

AS Spacecom

2011 CONSOLIDATED ANNUAL REPORT
(Translation of the Estonian original)

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Beginning and end of financial year:	01.01.2011-31.12.2011

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MANAGEMENT REPORT

AS Spacecom was founded and registered in Estonia in 2003. The parent of AS Spacecom is Globaltrans Investments Holding PLC (Cyprus). As at 31.12.2011, AS Spacecom Group (hereinafter "the Group") includes the subsidiary Ekolinja OY (100%). AS Spacecom also has a 25.27% ownership interest in the associate A/S Daugavpils Lokomotivju Remonta Rupnica (Latvia).

The core activity of the Group is leasing of railway rolling stock. As at 31.12.2011, the Group had 4,035 railway tanks (as at 31.12.2010: 3,710 railway tanks and 4 locomotives). All railway tanks are rented out mainly for a term of 1-3 years. Next year, the Company plans to further increase its rolling stock by 1,000 railway tanks.

The Group's Management Board has two members and their remuneration with accompanying taxes amounted to EUR 341 thousand in 2011 (2010: EUR 1,725 thousand). No remuneration was paid to the members of the Supervisory Board in 2011 and 2010. The average number of employees in the reporting period was 16 (2010: 15 people) and the number of employees at the year-end was 16 (31.12.2010: 16). In 2011, staff costs including taxes amounted to EUR 980 thousand (2010: EUR 2,736 thousand).

The overall development of the Group's operating environment in 2011 did not have a negative impact on the Group's results of operations. Compared to the last year, the rolling stock increased and rental prices increased slightly, impacting the Group's revenue. In 2011, the Group's management continued to improve the customer base and where necessary, redirected the main operations from one market to another. The Group's management will also continue to monitor the composition of the lessee base as well as changes therein in response to market demand.

Key ratios characterizing the performance of the Group are as follows:

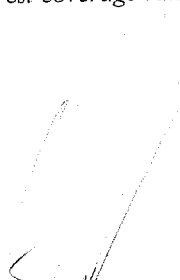
	2011	2010
Return on assets	14.72%	15.32%
Return on equity	20.49%	25.07%
Debt to assets ratio	20.18%	36.07%
Interest coverage ratio	28.6	21.5

Return on assets = net profit / average assets

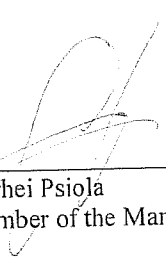
Return on equity = net profit / average equity

Debt to assets ratio = liabilities / assets

Interest coverage ratio = operating profit / interest expense



Oleg Ossinovskii
Member of the Management Board



Siarhei Psiola
Member of the Management Board

Tallinn, 03 April 2012

CONSOLIDATED BALANCE SHEET
(in thousands of euros)

	Note	31.12.2011	31.12.2010
ASSETS			
Current assets			
Cash and cash equivalents	4	220	1 883
Trade receivables	5	4,370	4,699
Other receivables and prepayments	6	900	3,218
Inventories		143	38
Total current assets		5,633	9,838
Non-current assets			
Investments in associates	8	1,426	1,118
Long-term receivables	19	7,821	9,430
Property, plant and equipment	9	99,000	88,954
Prepayment for property, plant and equipment	19	18	6,422
Total non-current assets		108,265	105,925
TOTAL ASSETS		113,898	115,763
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings and finance lease liabilities	11	8,446	15,188
Trade payables and customer prepayments	12	2,754	15,315
Tax liabilities and other current liabilities	13	209	254
Total current liabilities		11,409	30,756
Non-current liabilities			
Borrowings and finance lease liabilities	11	11,580	10,995
Total non-current liabilities		11,580	10,995
Total liabilities		22,989	41,752
EQUITY			
Share capital	14	26	26
Statutory reserve capital		3	3
Retained earnings		90,881	73,983
Total equity		90,909	74,011
TOTAL LIABILITIES AND EQUITY		113,898	115,762

The notes to the financial statements presented on pages 8-30 are an integral part of the Consolidated Annual Report.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in thousands of euros)

	Note	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Operating income			
Revenue	15	47,045	38,288
Other operating income	16	0	272
Total operating income		47,045	38,560
Operating expenses			
Operating expenses	17	19,518	15,845
Depreciation, amortisation and impairment	9	4,595	3,805
Other operating expenses	16	5,653	0
Total operating expenses		29,765	19,650
Operating profit		17,279	18,909
Share of profit of associates	8	308	156
Finance income and costs	18	-689	-2,567
Profit before income tax		16,899	16,498
Corporate income tax		1	12
Net profit		16,898	16,486
Comprehensive income for the financial year		16,898	16,486

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of euros)

Attributable to equity holders of the parent company

	Share capital	Statutory reserve capital	Retained earnings	Total
Balance as at 31.12.2009	26	3	57,497	57,525
Comprehensive income for the financial year	0	0	16,486	16,486
Balance as at 31.12.2010	26	3	73,983	74,011
Comprehensive income for the financial year	0	0	16,898	16,898
Balance as at 31.12.2011	26	3	90,881	90,909

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

The notes to the financial statements presented on pages 8-30 are an integral part of the Consolidated Annual Report.

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CONSOLIDATED CASH FLOW STATEMENT
 (in thousands of euros)

	Note	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Cash flows from operating activities		17,279	18,909
Operating profit			
Adjustments:			
Depreciation, amortisation and impairment	9	4,595	3,805
Amortisation of deferred income	10, 16	-109	-222
Profit from disposal of non-current assets	16	-1,135	29
Change in inventories		-105	-33
Change in receivables and prepayments related to operating activities	5, 6	2,611	-275
Change in liabilities and prepayments related to operating activities	7, 12, 13	-12,485	4,784
Interest paid	18	-605	-869
Total cash flows from operating activities		10,047	26,128
Cash flows from investing activities			
Purchase of property, plant and equipment	9, 19	-10,228	-14,987
Proceeds from sale of property, plant and equipment	9, 16	3,126	1,997
Loans granted	19	-7,989	-9,172
Repayments of loans granted	19	9,593	4,161
Interest received	18	61	421
Total cash flows from investing activities		-5,437	-17,580
Cash flows from financing activities			
Proceeds from borrowings	11	0	6,013
Repayments of borrowings	11	-5,426	-251
Proceeds from refinancing under finance lease	11	12,324	0
Finance lease principal repayments	11	-13,486	-12,737
Change in overdraft	11	244	-248
Total cash used in financing activities		-6,344	-7,223
Total cash flows		-1,735	1,325
Cash and cash equivalents at the beginning of the period	4	1,883	1,142
Net decrease/increase in cash and cash equivalents		-1,735	1,325
Effect of exchange rate changes		71	-584
Cash and cash equivalents at the end of the period	4	220	1,883

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NOTES TO THE FINANCIAL STATEMENTS

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

General information

AS Spacecom is a company incorporated under the legislation of the Republic of Estonia, with its main areas of activities of the leasing of railway rolling stock.

