AS Spacecom

2009 CONSOLIDATED ANNUAL REPORT

(Translation of the Estonian original)

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Auditor:	AS PricewaterhouseCoopers
Beginning and end of financial year:	01.01.2009-31.12.2009

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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 Spacecom has the following subsidiaries - AS Skinest Veeremi (100%), SIA Hoover (100%) and, starting from 30.12.2009, Ekolinja OY (100%), hereinafter together the "Group". 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 renting of railway rolling stock. As at 31.12.2009, the Group had 3,535 railway tanks and 6 locomotives (as at 31.12.2008: 3,286 railway tanks and 8 locomotives). All railway tanks are rented out mainly for a term of 1-3 years.

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

The Group's Management Board has two members and the remuneration paid to them totalled 9,204 thousand kroons in 2009 (2008: 7,045 thousand kroons). No remuneration was paid to the members of the Supervisory Board in 2009 and 2008. The average number of employees in the reporting period was 32 (2008: 66 people) and the number of employees at the year-end was 15 (31.12.2008: 34). In 2009, payroll expenses including taxes amounted to 21,944 thousand kroons (2008: 27,565 thousand kroons).

Oleg Ossinovski
Member of the Management Board

Siarhei Psiola
Member of the Management Board

Tallinn, 30 March 2010

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

The Management Board confirms the correctness and completeness of AS Spacecom 2009 consolidated financial statements as presented on pages 4-35.

The Management Board confirms that:

1. the accounting policies used in the preparation of the consolidated financial statements are in compliance with International Financial Reporting Standards (IFRS) as adopted in the European Union;

2. the consolidated financial statements present a true and fair view of the financial position, the results of operations and the cash flows of the Group;

3. AS Spacecom and its group entities are going concerns.

Oleg Ossinovski
Member of the Management Board

Siarhei Psiola
Member of the Management Board

Tallinn, 30 March 2010

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Initsiaalid/initials K.L
Kuupäev/date 30.03.10
PricewaterhouseCoopers, Tallinn

CONSOLIDATED BALANCE SHEET
(in thousands of Estonian kroons)

	Note	31.12.2009	31.12.2008
ASSETS			
Current assets			
Cash and bank	4	17,866	29,093
Trade receivables	5	71,436	50,992
Other receivables and prepayments	6	48,943	41,172
Total current assets		**138,246**	**121,257**
Non-current assets held for sale	9	**30,721**	**0**
Non-current assets			
Long-term financial investments			
Investments in associates	8	15,059	9,873
Long-term receivables		59,724	818
Total long-term financial investments		**74,783**	**10,692**
Property, plant and equipment	9;10	1,311,497	1,364,016
Total property, plant and equipment		**1,311,497**	**1,364,016**
Total non-current assets		**1,386,280**	**1,374,708**
TOTAL ASSETS		**1,555,246**	**1,495,965**
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings and finance lease liabilities	11	160,446	167,958
Trade payables and prepayments	12	158,446	133,676
Tax liabilities and other current liabilities	7;13	11,996	46,055
Total current liabilities		**330,888**	**347,689**
Non-current liabilities			
Borrowings and finance lease liabilities	11	322,582	476,813
Other non-current liabilities	13	1,709	5,157
Total non-current liabilities		**324,292**	**481,970**
Total liabilities		**648,967**	**829,659**
EQUITY			
Share capital at nominal value	14	400	400
Statutory reserve capital		40	40
Retained earnings		899,627	665,866
Total equity		**900,067**	**666,306**
TOTAL LIABILITIES AND EQUITY		**1,555,246**	**1,495,965**

The notes to the financial statements presented on pages 9-35 are an integral part of the Consolidated Annual Report.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in thousands of Estonian kroons)

