets of the company include 600 railway tanks, which are leased out under long-term contracts. The subsidiary was acquired from a company that was related to a member of the management board of AS Spacecom. The payment was made in cash. The transaction was carried out on an arm's length basis and no goodwill arose.

**Condensed financial information:**

| | 31.12.2006 thousands EEK | 31.12.2005 thousands EEK |
|---|---|---|
| Cash and bank accounts | 20 | 2 678 |
| Long-term receivables | 85 549 | 88 578 |
| Property, plant and equipment | 180 496 | 187 900 |
| Other assets | 16 229 | 10 840 |
| **Total assets** | **282 294** | **289 996** |
| Short-term liabilities | 32 488 | 35 306 |
| Long-term liabilities | 88 330 | 133 298 |
| Owners' equity | 161 476 | 121 392 |
| **Total liabilities and owners' equity** | **282 294** | **289 996** |

| | 31.12.2006 thousands EEK | 31.12.2005 thousands EEK |
|---|---|---|
| Sales | 49 112 | 58 453 |
| Other income | 4 648 | 947 |
| Operating expenses | 8 213 | 14 562 |
| Operating profit (-loss) | 45 547 | 44 838 |
| Net finance costs | -5 463 | -19 708 |
| **Net profit for the financial year** | **40 084** | **25 130** |

<u>SIA HOOVER</u>

In July 2004 AS Spacecom acquired a 100% share in SIA Hoover for 19 thousand kroons. In 2005 capital contribution was made in the amount of 22 thousand kroons. The subsidiary is domiciled in Latvia. The company had not had any operations nor significant assets or liabilities before the acquisition. According to the estimation of the management board the fair value of the net assets was equivalent to the acquisition price.

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Condensed financial information

| | 31.12.2006 thousands EEK | 31.12.2005 thousands EEK |
|---|---|---|
| Other assets | 76 | 2 202 |
| **Total assets** | **76** | **2 202** |
| Short-term liabilities | 81 | 2 188 |
| Owners' equity | -5 | 14 |
| **Total liabilities and owners' equity** | **76** | **2 202** |

| | 31.12.2006 thousands EEK | 31.12.2005 thousands EEK |
|---|---|---|
| Sales | 4 414 | 10 357 |
| Operating expenses | 4 449 | 10 363 |
| Operating profit (-loss) | -35 | -6 |
| Net finance costs | 16 | -26 |
| **Net profit for the financial year** | **-19** | **-32** |

## Note 9. Associate

| | 31.12.2006 thousands EEK | 31.12.2005 thousands EEK |
|---|---|---|
| Shares of associate | 11 770 | 10 734 |
| **Total** | **11 770** | **10 734** |

(in thousands Estonian kroons)

| | AS Daugavpils Lokomotivju Remonta Rupnica | Total |
|---|---|---|
| Country of incorporation | Latvia | |
| Date of purchase | 22.06.2004 | |
| Main activity | Repair of railway tanks and locomotives | |
| **% of shares at 31.12.2005** | **25,27** | |
| **Cost of investment at 31.12.2005** | **10 586** | **10 586** |
| **Book value of shares at 31.12.2005** | **10 734** | **10 734** |
| Profit / loss from equity participation | 1 036 | 1 036 |
| **% of shares at 31.12.2006** | **25,27** | |
| **Cost of investment at 31.12.2006** | **10 586** | **10 586** |
| **Book value of shares at 31.12.2006** | **11 770** | **11 770** |

**Daugavpils Lokomotivju Remonta Rupnica**

In June 2004 AS Spacecom acquired a 36,36% share in Daugavpils Lokomotivju Remonta Rupnica (DLRR) paying 1 177 thousand dollars (15 232 thousand kroons) in cash. The transaction was carried out on an arm's length basis and no goodwill arose.

In February 2005 AS Spacecom sold part of its investment in DLRR for 4 646 thousand kroons (359 thousand US dollars). After that transaction the share of AS Spacecom in DLRR decreased to 25.27%. The subsidiary is located in Daugavpils, Latvia and its core operations are the repairing of railway tanks and locomotives.