AS Spacecom (hereinafter the "parent") is registered in the Commercial Register of the Republic of Estonia (Register no. 10940566; address Mõisa 4, Tallinn).

In 2010, AS Spacecom merged with its subsidiary Skinest Veeremi AS. The merger had no effect on consolidated data. The subsidiary SIA Hoover has been liquidated.

The 2011 consolidated financial statements comprise the following group entities:

	Domicile	Share		Main area of activity	Owner
		31.12.2011	31.12.2010		
Ekolinja OY	Finland	100%	100%	Sub-lease of railway rolling stock	AS Spacecom

In addition, AS Spacecom has a 25.27% ownership interest in the associate A/S Daugavpils Lokomotivju Remonta Rupnica, Latvia.

The 2011 consolidated financial statements comprise the financial data of AS Spacecom (the parent) and its subsidiary (hereinafter together the "Group") and the Group's participation in associate.

The information in the financial statements is presented in thousands of euros.

The Management Board of AS Spacecom approved and signed this consolidated annual report at 03 April 2012. Pursuant to the Commercial Code of the Republic of Estonia, the annual report shall be approved by the Supervisory Board and the general meeting of shareholders of the parent.

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 2011 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed 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 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.

Change in functional and presentation currency

At 1 January 2011, the Republic of Estonia joined the euro area and adopted the euro as a national currency, replacing the Estonian kroon. Consequently, starting from 1 January 2011 Group's functional currency is the euro. The change in the functional currency was applied prospectively. As at 1 January 2011, the Group has translated its account balances into euros using the conversion rate of EUR 1 = EEK 15.6466.

The consolidated financial statements for the year 2011 are presented in thousands of euros. The comparative figures have been translated from the Estonian kroons into euros using the changeover exchange rate of EUR 1 = EEK 15.6466. As this exchange rate was also the fixed exchange rate in previous periods, no currency translation differences arose.

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Adoption of new or revised standards and interpretations

There are no new or revised standards or interpretations that are effective for the first time for the financial year beginning on 1 January 2011 are not expected to have a material impact to the Group.

New accounting pronouncements

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1 January 2012, and which the Group has not early adopted.

IFRS 12, Disclosure of Interest in Other Entities, (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU).

The standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on a share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

There are no other new or revised standards and interpretations that are not yet effective that would be expected to have a material impact to the Group.

Principles of consolidation

Subsidiaries are entities controlled by the parent. Control is presumed to exist when the parent 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 at 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 at 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 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 amortised, but instead, an impairment test is performed annually. During the impairment test, the carrying amount is compared with the 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 below the carrying amount. Impairment losses of goodwill are not reversed.

Negative goodwill is the amount by which the fair value of the acquired net assets exceeds the cost of a business combination. Negative goodwill is immediately recognised in profit or loss.

The financial information of all subsidiaries under the control of the parent is combined on a line-by-line basis in the consolidated financial statements. Intergroup transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of asset. 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 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 using the equity method under which the investment is initially recognised at cost and thereafter adjusted for post-acquisition changes in the investor's share of the investee's equity (changes both in the profit/ loss of the associate as well as other equity items); depreciation or elimination of differences in carrying amounts and fair values (as determined in a purchase analysis) of investee's assets, liabilities and contingent liabilities. 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 impairment of assets.

At each balance sheet date, it is assessed whether there is any indication that the recoverable amount of the investment has decreased below its carrying amount. If any such indications exist, an impairment test is performed.

Separate financial statements of the parent

The separate primary financial statements of the consolidating entity (parent) 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 are the same as those which have been used for the preparation of the consolidated financial statements. In the separate financial statements of the parent, investments in subsidiaries and associates are recognised at cost (less any impairment losses) (see Note 23).

Foreign currency

Functional and presentation currency

Items included in the financial statements of each Group entity are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements have been prepared in euros (EUR), which is the functional and presentation currency of the parent.

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

Foreign currency transactions

All currencies other than the functional currency euro (the functional currency of the parent is the euro (until 31 December 2010, the Estonian kroon (EEK)) are considered to be foreign currencies. Foreign currency transactions are recorded based on the foreign currency exchange rates of the European Central Bank (until 31 December 2010, the Bank of Estonia) prevailing at the transaction date. Monetary assets and liabilities (cash-settled receivables and loans) denominated in a foreign currency are translated into the functional currency based on the foreign currency exchange rates of the European Central Bank (until 31 December 2010, the Bank of Estonia) prevailing at the balance sheet date. Foreign exchange gains and losses resulting from translation are recorded in the income statement of the reporting period.

Non-monetary assets and liabilities denominated in foreign currency that are not measured at fair value (e.g. prepayments, inventories accounted for using the cost method; property, plant and equipment as well as intangible assets) are not revalued at the balance sheet date but are accounted for using the official exchange rate of the European Central Bank (until 31 December 2010, the Bank of Estonia) prevailing at the date of the transaction.

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 (as at 31.12.2011, there was no cash with a limited use; as at 31.12.2010: EUR 2,117 thousand, see Note 6). Overdraft is included within short-term borrowings in the balance sheet. Cash and cash equivalents are reported at amortised cost.

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 at 31 December 2011 (as well as at 31 December 2010), the Group's financial assets (cash, see Note 4, trade receivables, see Note 5, loans granted, see Note 19) are classified as loans and receivables.

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Purchases and sales of financial assets are recognised at the trade date at 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 of financial assets upon their purchase.