	Note	01.01.09 - 31.12.09	01.01.08 - 31.12.08 restated
Operating income			
Revenue	15	420,769	449,013
Other operating income	16	8,533	49,953
Total operating income		**429,303**	**498,966**
Operating expenses			
Operating expenses	17	114,969	205,247
Depreciation, amortisation and impairment	9	65,747	61,169
Total operating expenses		**180,716**	**266,415**
Operating profit		**248,587**	**232,550**
Share of profit/loss of associates	8	5,186	5,630
Finance income and costs	18	-20,012	-89,176
Net profit for the financial year		**233,761**	**149,005**
Comprehensive income for the financial year		**233,761**	**149,005**

The notes to the financial statements presented on pages 9-35 are an integral part of the Consolidated Annual Report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of Estonian kroons)

	Share capital	Statutory reserve capital	Retained earnings	Total
Balance as at 31.12.2007	400	40	516,861	**517,301**
Net profit for the financial year	0	0	149,005	**149,005**
Balance as at 31.12.2008	400	40	665,866	**666,306**
Net profit for the financial year	0	0	233,761	**233,761**
Balance as at 31.12.2009	400	40	899,627	**900,067**

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 9-35 are an integral part of the Consolidated Annual Report.

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CONSOLIDATED CASH FLOW STATEMENT

(in thousands of Estonian kroons)

	Note	01.01.09 - 31.12.09	01.01.08 - 31.12.08 restated
Cash flows from operating activities			
Operating profit		**248,587**	**230,132**
Adjustments:			
Depreciation, amortisation and impairment	9	65,747	61,169
Amortisation of deferred income	10	-9,550	-17,695
Profit from disposal of non-current assets	16	-475	-29,013
Change in receivables and prepayments related to operating activities		-6,098	13,511
Change in liabilities and prepayments related to operating activities		1,999	-31,700
Interest paid		-58,830	-60,996
Total cash flows from operating activities		**241,380**	**165,408**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	-86,168	-3,899
Proceeds from sale of property, plant and equipment		42,641	18,502
Collection of deposit/payment to deposit	21	0	-16,560
Loans granted		-93,626	-2,695
Repayments of loans granted		31,971	8,941
Interest received		3,788	1,882
Total cash flows from investing activities		**-101,394**	**6,171**
Cash flows from financing activities			
Proceeds from borrowings		0	69,671
Repayments of borrowings		-147,211	-205,403
Proceeds from refinancing under finance lease		233,816	211,070
Proceeds from overdraft/repayment of overdraft	11	10,244	-32,284
Finance lease principal repayments		-250,488	-210,834
Total cash used in financing activities		**-153,638**	**-167,780**
Total cash flows		**-13,652**	**3,799**
Cash and cash equivalents at the beginning of the period	4	**29,093**	**20,264**
Net decrease/increase in cash and cash equivalents		**-13,652**	**3,799**
Cash received from business combinations	19	**1,307**	**0**
Effect of exchange rate changes		**1,117**	**5,030**
Cash and cash equivalents at the end of the period	4	**17,866**	**29,093**

The notes to the financial statements presented on pages 9-35 are an integral part of the Consolidated Annual Report.

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).

The 2009 consolidated financial statements comprise the following group entities:

		Share			
	Domicile	**31.12.2009**	**31.12.2008**	**Main area of activity**	**Owner**
AS Skinest Veeremi	Estonia	100%	100%	Lease of railway rolling stock	AS Spacecom
Ekolinja OY	Finland	100%	0%	Sub-lease of railway rolling stock	AS Spacecom
SIA Hoover	Latvia	100%	100%	Sub-lease of railway rolling stock	AS Spacecom

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

The 2009 consolidated financial statements comprise the financial data of AS Spacecom (the parent) and its subsidiaries (hereinafter together the "Group") and the Group's participation in associate.

The financial year started at 1 January 2009 and ended at 31 December 2009.

The information in the financial statements is presented in thousands of Estonian kroons.

The Management Board of AS Spacecom approved and signed this consolidated annual report at 30 March 2010. 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 2009 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 often 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.