**Condensed financial information**

| | 31.12.2006 thousands EEK | 31.12.2005 thousands EEK |
|---|---|---|
| Cash and bank accounts | 247 | 129 847 |
| Property, plant and equipment | 98 303 | 64 586 |
| Other assets | 187 072 | 199 354 |
| **Total assets** | **285 622** | **393 787** |
| Short-term liabilities | 121 051 | 237 063 |
| Long-term liabilities | 62 589 | 73 553 |
| Owners' equity | 101 982 | 83 171 |
| **Total liabilities and owners' equity** | **285 622** | **393 787** |

| | 31.12.2006 thousands EEK | 31.12.2005 thousands EEK |
|---|---|---|
| Sales | 418 226 | 243 039 |
| Other income | 8 771 | 4 702 |
| Operating expenses | 421 075 | 270 250 |
| Operating profit (-loss) | 5 922 | -22 509 |
| Taxes | 1 817 | 659 |
| **Net profit for the financial year** | **4 105** | **-23 168** |

## Note 10. Long-term prepaid expenses

| | 31.12.2006 thousands EEK | 31.12.2005 thousands EEK |
|---|---|---|
| Prepaid expenses (Note 6) | 553 | 7 987 |
| Other receivables | 700 | 465 |
| **Total** | **1 253** | **8 452** |

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## Note 11. Property, plant and equipment

(in thousands Estonian kroons)

| | Land | Buildings | Railway tanks and locomotives | Machinery | Other equipment | Prepayment | Total |
|---|---|---|---|---|---|---|---|
| **Balance as at 31.12.2004** | | | | | | | |
| **Acquisition cost** | **2 555** | **0** | **1 444 002** | **0** | **909** | **4 555** | **1 452 021** |
| Accumulated depreciation | 0 | 0 | -63 404 | 0 | -72 | 0 | **-63 476** |
| **Net book value** | **2 555** | **0** | **1 380 598** | **0** | **837** | **4 555** | **1 388 545** |
| **Changes in 2005** | | | | | | | |
| Additions | 0 | 2 659 | 290 472 | 297 | 348 | -3 688 | **290 088** |
| Disposals | 0 | 0 | -7 720 | 0 | 0 | 0 | **-7 720** |
| Depreciation for the period | 0 | -5 | -56 343 | -13 | -221 | 0 | **-56 582** |
| **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** |

Information on pledged assets is provided in Note 22. Information on leased assets is provided in Notes 12.

## Note 12. Finance and operating lease

### Finance lease

<u>The group as a lessee</u>:
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 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 3412 railway tanks (2005: 3283) and the purchase of 13 locomotives (2005: 12).

Railway tanks and locomotives acquired under finance lease (additional information in Notes 11, 13):

| | thousands EEK |
|---|---|
| **Acquisition cost 31.12.2005** | 1 680 691 |
| Accumulated depreciation | 119 205 |
| **Net book value 31.12.2005** | **1 561 485** |
| | |
| **Acquisition cost 31.12.2006** | 1 736 803 |
| Accumulated depreciation | 182 322 |
| **Net book value 31.12.2006** | **1 554 481** |

The excess of sales proceeds over the carrying amount of assets sold in sale-leaseback transactions implemented until 01.01.2005 is amortized into profit over the lease term (see Note 15).

| | thousands EEK |
|---|---|
| **Net book value as at 31.12.04** | **97 587** |
| | |
| Amortized to profit in 2005 (Note 18) | -21 805 |
| **Net book value as at 31.12.05 (Note 15)** | **75 782** |
| | |
| Amortized to profit in 2006 (Note 18) | -21 690 |
| **Net book value as at 31.12.06 (Note 15)** | **54 092** |

*Minimum lease payments*

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

| | 2006 thousands EEK | 2005 thousands EEK |
|---|---|---|
| Minimum lease payments | 858 875 | 1 230 729 |
| Unrealized financial expenses | -101 316 | -185 359 |
| Present value of minimum lease payments (Note 11) | 757 559 | 1 045 370 |

**thousands EEK**

| | Minimum lease payments | Present value of minimum lease payments (Note 13) |
|---|---|---|
| **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 |

| | | |
|---|---|---|
| **2005** | | |
| Total | 1 230 729 | 1 045 370 |
| incl. up to 1 year | 302 150 | 238 848 |
| 1-5 years | 681 165 | 561 034 |
| more than 5 years | 247 414 | 245 488 |

All leased property is rented out under sublease. The income from the sublease is reported below.