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 less a provision for impairment 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.

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 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 receivables is reduced by the amount of the impairment loss of doubtful receivables and the impairment loss is recognised in profit or loss within *Operating expenses* (see Note 17). If a receivable is deemed irrecoverable, the receivable and the impairment loss are taken off the balance sheet. The collection of the receivables that have previously been written down is accounted for as a reversal of the allowance for doubtful receivables.

Long-term trade receivables (incl. loans granted) are reported at the present value of probable collection. The difference between the nominal amount and the present value of collectible receivables is recognised as interest income during the time remaining until the collection of the receivables.

Inventories

Inventories are recorded in the balance sheet at cost, consisting of the purchase costs and other costs incurred in bringing the inventories to their present location and condition. Purchase costs include the purchase price, other non-refundable taxes and direct transportation expenses related to the purchase, less discounts and subsidies.

Inventories are expensed using the FIFO method.

Inventories are measured in the balance sheet at the lower of acquisition cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Impairment of assets

Depreciable assets and assets with indefinite useful lives (land) are assessed 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 in 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 its 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).

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

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Property, plant and equipment

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

Property, plant and equipment are 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 asset 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 Group. 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 rolling stock | 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 separately identifiable 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 at 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 and as a result, the depreciation charge calculated for the asset changes in subsequent periods.

At each balance sheet date, management estimates whether there is any known indication of impairment of the asset. If there is such indication of impairment, management determines the recoverable amount (i.e. higher of the asset's fair value less cost to sell 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 up to the carrying amount.

Items of property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from the derecognition of items of property, plant and equipment are included either within other income or other expenses in the income statement.

Items of property, plant and equipment that are expected to be sold within the next 12 months are reclassified as held for sale.

Finance and operating 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. Finance costs are charged to the income statement over the lease period so as to achieve a constant periodic rate of interest on the remaining balance of the liability. The assets leased under finance leases are depreciated similarly to acquired non-current assets, whereby the depreciation period is the lower of the asset's estimated useful life 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

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. Lease revenue is recognised on a straight-line basis over the lease term.

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Sale-leaseback transactions

All Group's sale and leaseback transaction result in a finance lease, therefore they are recorded as a financing transaction, i.e. the asset "sold" is not derecognised from the balance sheet of the seller and the "sales proceeds" are recognised as a 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.

Financial liabilities

As at 31 December 2011 (and as at 31 December 2010), the Group's financial liabilities are in the category of other financial liabilities carried at amortised cost finance lease liabilities, see Note 11; trade payables, see Note 12).

All financial liabilities (trade 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 at their redemption value. For calculating the amortised cost of non-current financial liabilities, they are initially recognised at the 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 long-term, are presented as short-term. Also, borrowings are classified as short-term if at the balance sheet date, the lender had a contractual right to demand immediate repayment of the borrowing as a consequence of a breach of contractual terms.

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 if, and only if, 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 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.

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, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. From 1 January 2008, the tax rate on the net dividends paid out of retained earnings is 21/79. In certain circumstances, it is possible to distribute dividends without any additional income tax expense. The corporate income tax paid on dividends is recognised as a liability and an income tax expense in the period in which dividends are declared, regardless of the period for which the dividends are paid or the actual payment date. An income tax liability is due at the 10th day of the month following the payment of dividends.

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According to the Corporate Income Tax Law of Latvia, the net profits of entities 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). According to the tax legislation of Finland, the net profits of entities are subject to 26% income tax.

Other taxes

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

Tax	Tax rate
Social tax	33% on the payroll and fringe benefits paid to the employees
Unemployment insurance premium	1.4% of the payroll paid to the employees
Fringe benefit income tax	21/79 on fringe benefits paid to the employees
Income tax on expenses not related to business activities	21/79 on expenses not related to business activities

Revenue recognition

Revenue from the sale of goods and services is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates granted. 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 customer 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 reserve capital

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

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 to mitigate financial risks and lower the volatility of financial performance.

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 euro (EUR). A major share of loans is denominated in US dollars (USD). The Group's financial instruments affected by the market risk include cash, trade receivables (invoices issued in USD) and loans.

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

	USD	EUR	Other currencies	Total
31.12.2011				
Cash (Note 4)	201	18	0	220
Trade receivables (Note 5)	4,131	157	82	4,370
Other receivables (Notes 6, 20)	8,722	0	0	8,722
Borrowings (Note 11)	19,948	78	0	20,026
Trade payables (Note 12)	1,466	103	137	1,706
31.12.2010				
Cash (Note 4)	547	1,336	0	1,883
Trade receivables (Note 5)	4,510	188	0	4,698
Other receivables (Notes 6, 20)	9,461	2,117	0	11,578
Borrowings (Note 11)	26,055	128	0	26,183
Trade payables (Note 12)	1,385	7,886	0	9,271

For the mitigation of foreign exchange risk, both cash inflows (operating lease payments receivable) and cash outflows (repayments of loans and finance lease liabilities) related to the Group's railway tanks lease activity are denominated in USD. Other accounts receivable and trade payables are in EUR. Therefore, the Group's cash inflows and outflows in USD and EUR have been matched and the Group does not have a need for currency translation in significant amounts.

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 EURIBOR and the changing of the average interest rates of banks.

The Group's long-term borrowings (bank loans) as at 31 December 2011 and 31 December 2010 had floating interest rates based on the 6-month LIBOR and 6-month EURIBOR (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 mitigate 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 mitigate interest rate risk.

Based on the movements and volatility of the variables presented below in previous periods as well as management's 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 EUR) and 10% depreciation of USD (appreciation of EUR).
- Parallel change by +100 basis points / -100 basis points in the interest rates of the USD credit market as compared to the rates prevailing at 31.12.2011. Change by +100 basis points / -100 basis points in the interest rates of the USD credit market as compared to the rates prevailing at 31.12.2010.
- Change in the market interest rates of overnight deposits as compared to the rates prevailing at 31.12.2011 is not relevant as there were no such deposits. Change by +100 basis points / -100 basis points in the market interest rates of EEK overnight deposits as compared to the year-end rate at 31.12.2010.