Changes in accounting policies and presentation

Changes in presentation

As compared to the financial statements for 2008, interest income has been reclassified in the financial statements for 2009 in order to make information comprehensive and unambiguous. In 2008, interest income was recorded under other operating income and in 2009, under finance income. The comparatives for 2008 have been brought in compliance with the new presentation.

(in thousands of Estonian kroons)

Items in the Annual Report	2008 financial statements	Change	2009 financial statements
Statement of comprehensive income			
Other operating income (Note 16)	2,418	-2,418	0
Finance income (Note 18)	0	2,418	2,418
Cash flow statement			
Operating profit	232,550	-2,418	230,132
Interest income	-2,418	2,418	0

i. Standards, amendments to published standards and interpretations that became effective for the Group's reporting period beginning on 1 January 2009.

IAS 1, Presentation of Financial Statements, revised in September 2007 (effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 affected the presentation of the Group's financial statements but had no impact on the recognition or measurement of specific transactions and balances or accounting principles.

Improvements to International Financial Reporting Standards, issued in May 2008 (effective for annual periods beginning on or after 1 January 2009). The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary (effective for annual periods beginning on or after 1 July 2009); possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments had no material impact on the financial statements, except :
IAS 16, Property, Plant and Equipment (and consequential amendments to IAS 7). Under the amended standard, entities that routinely sell assets previously held for rental are required to classify such assets as inventories from the point that the assets cease to be leased and become held for sale, while the proceeds from sale are recognised as revenue. The rent and proceeds from sale have to be classified as cash flows from operating activities. The Group amended its accounting policies accordingly.

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009 (effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. As the Group has no assets at fair value, the adoption of the standard had no impact on the Group's financial statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendment had no impact on the financial statements.

IAS 27, Consolidated and Separate Financial Statements, revised in January 2008 (effective for annual periods beginning on or after 1 January 2009). The revised standard requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests even if it results in a negative balance of minority interest (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group estimates that the revised standard will have no major impact on its financial statements because the Group has no minority interest in its subsidiaries.

IFRS 3, Business Combinations, revised in January 2008 (effective for annual periods beginning on or after 1 January 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. IFRS 3 will have no impact on the Group because no business combinations with minority interest have been set up during the reporting period.

IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1) (effective for annual periods beginning on or after 1 January 2009). This amendment to IFRS 5 has been made as part of the annual improvement project of IASB, issued in May 2008. The amendment clarifies that an entity committed to a sale plan involving loss of control of a subsidiary would classify the subsidiary's assets and liabilities as held for sale. The revised guidance should be applied prospectively from the date at which the entity first applied IFRS 5. The Group is assessing the impact of the amended standard on its financial statements.

ii. New standards, revisions to standards and interpretations to standards that became effective for the Group's reporting period beginning on 1 January 2009, but are not relevant to the Group's operations.

IFRS 8 Operating Segments
IFRIC 11 IFRS 2 Group and Treasury Share Transactions
IFRIC 17 Distributions of Non-Cash Assets to Owners
IAS 23 Borrowing Costs
Puttable Financial Instruments and Obligations Arising on Liquidation, IAS 32 and IAS 1 Amendment
Vesting Conditions and Cancellations, Amendment to IFRS 2
IFRIC 13 Customer Loyalty Programmes
IFRIC 15 Agreements for the Construction of Real Estate
Embedded Derivatives, Amendments to IFRIC 9 and IAS 39, issued in March 2009
IFRIC 18 Transfers of Assets from Customers
Eligible Hedged Items, Amendment to IAS 39
IFRS 1, First-time Adoption of International Financial Reporting Standards, revised in December 2008

iii. New standards, revisions to standards and interpretations to standards that will become effective for the reporting periods beginning on or after 1 January 2010 which the Group has not applied early.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2 (effective for annual periods beginning on or after 1 January 2010, not yet adopted by the EU). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group is currently assessing the impact of the amendments on its financial statements.