The information about finance lease is presented in note 13.

**Operating lease**

**The group as a lessee:**

The Group has rented cars under the operating lease terms.

| | 31.12.2006 thousands EEK | 31.12.2005 thousands EEK |
|---|---|---|
| Operating lease payments during the period | 692 | 536 |
| The payments under non-cancelable lease contracts over upcoming periods | 2 861 | 1 776 |
| incl. up to 1 year | 632 | 568 |
| 1-5 years | 2 229 | 1 208 |

**The Group as a lessor:**

The Group leases out 3412 railway tanks under operating lease:

| | |
|---|---|
| leased to related parties | 500 |
| leased to non-related parties | 2 912 |

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

| | thousands EEK |
|---|---|
| **Acquisition cost 31.12.2005** | 1 517 935 |
| Accumulated depreciation | 112 385 |
| **Net book value 31.12.2005** | **1 405 550** |
| | |
| **Acquisition cost 31.12.2006** | 1 570 449 |
| Accumulated depreciation | 167 545 |
| **Net book value 31.12.2006** | **1 402 904** |

thousands EEK

| | Total | incl. sublease income |
|---|---|---|
| **2006** | | |
| Income from operating lease (Note 17) | 373 048 | 373 048 |
| The income from non-cancelable lease contracts over upcoming periods: | | |
| *incl. up to 1 year* | 337 348 | 337 348 |
| *1-5 years* | 1 391 315 | 1 391 315 |
| **2005** | | |
| Income from operating lease (Note 17) | 338 410 | 338 410 |
| The income from non-cancelable lease contracts over upcoming periods: | | |
| *incl. up to 1 year* | 353 007 | 353 007 |
| *1-5 years* | 297 412 | 297 412 |

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

## Note 13. Borrowings and finance lease liabilities

(in thousands Estonian kroons)

**2006**

| | Balance as at 31.12.2006 | incl. short-term | incl. long-term | Maturity | Interest rate |
|---|---|---|---|---|---|
| **Borrowings** | | | | | |
| Loans from group companies (see Note 21) | 332 691 | 77 232 | 255 459 | 2007-2008 | 5% to 12% |
| Loans from other related parties (see Note 21) | 26 895 | 16 456 | 10 439 | 2007-2008 | 12% |
| Other loans | 14 555 | 14 555 | 0 | 2007 | 0% to 12% |
| **Total** | **374 141** | **108 243** | **265 898** | | |
| **Finance lease liabilities (Note 12)** | 757 559 | 242 718 | 514 841 | 2008-2015 | 1-6month Libor + 1,7-3% 6month Euribor + 1,6-1,7% |
| 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** | | |

2005
(in thousands Estonian kroons)

| | Balance as at 31.12.2005 | incl. short-term | incl. long-term | Maturity | Interest rate |
|---|---|---|---|---|---|
| **Borrowings** | | | | | |
| Loans from group companies (see Note 21) | 384 455 | 46 272 | 338 183 | 2007-2008 | 5% to 12% |
| Loans from other related parties (see Note 21) | 22 475 | 0 | 22 475 | 2007-2009 | 12% |
| Other loans | 21 285 | 0 | 21 285 | 2 007 | 0% to 12% |
| **Total** | **428 215** | **46 272** | **381 943** | | |
| **Finance lease liabilities (Note 12)** | **1 045 370** | **238 848** | **806 522** | 2008-2015 | 1-6month Libor + 1,7-3% 6month Euribor + 1,6-1,7% |
| **Total borrowings** | **1 473 585** | **285 120** | **1 188 465** | | |