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

	31.12.2011	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	13,311	Effect on net profit	Effect on net profit	Effect on net profit	Effect on net profit
Financial assets					
Total effect from financial assets		1,305	-1,305	0	0
Financial liabilities	21,732				
Total effect from financial liabilities		-2,141	2,141	-120	120
Total effect on net profit		-836	836	-120	120

	31.12.2010	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	18,160	Effect on net profit	Effect on net profit	Effect on net profit	Effect on net profit
Financial assets					
Total effect from financial assets		1,452	-1,452	9	-9
Financial liabilities	35,454				
Total effect from financial liabilities		-2,744	2,744	-191	191
Total effect on net profit		-1,292	1,292	-182	182

If as at 31.12.2011, the EUR 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 EUR 842 thousand (2010: EUR 1,292 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 EUR exchange rate had depreciated against the USD and all other variables had remained constant, the net profit for the reporting period would have been EUR 842 thousand (2010: EUR 1,292 thousand) lower. The net profit in 2011 is less impacted by changes in the USD/EUR exchange rate than in 2010 because the amounts of the loans assumed in USD have decreased.

If as at 31.12.2011, the interest rate in the USD credit market had been 100 basis points (2010: 100 basis points) higher and all other variables had remained constant, the net profit for the financial year would have been EUR 120 thousand (31.12.2010: EUR 182 thousand) lower.

If as at 31.12.2011, the interest rates in the USD credit market had been 100 basis points (2010: 100 basis points) lower and all other variables had remained constant, the net profit for the financial year would have been EUR 120 thousand (31.12.2010: EUR 182 thousand) higher.

In the financial year, the Group didn't use overnight deposits (in 2010, the Group used EEK and EUR overnight deposits). The effect of changes in market interest rates of overnight deposits on the Group's profit may be considered insignificant.

Information about the Group's exposure to the risk of interest rate changes is disclosed in Note 11.

Credit risk

Credit risk is the risk that the Group's customers 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 Notes 4 and 6. The Group's sales transactions are concluded with the 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).

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 using assets as collateral from commercial banks and overdraft. 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.

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As at 31.12.2011, the unused balance of the overdraft facility was EUR 801 thousand (31.12.2010: EUR 557 thousand).

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	Total undiscounted cash flows	Carrying amount
As at 31.12.2011					
Borrowings (Note 11)	2,251	6,601	11,933	20,785	20,026
Trade payables (Note 12)	1,706	0	0	1,706	1,706
Total cash flows related to financial obligations	3,957	6,601	11,933	22,491	21,732
	Up to 3 months	Between 4 months and 1 year	Between 1 and 5 years	Total undiscounted cash flows	Carrying amount
As at 31.12.2010					
Borrowings (Note 11)	2,840	12,956	11,212	27,008	26,183
Trade payables (Note 12)	9,261	11	0	9,271	9,271
Total cash flows related to financial obligations	12,101	12,967	11,212	36,279	35,454

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*. As the bank loans and the loans from the owners are denominated in US dollars, the exchange rate of USD 1 =EUR 0.7729 prevailing at 31.12.2011 (31.12.2010: USD 1 =EEK 11.7107) has been used for computation of future cash flows.

Undiscounted cash flows have been determined according to the current payment schedules valid as at the end of the period. For bank loans with floating interest rates, the LIBOR rate prevailing at the balance sheet date has been used. See also Note 21 *Group's liquidity*.

Interest rates used in analysis

Finance lease liabilities

	31.12.2010	31.12.2010
Finance lease liabilities	2.34%-4.10%	2.26%-5.5%

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 optimal capital structure, in order to lower the cost of capital.

For the Group, capital includes loans and equity.

	31.12.2011	31.12.2010
Total borrowings	20,026	26,183
Less: cash and cash equivalents	-220	-1,883
Net debt	19,806	24,299
Total equity	90,909	74,011
Total capital	110,715	98,310
Financial leverage	18%	25%

The loan contracts entered into with the banks set certain covenants for various financial ratios. If these covenants are not met, the bank may require premature payment of the loan.

	Bank's requirement as at 31.12.2011	AS Spacecom actual ratio as at 31.12.2011	Bank's requirement as at 31.12.2010	AS Spacecom actual ratio as at 31.12.2010
DSCR	=>1.2 - 1.25	2.34	=>1.2 - 1.25	1.74
Equity ratio	15 - 30%	68%	15 - 30%	64%

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

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Fair value

The Group estimates that the fair values of assets and liabilities reported at amortised cost do not materially differ from the carrying amounts reported in the Group's consolidated balance sheet as at 31.12.2011 and 31.12.2010. 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. The respective analysis is presented in Note 11.

Effects of the economic crisis

Management has evaluated the effects of the global liquidity crisis and the related economic crisis on the Group's business. Management estimates that the most significant short- and long-term threats include:

- potential solvency problems of debtors may lead to impairment of the Group's receivables and larger impairment losses than previously;
- the Group may not be able to obtain financing sources to implement its investment plans or refinance loans under conditions which would meet the terms and conditions of current loans;
- in a more complicated economic environment, the Group may have difficulties in meeting the loan covenants set out in the loan agreement due to which the lender may have the right to recall the loan prematurely;

Management cannot reliably predict the effect of the economic crisis on the activities and financial position of the Group. Management believes that all necessary measures have been adopted to ensure the sustainability and growth of the Group in current conditions.

Note 3. Management 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 historical experience and other factors considered reasonable under current circumstances. In addition to estimates, management exercise judgements regarding the application of accounting policies. The areas which require 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 to the carrying amount of assets and liabilities in the next financial year include: Evaluation of 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).

Valuation of doubtful receivables

The impairment of the receivables that are individually significant is assessed individually for each receivable. Evidence of potential impairment includes the bankruptcy or major financial difficulties of the debtor and non-adherence to payment dates. The amount of doubtful receivables is adjusted as at each balance sheet date, using information based on prior experience in respect of how many of the receivables deemed as doubtful will be collected in subsequent periods and how many of them will be not. As at 31 December 2011, the Company had doubtful receivables in the amount of EUR 119 thousand (31 December 2010: EUR 119 thousand) (Note 5).