Improvements to International Financial Reporting Standards, issued in April 2009 (amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; the improvements have not yet been adopted by the EU). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease;

providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have no major impact on its financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurement, issued in November 2009 (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). I IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

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

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010; not yet adopted by the EU). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group is currently assessing the impact of the interpretation on its financial statements.

iv. New standards, revisions to standards and interpretations to standards that will become effective for the reporting periods beginning on or after 1 January 2010 which the Group has not applied early and which are not relevant to Group's operations:

Additional Exemptions for First-time Adopters - Amendments to IFRS 1 (effective for annual periods beginning on or after 1 January 2010; not yet adopted by the EU).

Amendment to IAS 24, Related Party Disclosures, issued in November 2009 (effective for annual periods beginning on or after 1 January 2011; not yet adopted by the EU).

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011; not yet adopted by the EU).

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010; not yet adopted by the EU).

Classification of Rights Issues - Amendment to IAS 32, issued in October 2009 (effective for annual periods beginning on or after 1 February 2010)-

Other than the situations mentioned above, new standards and interpretations do not have a major impact on the Group's financial statements.

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 Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of assets.

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 Estonian kroons (EEK), which is the functional and presentation currency of the parent.

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

Transactions in foreign currencies

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

Cash and cash equivalents

In the cash flow statement, cash and cash equivalents include cash, bank account balances (except for overdraft), and term deposits with original maturities of three months or less. Cash with a limited use has been eliminated from cash and cash equivalents. Overdraft is included within short-term borrowings in the balance sheet. Cash and cash equivalents are reported at 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 2009 (as well as at 31 December 2008), the Group held only financial assets classified as loans and receivables.

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 provision for impairment using the effective interest rate method. This method is used in subsequent periods to calculate interest income on receivables (less provision for impairment).

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 *Other operating expenses*. 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 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.

Impairment of assets

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

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

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 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 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 is 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 (see the accounting policy in section *Non-current assets held for sale*).

Non-current assets held for sale

Non-current assets held for sale include tangible or intangible assets which are intended to be sold within the next 12 months and with regard to which management has initiated an active sales programme and the assets are marketed for sale at a price that is reasonable in relation to their current fair value.

Non-current assets held for sale are presented in the balance sheet within current assets and their depreciation is ceased upon reclassification. Non-current assets held for sale are recognised at the lower of the carrying amount and the fair value less costs to sell.

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.

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.

Sale-leaseback transactions

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

If a sale and leaseback transaction results in a finance lease, the transaction is recorded as a financing transaction. The asset "sold" is not derecognised from the balance sheet of the seller and the "sales proceeds" are recognised as 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.

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

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

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

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

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

For operating leases, if 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 is recognised immediately.

Financial liabilities

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 in their redemption value. For calculating the amortised cost of non-current financial liabilities, they are initially recognised at fair value of the proceeds received (net of transaction costs incurred) and an interest cost is calculated on the liability in subsequent periods using the effective interest rate method.

Financial liabilities are classified as current when they are due to be settled within twelve months after the balance sheet date; or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Borrowings that are due within 12 months after the balance sheet date, but which are refinanced after the balance sheet date as 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 benefits

Short-term employee benefits

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

Termination benefits

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

Provisions and contingent liabilities

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

Taxation

Corporate 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.

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	Until 31.05.2009: 0.3%, until 31.07.2009: 1%, from 01.08.2009: 1.4% of the payroll paid to the employees
Fringe benefit income tax	21/79 on fringe benefits paid to the employees in 2009 and 2008
Income tax on expenses not related to business activities	21/79 on expenses not related to business activities in 2009 and 2008

Revenue recognition
Revenue from the sale of goods and services
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
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.