**Borrowings and financial lease liabilities by maturity dates:**

**As at 31.12.2006**
(in thousands Estonian kroons)

| | <1 year | 1-5 years | Other 5 years | Total |
|---|---|---|---|---|
| Borrowings | 108 243 | 265 898 | 0 | 374 141 |
| Finance lease liabilities | 237 460 | 506 462 | 13 637 | 757 559 |
| Factoring | 5 162 | 0 | 0 | 5 162 |
| Overdraft | 3 725 | 0 | 0 | 3 725 |
| **Total:** | **354 590** | **772 360** | **13 637** | **1 140 587** |

**As at 31.12.2005**
(in thousands Estonian kroons)

| | <1 year | 1-5 years | Other 5 years | Total |
|---|---|---|---|---|
| Borrowings | 46 272 | 381 943 | 0 | 428 215 |
| Finance lease liabilities | 238 848 | 779 597 | 26 925 | 1 045 370 |
| **Total:** | **285 120** | **1 161 540** | **26 925** | **1 473 585** |

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

**As at 31.12.2006**
(in thousands 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 | 5 162 | 0 | 5 162 |
| Overdraft | 3 725 | 0 | 0 | 3 725 |
| **Total:** | **112 470** | **583 271** | **444 846** | **1 140 587** |

**As at 31.12.2005**
(in thousands Estonian kroons)

| | 1 month | 6-12 month | 1-5 years | Total |
|---|---|---|---|---|
| Borrowings | 0 | 0 | 428 215 | 428 215 |
| Finance lease liabilities | 176 932 | 770 105 | 98 333 | 1 045 370 |
| **Total:** | **176 932** | **770 105** | **526 548** | **1 473 585** |

## Note 14. Trade payables and prepayments

(in thousands Estonian kroons)

| | 31.12.2006 thousands EEK | 31.12.2005 thousands EEK |
|---|---|---|
| Trade payables | 148 222 | 139 209 |
| *incl. related parties (see Note 21)* | *6 333* | *2 385* |
| Prepayment to suppliers | 2 567 | 1 024 |
| *incl. related parties (see Note 21)* | *0* | *593* |
| **Total:** | **150 789** | **140 233** |

## Note 15. Other liabilities

(in thousands Estonian kroons)

| | Short-term part | | Long-term part | | Total | |
|---|---|---|---|---|---|---|
| | 31.12.2006 | 31.12.2005 | 31.12.2006 | 31.12.2005 | 31.12.2006 | 31.12.2005 |
| Payables to employees | 3 773 | 3 098 | 0 | 0 | 3 773 | 3 098 |
| Vacation pay accrual | 1 774 | 1 405 | 0 | 0 | 1 774 | 1 405 |
| Interest debt (see Note 13) | 41 111 | 41 814 | 0 | 0 | 41 111 | 41 814 |
| Deferred income (see Note 12) | 21 690 | 21 690 | 32 402 | 54 092 | 54 092 | 75 782 |
| Other | 632 | 1 525 | 0 | 0 | 632 | 1 525 |
| **Total:** | **68 980** | **69 532** | **32 402** | **54 092** | **101 382** | **123 624** |

**Interest debt**
(in thousands Estonian kroons)

| | 31.12.2006 thousands EEK | 31.12.2005 thousands EEK |
|---|---|---|
| Interest debt from lease contracts | 1 136 | 1 482 |
| Interest debt from loans | | |
| *-to group companies (Note 21)* | *36 600* | *34 179* |
| *-to other related parties ( Note 21)* | *3 023* | *6 153* |
| *-to non-related parties* | *352* | *0* |
| Total interest debt from loans | 39 975 | 40 332 |
| **Total:** | **41 111** | **41 814** |

## Note 16. 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 2005.

The unrestricted equity of the company as at 31. December 2006 was 381 072 thousands kroons (2005: 177 918 thousands kroons).

As at balance sheet date it is possible to pay out dividends to the shareholders in the amount of 297 236 thousands kroons (2005: 136 997 thousands and the corresponding income tax would amount to 83 836 thousands kroons (2005: 40 921 thousands kroons).