Evaluation of 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 EUR 4.6 million (2010: EUR 3.8 million). If the depreciation rates are increased/reduced by 10%, the annual depreciation charge will increase/decrease by approximately EUR 0.45 million (2010: depreciation would increase/decrease by about EUR 0.38 million).

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

Impairment of property, plant and equipment

At each balance sheet date, the Group's management estimates whether there is any known indication of impairment of property, plant and equipment. When performing an impairment test, the carrying amount of property, plant and equipment is compared with their recoverable amount. The recoverable amount of the asset is the higher of fair value of the asset less costs to sell and its value in use. For determining the value in use, management prepares realistic forecasts of future cash flows and calculates the present value of these cash flows. The discount rate used in calculating the present value objectively reflects the risk level of assets and the expected rate of return. If conditions change in the future, an additional impairment loss is recognised or the previous impairment loss is either partially or fully reversed.

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Provisions and contingent liabilities

In estimating the probability of realisation of contingent liabilities, management considers historical experience, general information about the economic 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 cash equivalents

	31.12.2011	31.12.2010
Cash at bank	220	1,883
Total	220	1,883

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

	31.12.2011	31.12.2010
Cash and cash equivalents		1,841
Aa2	0	0
Aa3	1	41
Baa3	0	1
A1	1	0
A2	214	0
A2	4	0
B2	220	1,883
Total cash and cash equivalents	220	1,883

Note 5. Trade receivables

	31.12.2011	31.12.2010
Receivables from non-related parties	2,888	3,074
Receivables from related parties (Note 19)	1,602	1,744
Allowance for doubtful receivables	-119	-119
Total from related parties	1,483	1,625
Total trade receivables	4,370	4,699

The Group's management estimates that as at 31.12.2011 the Group's doubtful receivables totalled EUR 119 thousand (2010: EUR 119 thousand).

	31.12.2011	31.12.2010
Allowance for doubtful receivables	-119	-112
Receivables deemed irrecoverable in the reporting period	62	15
Receivables deemed doubtful in the reporting period (Note 17)	-62	-23
Allowance for doubtful receivables at the end of the period	-119	-119

In the reporting period, the Group recognised an allowance for doubtful receivables in the amount of EUR 62 thousand. In 2010, the Group recognised an allowance for doubtful receivables in the amount of EUR 649 thousand. This was related to the fact that the subsidiary of Spacecom AS which acted as a service intermediary, leased out railway tanks of a related party to a third party which refused to meet its obligations and declared bankruptcy in 2010. As a result, the Related Party was exposed to the aforementioned business risks and the related party waived its claim against the Group in the amount of EUR 647 thousand.

Distribution of receivables by due date is as follows:

	31.12.2011	31.12.2010
Not overdue	4,343	3,410
Overdue up to 1 month	7	659
Overdue by 1 - 3 months	9	543
Overdue by 3 - 6 months	6	2
Overdue up to 1 year	4	0
Overdue over 1 year	0	85
Total	4,370	4,699

As at 31.12.2011 and as at 31.12.2010, the Group did not have any significant overdue receivables from those lessees who as at 31.12.2011 have not overdue receivables in the amount of EUR 4,343 thousand (as at 31.12.2010: EUR 3,410 thousand).

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The Company's management has adopted necessary timely measures to guarantee the collection of overdue receivables recognised as at the year-end. By the date of preparation of the annual report, significant amount of these receivables have been collected.

Note 6. Other receivables and prepayments

	31.12.2011	31.12.2010
Prepaid expenses (see below)	888	690
<i>incl. related parties (see also Note 19)</i>	115	118
Term deposit*	0	2,117
Interest charge on loans granted	12	31
<i>incl. related parties (see also Note 19)</i>	12	31
Prepaid and deferred taxes (see also Note 7)	0	380
Total	900	3,218

*According to the credit ratings of the international rating agency Moody's Investors Service, the Group's term deposits have been deposited in a financial institution with a rating of A2.

Prepaid expenses	31.12.2011	31.12.2010
Rental expenses	470	487
Other prepayments	418	203
Total	888	690

Note 7. Taxes

Tax	31.12.2011		31.12.2010	
	Prepayment	Liability	Prepayment	Liability
Value added tax	0	52	365	0
Personal income tax	0	24	0	24
Social security tax	0	45	0	43
Unemployment insurance tax	0	3	0	3
Contributions to mandatory funded pension	0	1	0	1
Corporate income tax	0	4	15	14
Total	0	130	380	85

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Note 8. Investments in associates

	31.12.2011	31.12.2010
Shares of associates	1,426	1,118
Total	1,426	1,118

	AS Daugavpils Lokomotivju Remonta Rupnica	
	2011	2010
Country of incorporation	Latvia	
Date of purchase	22.06.2004	
Main area of activity	Repair of railway tanks and locomotives	
% of shares at the beginning of the reporting period	25.27%	25.27%
Cost of investment at the beginning of the reporting period	677	677
Carrying amount of shares at the beginning of the reporting period	1,118	962
Profit/loss under the equity method	308	156
% of shares at the end of the reporting period	25.27%	25.27%
Cost of investment at the end of the reporting period	677	677
Carrying amount of shares at the end of the reporting period	1,426	1,118

Condensed financial information on Daugavpils Lokomotivju Remonta Rupnica (DLRR), in EUR thousand:

	31.12.2011	31.12.2010
Cash	833	860
Other current assets	9,337	8,873
Property, plant and equipment	10,766	9,060
Total assets	20,936	18,793
Current liabilities	8,151	7,885
Non-current liabilities	3,657	2,525
Equity	9,128	8,383
Total liabilities and equity	20,936	18,793

	2011	2010
Revenue	24,678	21,070
Other income	163	154
Operating expenses	24,306	21,200
Operating profit (-loss)	535	23
Net profit for the financial year	535	23

Note 9. Property, plant and equipment

	Land	Buildings	Rolling stock	Machinery and equipment	Other fixtures	Total
Balance as at 31.12.2009						
Cost	163	289	103,699	405	306	104,862
Accumulated depreciation	0	-196	-20,563	-153	-130	-21,042
Carrying amount	163	93	83,136	252	176	83,820
Changes occurred in 2010						
Additions	0	0	8,812	150	14	8,976
Disposals	0	0	0	-7	-30	-36
Depreciation charge	0	-19	-3,642	-30	-114	-3,805
Balance as at 31.12.2010						
Cost	163	289	112,510	548	290	113,801
Accumulated depreciation	0	-215	-24,205	-183	-244	-24,847
Carrying amount	163	74	88,305	366	46	88,954
Changes occurred in 2011						
Additions	0	0	16,553	78	1	16,632
Disposals	0	0	-1,890	-10	-91	-1,991
Depreciation charge	0	-19	-4,481	-38	-57	-4,595
Balance as at 31.12.2011						
Cost	163	289	126,371	275	219	127,317
Accumulated depreciation	0	-234	-27,884	-114	-85	-28,317
Carrying amount	163	55	98,487	161	134	99,000

Purchases of property, plant and equipment

In the financial year, the Group acquired 325 railway tanks (in 2010: 175 tanks).