Liquidity risk

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

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

	Up to 3 months	Between 4 months and 1 year	Between 1 and 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
As at 31.12.2009						
Borrowings (Note 11)	48,393	124,587	343,658	0	516,638	483,129
Trade payables (Note 12)	132,295	18,197	0	0	150,492	150,492
Other liabilities (Note 13)	867	0	0	0	867	867
Total cash flows related to financial obligations	**181,555**	**142,784**	**343,658**	**0**	**667,997**	**634,488**

	Up to 3 months	Between 4 months and 1 year	Between 1 and 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
As at 31.12.2008						
Borrowings (Note 11)	50,205	142,013	499,723	41,012	732,953	644,771
Trade payables (Note 12)	126,013	0	0	0	126,013	126,013
Other liabilities (Note 13)	308	27,421	0	0	27,729	27,729
Total cash flows related to financial obligations	**176,526**	**169,434**	**499,723**	**41,012**	**886,695**	**798,513**

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 =EEK 10.8653 (31.12.2008: USD 1=EEK 11.1052) prevailing at 31.12.2009 has been used in 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 22 *Group's liquidity.*

	31.12.2009	31.12.2008
Interest rates used in analysis		
Bank loans	2.69%-7.85%	4.85%-7.26%
Loans from owners	N/A	8.5%-12%
Trade payables and other payables	0%	0%

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 Note 4. 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).

Market risks

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

Foreign exchange risk

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

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

31.12.2009	USD	EEK	Other currencies	Total
Cash (Note 4)	13,084	4,299	483	17,866
Trade receivables (Note 5)	68,884	2,214	338	71,436
Other receivables	64,557	37,177	721	102,454
Borrowings (Note 11)	467,593	130	15,406	483,129
Trade receivables (Note 12)	28,005	122,483	4	150,492
Other payables	101	610	156	867

31.12.2008	USD	EEK	Other currencies	Total
Cash (Note 4)	28,889	70	134	29,093
Trade receivables (Note 5)	46,091	4,888	13	50,992
Other receivables	1,495	33,407	365	35,268
Borrowings (Note 11)	637,960	6,811	0	644,771
Trade receivables (Note 12)	2,125	123,631	257	126,013
Other payables (Note 13)	27,729	8,775	0	36,505

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 EEK. Therefore, the Group's cash inflows and outflows in USD and EEK have been matched and the Group does not have a need for currency exchange 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 the changing of the average interest rates of banks.

The Group's long-term borrowings (bank loans) as at 31 December 2009 and 31 December 2008 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 EEK) and 10% depreciation of USD (appreciation of EEK); USD 1 = EEK 10.8653 at 31.12.2009 (USD 1 = EEK 11.1052 at 31.12.2008).
- 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 31.12.2009 (2.63-5.83%). Change by +150 basis points/-50 basis points in the interest rates of the USD credit market as compared to the rates prevailing at 31.12.2008 (2.40-7.16%).
- Change by +100 basis points / -100 basis points in the market interest rates of EEK overnight deposits as compared to the rates prevailing at 31.12.2009 (3.65 – 5.05%). Change by +150 basis points/-50 basis points in the market interest rates of EEK overnight deposits as compared to the year-end rate of 5.48% at 31.12.2008.

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

	31.12.2009 Carrying amount	Foreign exchange risk: USD appreciates 10% Effect on net profit	Foreign exchange risk: USD depreciates 10% Effect on net profit	Interest rate risk: Interest rate increases 100 basis points Effect on net profit	Interest rate risk: Interest rate decreases 100 basis points Effect on net profit
Financial assets	191,756				
Total effect from financial assets		**14,652**	**-14,652**	**331**	**-331**
Financial liabilities	634,488				
Total effect from financial liabilities		**-50,365**	**50,365**	**-4,791**	**4,791**
Total effect on net profit		**-35,713**	**35,713**	**-4,460**	**4,460**

	31.12.2008 Carrying amount	Foreign exchange risk: USD appreciates 10% Effect on net profit	Foreign exchange risk: USD depreciates 10% Effect on net profit	Interest rate risk: Interest rate increases 150 basis points Effect on net profit	Interest rate risk: Interest rate decreases 50 basis points Effect on net profit
Financial assets	115,354				
Total effect from financial assets		**7,648**	**-7,648**	**373**	**-124**
Financial liabilities	807,289				
Total effect from financial liabilities		**-66,781**	**66,781**	**-5,363**	**1,788**
Total effect on net profit		**-59,134**	**59,134**	**-4,990**	**1,664**