## Note 17. Sales

(in thousands Estonian kroons)

The Group's sales is divided as follows:

*by activities*

| | 2006 thousands EEK | 2005 thousands EEK |
|---|---|---|
| Lease of railway tanks and locomotives (note 12) | 373 048 | 338 410 |
| Forwarding services | 204 637 | 64 606 |
| Railway transportation services | 140 314 | 147 550 |
| Repair and maintenance services | 2 561 | 0 |
| Others | 6 670 | 9 077 |
| **Total:** | **727 230** | **559 643** |

*by geographical regions*

| | 2006 thousands EEK | 2005 thousands EEK |
|---|---|---|
| Estonia | 390 241 | 132 297 |
| Russia | 8 318 | 104 623 |
| Latvia | 18 | 21 456 |
| Lithuania | 20 378 | 61 904 |
| Kazakhstan | 185 858 | 203 559 |
| Finland | 112 802 | 25 447 |
| Other | 9 615 | 10 357 |
| **Total:** | **727 230** | **559 643** |

## Note 18. Other income

(in thousands Estonian kroons)

| | 2006 thousands EEK | 2005 thousands EEK |
|---|---|---|
| Amortization of deferred income (see Note 12) | 21 690 | 21 805 |
| Profit from disposal of fixed assets | 415 | 6 536 |
| Interest income | 938 | 2 471 |
| Other | 668 | 9 091 |
| **Total:** | **23 711** | **39 903** |

## Note 19. Operating expenses

(in thousands Estonian kroons)

| | 2006 thousands EEK | 2005 thousands EEK |
|---|---|---|
| Maintenance and rent of railway tanks and locomotives | 87 340 | 89 478 |
| Forwarding expenses | 196 695 | 62 175 |
| Railway infrastructure usage fee and expenses | 159 996 | 127 861 |
| Doubtful receivables (see Note 5) | 233 | 3 192 |
| Personnel related costs | 43 993 | 40 004 |
| Other operating expenses | 23 340 | 19 693 |
| **Total:** | **511 597** | **342 403** |

**Personnel related costs**
(in thousands Estonian kroons)

| | 2006 thousands EEK | 2005 thousands EEK |
|---|---|---|
| Wages and salaries | 30 602 | 28 280 |
| *incl. remuneration to Management Board members* | *5 035* | *7 296* |
| *incl. remuneration to Council members* | *477* | *105* |
| Vacation pay | 2 414 | 1 798 |
| Social security taxes | 10 977 | 9 926 |
| **Total:** | **43 993** | **40 004** |

## Note 20. Financial income and expenses

(in thousands Estonian kroons)

| | 2006 thousands EEK | 2005 thousands EEK |
|---|---|---|
| **Interest expenses** | | |
| on loans | 40 041 | 43 777 |
| on finance lease | 69 560 | 60 535 |
| Other financial expenses | 0 | 9 |
| **Total:** | **109 601** | **104 321** |
| Profit/loss from currency translation differences | 135 843 | -180 656 |
| **Total financial income and expenses** | **26 242** | **-284 977** |

## Note 21. Transactions with related parties

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:

| **2006** | thousands EEK Purchases | thousands EEK Sales |
|---|---|---|
| Rent 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 |
| Purchase/sale of non-current assets (associates) | 408 | 9 |
| ***Total*** | 43 435 | **156 148** |

| 2005 | thousands EEK | |
|---|---|---|
| | Purchases | Sales |
| Rent of railway tanks | 0 | 14 913 |
| Railway transportation services | 0 | 103 491 |
| Other services | 12 167 | 308 |
| *Total transactions with group companies* | **12 167** | **118 712** |
| Other services (companies related to the management) | 8 753 | 7 344 |
| Purchase/sale of non-current assets (associates) | 18 383 | 14 095 |
| *Total* | **39 303** | **140 151** |