Disposals and write-off of property, plant and equipment

In the reporting period, the Group sold 2 railway locomotives and 1 shunting locomotive. In 2010, the Group sold 2 shunting locomotives. Additional information about the gains and losses from sales transactions is provided in Note 16.

Information about the carrying amounts of non-current assets leased under finance lease terms is disclosed in Note 10.

Note 10. Finance lease and operating lease

Finance lease

The Group is the lessee

Rolling stock acquired under the finance lease (additional information in Notes 9 and 11):

Cost 31.12.2010	61,718
Accumulated depreciation	13,371
Carrying amount 31.12.2010	48,347
Cost 31.12.2011	61,876
Accumulated depreciation	11,845
Carrying amount 31.12.2011	50,031

For refinancing of the purchase of rolling stock, the Group has concluded contracts with lessors with the term of 4-5 years. The contracts are accounted for in the balance sheet as a finance lease. The interest rates for the sale and leaseback contracts consist of floating interest rates based on USD LIBOR or EURIBOR, and a fixed risk margin. The abovementioned contracts were used for financing the purchase of railway tanks and cars.

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Minimum lease payments

The minimum lease payments of the finance lease contracts are as follows:

	2011	2010
Minimum lease payments	19,957	20,704
Unrealised finance costs	-732	-819
Present value of minimum lease payments	19,225	19,886

	Minimum lease payments	Present value of minimum lease payments
31.12.2011		
Total	19,957	19,225
<i>incl. due in 12 months</i>	8,024	7,645
<i>between 1 and 5 years</i>	11,933	11,580
<i>over 5 years</i>	0	0
31.12.2010		
Total	20,704	19,886
<i>incl. due in 12 months</i>	9,331	8,890
<i>between 1 and 5 years</i>	11,373	10,995
<i>over 5 years</i>	0	0

Operating lease**The Group is the lessee**

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

	31.12.2011	31.12.2010
Operating lease payments during the period	71	139

The Group is the lessor

	31.12.2011	31.12.2010
Railway tanks leased out under the operating lease terms (pcs.)	4,035	3,710
<i>leased to related parties</i>	1,501	1,517
<i>leased to non-related parties</i>	2,534	2,193

The carrying amount of the property, plant and equipment leased out is presented below:

Cost 31.12.2010	103,699
Accumulated depreciation	24,205
Carrying amount 31.12.2010	79,494
Cost 31.12.2011	126,371
Accumulated depreciation	27,884
Carrying amount 31.12.2011	98,487

2011

Operating lease revenue (see also Note 15)	44,803
Future minimum lease payments under non-cancellable operating leases	
<i>incl. due in 12 months:</i>	30,986
Expected lease revenue in 2012 based on existing contracts as at 31.12.2011	38,709

2010

Operating lease revenue (see also Note 15)	37,062
Future minimum lease payments under non-cancellable operating leases	
<i>incl. due in 12 months:</i>	1,298
Expected lease revenue in 2011 based on existing contracts as at 31.12.2010	37,024

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Note 11. Borrowings and finance lease liabilities

2011

	Balance as at 31.12.2011	Incl. current portion	Incl. non- current portion	Maturity	Interest rate
Borrowings	0	0	0		
Finance lease liabilities (see Note 10)	7,060	4,142	2,917	2012-2014	3m Libor
	12,086	3,471	8,616	2012-2016	6m Libor
	79	32	47	2013-2015	6m Euribor
Overdraft	801	801	0	2012	1m Libor+2%
Total borrowings	20,026	8,446	11,580		

2010

	Balance as at 31.12.2010	Incl. current portion	Incl. non- current portion	Maturity	Interest rate
Borrowings	5,740	5,740	0	2011	1m Libor+2%
Finance lease liabilities (see Note 10)	9,062	5,524	3,538	2011-2014	3m Libor
	10,695	3,320	7,375	2011-2014	6m Libor
	128	46	82	2012-2015	6m Euribor
Overdraft	557	557	0	2011	1m Libor+2%
Total borrowings	26,183	15,188	10,995		

Fair value of long-term borrowings as at 31.12.2011 was EUR 11,580 thousand (31.12.2010: EUR 10,995 thousand)

Note 12. Trade payables and customer prepayments

	31.12.2011	31.12.2010
Trade payables	1,706	9,271
<i>incl. related parties (see also Note 19)</i>	618	343
Customer prepayments	1,048	6,043
<i>incl. related parties (see also Note 19)</i>	167	0
Total:	2,754	15,315

Note 13. Other liabilities

	31.12.2011	31.12.2010
Payables to employees	38	38
Vacation payables	23	21
Deferred income	0	107
Other	19	3
Tax liabilities (see also Note 7)	130	85
Total:	209	254

Note 14. Equity

The share capital consists of 40,000 common shares with the nominal value of EUR 0.64 (2010: 0.64). 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.

The unrestricted equity of the Group as at 31 December 2011 was EUR 90,881 thousand (2010: EUR 73,983 thousand).

As at the balance sheet date, it is possible to pay out dividends to the shareholders in the amount of EUR 71,796 thousand (2010: EUR 58,446 thousand) and the corresponding income tax would amount to EUR 19,085 thousand (2010: EUR 15,536 thousand).