If as at 31.12.2009, the EEK exchange rate had appreciated against the USD by 10%, and all other variables had remained constant, the net profit for the reporting period would have been EEK 35,713 thousand (2008: EEK 59,134 thousand) higher, primarily related to the revaluation of USD loans, offset by costs in USD from revaluation of cash and receivables. And vice versa, if the EEK exchange rate had depreciated against the USD and all other variables had remained constant, the net profit for the reporting period would have been EEK 35,713 thousand (2008: EEK 59,134 thousand) lower. The net profit in 2009 is less impacted by changes in the USD/EEK exchange rate than in 2008 because the amounts of the loans assumed in USD have decreased.

If as at 31.12.2009, the interest rates in the USD credit market had been 100 basis points (2008: 150 basis points) higher and all other variables had remained constant, the net profit for the financial year would have been EEK 4,460 thousand (31.12.2008: EEK 4,990 thousand) lower.

If as at 31.12.2009, the interest rates in the USD credit market had been 100 basis points (2008: 50 basis points) lower and all other variables had remained constant, the net profit for the financial year would have been EEK 4,460 thousand (31.12.2008: EEK 1,664 thousand) higher.

In the financial year, the Company used EEK, USD and EUR overnight deposits (2008: only USD overnight deposit). The effect of changes in market interest rates of overnight deposits on the Company's profit may be considered insignificant.

Capital risk management

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

For the Group, capital includes loans and equity. According to the loan contracts entered into with the banks, no substantial requirements have been set for various financial ratios. However, the parent of the Group, AS Spacecom has concluded a guarantee contract with the bank (see Note 21), specifying the EBITDA to borrowings ratio. When these requirements are not met, the bank may require premature payment of the loan.

	Bank's requirement as at 31.12.2009	AS Spacecom actual ratio as at 31.12.2009	Bank's requirement as at 31.12.2008	AS Spacecom actual ratio as at 31.12.2008
Net borrowings / EBITDA	Maximum 8	1.5	Maximum 8	3

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

Fair value

The Group estimates that the fair values of assets and liabilities reported at amortised cost do not materially differ from the carrying amounts reported in the Group's consolidated balance sheet as at 31.12.2009 and 31.12.2008. 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.

Changes in global financial markets

Effect of the ongoing financial and economic crisis.

The ongoing global financial and economic crisis which commenced in the middle of 2007 (often also referred to as the "*Credit Crunch*") has resulted in, among other things, a lower level of capital market funding, lower liquidity across the banking and other sectors, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to the failures and takeovers of banks and other entities in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guarded against.

Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the Group's operating environment as a result of the ongoing crisis. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

Effect on liquidity:

The volume of wholesale financing has significantly decreased. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Impact on customers/borrowers:

The debtors of the Group may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Note 3. Key accounting estimates and judgements

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 have required more significant management decisions and which have the most significant impact on the amounts recognised in the financial statements and estimates which may lead to major adjustments in the carrying amount of assets and liabilities in the next financial year include: Useful lives of property, plant and equipment (Note 9), Estimated impairment of property, plant and equipment (Note 9) and Provisions and contingent liabilities (Note 21).

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 EEK 60 million (2008: EEK 61 million). If the depreciation rates are increased/reduced by 10%, the annual depreciation charge will increase/decrease by approximately EEK 6.0 million (2008: depreciation would increase/decrease by about EEK 6.1 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.

Provisions and contingent liabilities

In estimating the probability of realisation of contingent liabilities, 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

	31.12.2009	31.12.2008
Cash at bank	14,366	391
Bank term deposit	3,500	28,702
Total	**17,866**	**29,093**

In 2009, the average interest rate on the EEK 3-month term deposit was 3.62% (in 2008, the average interest rate on the USD overnight deposit was 2.44%).