**Balances with related parties:**

| | 31.12.2006 thousands EEK | 31.12.2005 thousands EEK |
|---|---|---|
| **Short-term receivables** | | |
| Group companies | 8 789 | 15 389 |
| Companies related to the management | 18 | 52 |
| Other related parties | 11 | 59 |
| Allowance for doubtful receivables | 0 | -2 157 |
| **Total short-term receivables (see Note 5)** | **8 818** | **13 343** |
| | | |
| **Other receivables** | | |
| Loans granted to group companies | 2 657 | 0 |
| Interests receivable from group companies | 8 | 0 |
| **Total other receivables (Note 6)** | **2 665** | **0** |

All short term loans granted to group companies are fully received in 2007.

| | 31.12.2006 thousands EEK | 31.12.2005 thousands EEK |
|---|---|---|
| **Interest debt** | | |
| Group companies | 36 600 | 34 179 |
| Companies related the management | 1 597 | 1 111 |
| Other | 1 426 | 5 042 |
| **Total interest debt (see Note 15)** | **39 623** | **40 332** |
| | | |
| **Other liabilities** | | |
| Other liabilities to group companies | 120 | 571 |
| Other liabilities to companies related to the management | 6 213 | 2 407 |
| **Total other liabilities (see Note 14)** | **6 333** | **2 978** |
| | | |
| **Borrowings** | | |
| Group companies | 77 232 | 46 272 |
| Other related companies | 16 456 | 0 |
| **Total short-term loans ( Note 13)** | **93 688** | **46 272** |
| **Total short-term liabilities** | **139 644** | **89 582** |
| | | |
| Group companies | 255 459 | 338 184 |
| Companies related to the management | 10 439 | 9 254 |
| Other related companies | 0 | 13 221 |
| **Total long-term loans ( Note 13)** | **265 898** | **360 659** |
| **Total long-term liabilities** | **265 898** | **360 659** |

Remuneration paid to the management board and members of the council are disclosed in Note 19.

The members of the management board shall not receive any compensation at the end of the term of the employment contracts.

In 2006 no doubtful receivables with related parties were written down. (2005: 2 157 thousands kroons)

## Note 22. Contingent liabilities

### Contingent liabilities arising from possible tax inspections

The tax authorities have not inspected the books and records of the Group during the years 2005-2006.
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 discloseure would harm the Group's position in the court proceedings. The group management's opinion is that the counterclaim has no grounds and it does not cause material expenses to the Group and therefore no accrual has been made in the financial statements.

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

The Group's subsidiary has a contingent liability related to the change in activities in the amount of up to 300 thousand euros. According to the management's estimate the realization of the liability is not likely and no accrual has been recognized for possible loss.

### Guarantees issued

The Group concluded a bank guarantee contract at the end of year 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) will be completed not in favour of 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 fundsfor the guarantee and freed the amount of 82 800 thousand kroons from the court deposit at the beginning of 2007.

The Group pledged railway tank as collateral for the bank guarantee in favor of the bank in the amount of 617 184 thousands kroons ( Note 13).

The Group had no guarantees issued as at 31.12.2005.

## Note 23. Commitments

The Group had as at 31.12.2006 contractual obligations to invest during the year 2007 in the reconstruction of the locomotive depot the amount of 2 200 thousands kroons.

The group had a contractual obligation to invest in the reconstruction of railway tanks 6 890 thousand kroons in the year 2006.

## Note 24. Events after the balance sheet date

At the beginning of the year 2007 the Group received funds from the court deposit in the amount of 82 800 thousands kroons (Note 6 and Note 22) out of which 66 240 thousand kroons were returned to related parties as the repayment of loans and the rest of the amount was transferred to the term deposit.

## Note 25. Liquidity of the Group

As at 31. December 2006 the short-term liabilities of the Group exceeded current assets by 396 millions kroons (213 millions kroons 31.12.2005).

Such situation is caused by the facts that:

- The lease of the railway tanks acquired has been accounted for as finance lease (thus the future lease payments are recognized as a liability in the balance sheet; see Notes 12 and 13) and transactions to lease out the railway tanks have been recognized as operating lease (thus the future rent receivables are accounted for off balance sheet). Rent receivables during the year 2007 are shown in Notes 12.
- 93.7 millions kroons presented within current borrowings are loans from related parties. The Management is assured that these loans will not be demanded fully in 2007. The maturity terms will be prolonged or loans will be refinanced.