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Note 15. Revenue

The Group's consolidated revenue is divided as follows:

By activity

	2011	2010
Lease of rolling stock	44,803	37,062
Repair and maintenance services	1,335	408
Forwarding services	101	36
Other	806	781
Total:	47,045	38,288

By geographic region

	2011	2010
Russia	18,708	13,718
Kazakhstan	9,487	10,079
British Virgin Islands	6,859	0
Byelorussia	6,379	5,805
Estonia	4,945	4,679
Finland	57	17
Others	610	3,990
Total:	47,045	38,288

Note 16. Other income and costs

	2011	2010
Amortisation of deferred income *	109	222
Profit/loss from disposal of fixed assets (see also Note 9)	1,135	-29
Other income and costs**	-6,897	78
Total:	-5,653	272

* The excess of the sales proceeds over the carrying amounts of assets sold in sale-leaseback transactions is accounted for as deferred income over the lease term.

** Other costs include a fine for delay in the amount of EUR 6,763 thousand and court expenses in the amount of EUR 652 thousand related to the court order of Tallinn Circuit Court (14.01.2011) in respect of the litigation between the Group and AS Eesti Raudtee. The litigation continued since year 2004 over the infrastructure usage fee in the period of 31.05.04-31.05.05.

Note 17. Operating expenses

	2011	2010
Rolling stock maintenance and lease expenses	15,039	9,725
Forwarding expenses	113	33
Expenses related to provided repair services	259	241
Allowance for doubtful receivables (see also Note 5)	366	62
Staff costs (see below)	980	2,736
Administrative expenses	947	1,147
Other	2,117	1,941
Total:	19,518	15,845

Staff costs

	2011	2010
Wages and salaries	710	2,033
<i>incl. remuneration to members of the Management Board</i>	341	1,725
Vacation payable	23	21
Social security tax	247	682
Total:	980	2,736

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Note 18. Finance income and costs

	2011	2010
Finance income		
Interest income		
Interest income on bank deposits	7	212
On loans	38	120
<i>Incl. to related parties see Note 19</i>	38	118
Total interest income	45	332
Total finance income:	45	332
Finance costs		
Interest costs		
On loans received	-51	-24
On finance lease	-554	-839
Other	0	-15
Total interest costs	-604	-878
Foreign exchange gains/losses	-130	-2,021
Total finance income	-734	-2,899
Total finance income and costs	-689	-2,567

Note 19. Related party transactions

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

- owners (parent and owners of the parent);
- other entities in the same consolidation group (incl. fellow subsidiaries);
- management and supervisory boards;
- close relatives of the persons mentioned above and the entities related to them.

The parent of the Group is Globaltrans Investment Holding PLC (registered in Cyprus) which in turn belongs to the Transportation Investment Holding Limited (TIHL) Group. The ultimate controlling party of TIHL is Mirbay International Inc (the Bahamas).

The Group has purchased and sold its goods and rendered services to the following related parties:

	Purchas es	Sales
2011		
Lease of rolling stock (Group entities)	4,674	18,707
Other services (Group entities)	418	1,660
Purchase/Disposal of non-current assets (other related entities)	16,553	3,100
Other services (other related entities)	39	324
Other services (associates)	286	0
Total	21,971	23,791
2010		
Lease of rolling stock (Group entities)	2,701	16,055
Disposal of non-current assets (Group entities)	-	1,790
Other services (Group entities)	113	833
Purchase/Disposal of non-current assets (other related entities)	15,130	8
Other services (other related entities)	33	73
Disposal of non-current assets (associates)	-	200
Other services (associates)	244	2
Total	18,222	18,960
	2011	2010
Interest income (Group entities) (Note 18)	38	118

Balances with related parties:

	31.12.2011	31.12.2010
Trade receivables		
Group entities	1,398	1,604
Other related entities	85	21
Total trade receivables (see Note 5)	1,483	1,625
Other receivables		
Interests receivable (Group entities)	12	31
Other receivables (Group entities)	115	118
Total other receivables (see Note 6)	127	149
Long-term receivables		
Loans granted (Group entities)	7,821	9,430
Prepayment for property, plant and equipment (other related entities)	0	6,422
Total long-term receivables	7,821	15,852
Other liabilities		
Other liabilities (Group entities)	757	343
Other liabilities (other related entities)	29	0
Total other liabilities (see Note 12)	785	343
Total current liabilities	785	343

Remuneration paid to the members of the Management Board and Supervisory Board is disclosed in Note 17. Upon expiration or premature termination of an employment contract, termination benefits totalling up to 6-month remuneration are payable to the members of the Management Board.

In the financial year, no receivables from related parties were impaired (2010: EUR 647 thousand). See also Note 5.

Note 20. Contingent liabilities

Potential liabilities arising from the tax audit

The tax authorities have not inspected the books and records of the Group during the years 2006-2011. The tax authorities have the right to verify the Group's tax records up to 6 years from the time of submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The Group's management estimates that there are not any circumstances which may lead the tax authorities to impose additional significant taxes on the Group.

Note 21. Liquidity of the Group

As at 31 December 2011, the current liabilities of the Group exceeded current assets by EUR5.8 million and as at 31.12.2010, by EUR 20.8 million. Such a 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 an operating lease (thus, the future lease receivables are accounted for off balance sheet; the expected lease receivable is specified in Note 10). All railway tanks are covered by long-term or extendable contracts.

Considering the above, the Group's management is convinced that the Group does not have liquidity problems and its business is sustainable.

Note 22. Events after the reporting period

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On February 26, 2012 shareholders of the Group made a decision to increase the share capital of the Group's parent company AS Spacecom, by increasing the proportion of the nominal value. Increase of the share capital will be enacted from retained earnings of the parent company. The new value of the share capital is EUR 80 thousand, par value per share is EUR 2.

Note 23. Financial information of the parent company

According to the Accounting Act of Estonia, the notes to the consolidated financial statements shall include disclosures of the separate primary financial statements of the consolidating entity (the parent).

The accounting policies applied for the preparation of the separate financial statements of the parent are the same as those which have been used for the preparation of the current consolidated financial statements, except for investments into subsidiaries and associates which are reported at cost in the parent's separate statements.