The rent of railway tanks to customers is covered by long-term contracts or contracts with prolongation. During the preparation of the financial statements the Group has started negotiations with banks for prolongation of the finance lease contracts. By the time of the confirmation of the financial statements the Group has prolonged some of the finance lease contracts as a result of which the total payments of principle and interest in 2007 will decrease by approximately 21 million kroons compared to 2006.

The receipt of funds from the court deposit at the beginning of 2007 allowed the Group to pay back to the related companies loans in the amount of 66.2 millions kroons which will decrease interest expenses in 2007 approximately by 6 million kroons.

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

## Note 26. Supplementary disclosures on the parent company of the Group

### Balance sheet

(in thousands Estonian kroons)

| Assets | 31.12.2006 thousands EEK | 31.12.2005 thousands EEK |
|---|---|---|
| **Current assets** | | |
| Cash and bank | 1 848 | 64 503 |
| Trade receivables and prepayments | 74 054 | 66 604 |
| Other receivables | 111 675 | 146 978 |
| **Total current assets** | **187 577** | **278 085** |
| **Non-current assets** | | |
| **Long-term financial assets** | | |
| Investments in subsidiaries and associates | 90 731 | 90 731 |
| Other long-term assets | 1 253 | 8 452 |
| **Total long-term financial assets** | **91 984** | **99 183** |
| Property, plant and equipment | 1 371 148 | 1 398 846 |
| Prepayments for property, plant and equipment | 294 | 867 |
| **Total property, plant and equipment** | **1 371 442** | **1 399 713** |
| **Total non-current assets** | **1 463 426** | **1 498 896** |
| TOTAL ASSETS | **1 651 003** | **1 776 981** |

| Liabilities and owners' equity | | |
|---|---|---|
| **Current liabilities** | | |
| Loans and lease liabilities | 328 732 | 252 616 |
| Trade payables and prepayments | 159 746 | 141 191 |
| Indirect tax liabilities | 3 430 | 3 134 |
| Other liabilities | 75 289 | 71 972 |
| **Total current liabilities** | **567 197** | **468 913** |
| **Non-current liabilities** | | |
| Loans and lease liabilities | 779 325 | 1 145 659 |
| Other liabilities | 31 035 | 52 178 |
| **Total non-current liabilities** | **810 360** | **1 197 837** |
| **Total liabilities** | **1 377 557** | **1 666 750** |
| **Owners' equity** | | |
| Share capital at nominal value | 400 | 400 |
| Statutory legal reserve | 40 | 40 |
| Retained earnings | 273 006 | 109 791 |
| **Total equity** | **273 446** | **110 231** |
| TOTAL LIABILITIES AND OWNERS' EQUITY | 1 651 003 | 1 776 981 |

## Income statement

(in thousands Estonian kroons)

| | 01.01.06 - 31.12.06 thousands EEK | 01.01.05 - 31.12.05 thousands EEK |
|---|---|---|
| **Sales** | | |
| Sales | 719 276 | 514 632 |
| Other operating income | 22 909 | 38 847 |
| **Total Sales** | **742 185** | **553 479** |
| | | |
| **Operating expenses** | | |
| Operating expenses | 551 911 | 348 687 |
| Depreciation | 54 902 | 48 010 |
| **Total Operating expenses** | **606 813** | **396 697** |
| | | |
| **Operating profit** | **135 372** | **156 782** |
| | | |
| Financial income and expenses | 27 843 | -265 134 |
| | | |
| **Net profit for the period** | **163 215** | **-108 352** |