BALANCE SHEET

ASSETS	31.12.2011	31.12.2010
Current assets		
Cash and cash equivalents	190	1,756
Trade receivables	3,501	3,816
Other receivables	406	2,642
Inventories	143	38
Total current assets	4,240	8,253
Non-current assets		
Long-term financial investments		
Investments in subsidiaries and associates	687	687
Long-term receivables	7,845	9,430
Total long-term financial investments	8,531	10,117
Property, plant and equipment	99,000	88,954
Prepayments for intangible assets	18	6,422
Total property, plant and equipment	99,018	95,376
Total non-current assets	107,549	105,493
TOTAL ASSETS	111,789	113,746
LIABILITIES AND EQUITY		
Current liabilities		
Loans and finance lease liabilities	8,447	15,188
Trade payables and customer prepayments	1,462	13,986
Tax liabilities	130	0
Other liabilities	65	59
Total current liabilities	10,102	29,232
Non-current liabilities		
Loans and finance lease liabilities	11,580	10,995
Total non-current liabilities	11,580	10,995
Total liabilities	21,682	40,227
EQUITY		
Share capital	26	26
Statutory reserve capital	3	3
Retained earnings	73,490	57,216
Net profit for the financial year	16,589	16,275
Total equity	90,107	73,519
TOTAL LIABILITIES AND EQUITY	111,789	113,746

Statement of comprehensive income

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Operating income		
Revenue	38,156	32,721
Other operating income	0	207
Total operating income	38,156	32,929
Operating expenses		
Operating expenses	10,637	10,239
Depreciation, amortisation and impairment	4,595	3,805
Other operating expenses	5,654	0
Total operating expenses	20,886	14,045
Operating profit	17,271	18,884
Finance income and costs	-682	-2,609
Net profit for the financial year	16,589	16,275
Comprehensive income for the financial year	16,589	16,275

Statement of changes in equity

	Share capital	Statutory reserve capital	Retained earnings	Total
Balance as at 31.12.2009	26	3	43,599	43,627
Merger with the subsidiary			13,617	13,617
Net profit for financial year			16,275	16,275
Balance as at 31.12.2010	26	3	73,490	73,519
Carrying amount of investments under control and significant influence				-687
Value of investments under control and significant influence under the equity method				1,179
Adjusted unconsolidated equity as at 31.12.2010				74,011
Net profit for financial year			16,589	16,589
Balance as at 31.12.2011	26	3	90,079	90,107
Carrying amount of investments under control and significant influence				-687
Value of investments under control and significant influence under the equity method				1,489
Adjusted unconsolidated equity as at 31.12.2011				90,909

Cash flow statement

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Cash flows from operating activities		
Operating profit	17,271	18,884
Adjustments:		
Depreciation, amortisation and impairment	4,595	3,805
Amortisation of deferred income	-109	-222
Profit from disposals of non-current assets	-1,135	29
Change in inventories	-105	-38
Change in receivables and prepayments related to operating activities	2,552	68
Change in liabilities and prepayments related to operating activities	-12,388	4,378
Interest paid	-605	-869
Total cash flows from operating activities	10,075	26,035
Cash flows from investing activities		
Purchase of property, plant and equipment	-10,228	-14,987
Proceeds from sale of property, plant and equipment	3,126	1,997
Loans granted	-7,989	-9,172
Repayments of loans granted	9,593	4,217
Interest received	61	435
Total cash flows from investing activities	-5,437	-17,510
Cash flows from financing activities		
Proceeds from borrowings	0	6,013
Repayments of borrowings	-5,426	-251
Proceeds from refinancing under finance lease	12,324	0
Change in overdraft	244	-248
Finance lease principal repayments	-13,486	-12,737
Total cash flows from financing activities	-6,344	-7,223
Total cash flows	-1,707	1,302
Cash and cash equivalents at the beginning of the period	1,756	1,056
Net increase/decrease in cash and cash equivalents	-1,707	1,302
Exchange gains/losses on cash and bank balances	0	3
Cash flows from the merger	141	-604
Cash and cash equivalents at the end of the period	190	1,756



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 subsidiary, which comprise the consolidated balance sheet as of 31 December 2011 and the consolidated statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

Management Board is responsible for the preparation, and true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 true and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements give a true and fair view of the financial position of AS Spacecom and its subsidiary as of 31 December 2011, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

A handwritten signature in dark ink, appearing to read 'Tiit Raimla', written in a cursive style.

Tiit Raimla
Auditor's Certificate No.287

A handwritten signature in dark ink, appearing to read 'Aleksei Kadõrko', written in a cursive style.

Aleksei Kadõrko
Auditor's Certificate No.557

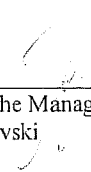
3 April 2012

** 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.*

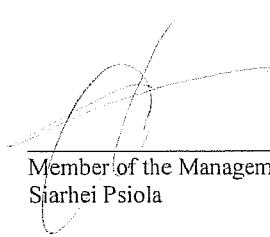
PROFIT ALLOCATION PROPOSAL

The Management Board of AS Spacecom proposes to the General Meeting of Shareholders to allocate the net profit for 2011 in the amount of EUR 16,587 thousand as following:

- to pay out dividend to the shareholders in total amount of EUR 7,729 thousand including income tax in amount of EUR 1,623 thousand;
- to transfer the residual of net profit for 2011 in the amount of EUR 8,858 thousand to retained earnings.



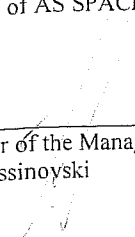
Member of the Management Board
Oleg Ossinovski



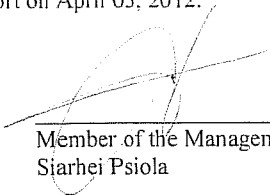
Member of the Management Board
Sjarhei Psiola

Signatures of the Management to the 2011 Annual Report

Signing of AS SPACECOM 2011 annual report on April 03, 2012:



Member of the Management Board
Oleg Ossinoyski



Member of the Management Board
Sjarhei Psiola

AS Spacecom unconsolidated revenue according to EMTAK 2008

EMTAK	Area of activity	2011
77391	Leasing of railroad vehicles	36,245
52291	Forwarding services	115
33171	Repair and maintenance services of other transport equipment	1,054
82991	Other business support service activities not classified elsewhere	742
	Total unconsolidated revenue	38,156