## Statement of changes in owner's equity

(in thousands Estonian kroons)

| | Share capital | Statutory legal reserve | Retained earnings | Total |
|---|---|---|---|---|
| **Balance as at 31.12.2004** | 400 | 40 | 218 143 | 218 583 |
| Carrying amount of investments in subsidiaries | 0 | 0 | -95 351 | -95 351 |
| Value of investments in subsidiaries using equity method | 0 | 0 | 139 394 | 139 394 |
| **Adjusted unconsolidated owner's equity as at 31.12.2004** | 400 | 40 | 262 186 | 262 626 |
| 2005 profit | 0 | 0 | -108 352 | -108 352 |
| **Balance as at 31.12.2005** | 400 | 40 | 109 791 | 110 231 |
| Carrying amount of investments in subsidiaries | 0 | 0 | -90 731 | -90 731 |
| Value of investments in subsidiaries using equity method | 0 | 0 | 158 858 | 158 858 |
| **Adjusted unconsolidated owner's equity As at 31.12.2005** | 400 | 40 | 177 918 | 178 358 |
| Profit for the reporting period | | | 163 215 | 163 215 |
| **Balance as at 31.12.2006** | 400 | 40 | 273 006 | 273 446 |
| Carrying amount of investments in subsidiaries | | | -90 731 | -90 731 |
| Value of investments in subsidiaries using equity method | | | 198 797 | 198 797 |
| **Adjusted unconsolidated owner's equity As at 31.12.2006** | 400 | 40 | 381 072 | 381 512 |

## Cash flow statement
(in thousands Estonian kroons)

| | 01.01.06 - 31.12.06<br>thousands EEK | 01.01.05 - 31.12.05<br>thousands EEK |
|---|---|---|
| **Cash flows from operating activities** | | |
| Operating profit | **135 372** | **156 782** |
| **Non-monetary adjustments:** | | |
| Depreciation | 54 902 | 48 010 |
| Amortization of deferred income | -21 143 | -20 858 |
| Profit/loss from disposals of fixed assets | -415 | -6 536 |
| Changes in receivables and prepayments | 334 | -79 423 |
| Changes in payables and prepayments | 19 026 | 81 004 |
| Interests paid | -99 744 | -86 545 |
| **Total cash flow from operating activities** | **88 331** | **92 434** |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | -24 464 | -289 905 |
| Proceeds from disposal of fixed assets | 824 | 14 036 |
| Acquisitions of subsidiaries | 0 | -22 |
| Disposal of associates | 39 613 | 4 646 |
| Loans granted | -3 159 | -30 718 |
| Repayments of loans granted | 0 | 63 787 |
| Interest received | 654 | 3 678 |
| **Total cash flow from investing activities** | **13 468** | **-234 498** |
| **Cash flows from financing activities** | | |
| Proceeds from borrowings | 85 538 | 445 502 |
| Repayment of borrowings | -92 831 | -409 781 |
| Receipts from sale - leaseback transactions | 45 272 | 251 005 |
| Factoring debt repayments | 5 162 | 0 |
| Overdraft | 3 725 | 0 |
| Finance lease principle payments | -210 087 | -175 104 |
| **Total cash flow from financing activities** | **-163 221** | **111 622** |
| **Net decrease/increase in cash and cash equivalents** | **-61 421** | **-30 442** |
| **Cash and cash equivalents at the beginning of the period** | **64 503** | **104 584** |
| **Net decrease/increase in cash and cash equivalents** | **-61 421** | **-30 442** |
| **Currency translation differences** | **-1 234** | **-9 639** |
| **Cash and cash equivalents at the end of the period** | **1 848** | **64 503** |

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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 2006 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 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Urmas Kaarlep
AS PricewaterhouseCoopers

Margus Lutsoja
Authorised Auditor

12 June 2007

# AS SPACECOM PROFIT ALLOCATION PROPOSAL

The management of AS Spacecom proposes to the General Meeting of Shareholders to transfer net profit for 2006 in amount of 203 154 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 Council to the 2006 Annual Report

The 2006 Annual Report of AS SPACECOM, approved of by the General Meeting of Shareholders on ___ ______________ 2007 and signed on ___ ______________ 2007:

______________________
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
Alexander Nazarchuk

______________________
Member of the Supervisory Board
Dmitry Trofimov