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:

Cash and bank	**31.12.2009**	**31.12.2008**
Aa2	0	29,093
Baa3	17,725	0
A1	12	0
B2	16	0
Aa3	112	0
Total cash and bank	**17,866**	**29,093**

Note 5. Trade receivables

	31.12.2009	31.12.2008
Receivables from non-related parties		
Accounts receivable for lease of rolling stock	37,054	44,949
Other receivables	19,427	2,393
Total from non-related parties	**56,481**	**47,342**
Receivables from related parties (Note 20)		
Accounts receivable for lease of rolling stock	10,106	2,418
Other receivables	6,594	2,977
Total:	**16,700**	**5,395**
Allowance for doubtful receivables	-1,745	-1,745
Total from related parties	**14,955**	**3,650**
Total	**71,436**	**50,992**

The Group's management estimates that as at 31.12.2009, the Group's doubtful receivables totalled EEK 1,745 thousand (2008: EEK 1,745 thousand).

	31.12.2009	31.12.2008
Allowance for doubtful receivables	**-1,745**	**-1,645**
Receivables deemed irrecoverable in the reporting period	180	1,685
Receivables deemed doubtful in the reporting period (Note 17)	-180	-1,785
Receivables collected in the reporting period	0	0
Allowance for doubtful receivables at the end of the period	**-1,745**	**-1,745**

Distribution of receivables by due dates:

	31.12.2009		31.12.2008	
	Receivables	incl. VAT	Receivables	incl. VAT
Not overdue	45,755	2,466	36,978	0
Overdue up to 1 month	7,472	2,294	7,640	6,459
Overdue by 1 - 3 months	720	0	5,160	4,750
Overdue by 3 - 6 months	244	0	1,214	0
Overdue up to 1 year	17,245	0	0	0
Total	**71,436**	**4,760**	**50,992**	**11,209**

As at 31.12.2009 and as at 31.12.2008, the Group did not have any significant overdue receivables from those lessees who as at 31.12.2009 have not overdue receivables in the amount of EEK 45,755 thousand (as at 31.12.2008: EEK 36,978 thousand).

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, some of these receivables have been collected. Overdue receivables that have not been collected are due from one customer of a subsidiary. A provision for impairment of the subsidiary's receivables has been performed during the purchase analysis (see Note 19). The Company's management is convinced that this customer's receivables will be collected in the next financial year.

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

Note 6. Other receivables and prepayments

	31.12.2009	31.12.2008
Prepaid expenses (see below)	5,461	3,925
incl. related parties (see also Note 20)	*1,253*	*0*
Term deposit* (Note 21)	33,120	33,120
Loans granted	200	1,214
incl. related parties (see also Note 20)	*200*	*117*
Interest charge on loans granted	1,623	932
incl. related parties (see also Note 20)	*1,623*	*788*
Other receivables	16	1,980
incl. related parties (see also Note 20)	*16*	*1,980*
Prepaid and deferred taxes (Note 7)	8,525	0
Total	**48,943**	**41,172**

*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 institutions with a rating of Baa 3.

Prepaid expenses

	31.12.2009	31.12.2008
Forwarding expenses	0	504
Prepayment of infrastructure usage fee	1,253	0
Other prepayments	4,208	3,421
Total	**5,461**	**3,925**

Note 7. Taxes

	31.12.2009		31.12.2008	
Tax	**Prepayment**	**Liability**	**Prepayment**	**Liability**
Value added tax	8,525	6,213	0	6,056
Personal income tax	0	414	0	217
Social security tax	0	720	0	392
Unemployment insurance tax	0	46	0	5
Contributions to mandatory funded pension	0	4	0	16
Corporate income tax	0	26	0	17
Total	**8,525**	**7,422**	**0**	**6,703**

Note 8. Investments in associates

	31.12.2009	31.12.2008
Shares of associates	15,059	9,873
Total	**15,059**	**9,873**

	AS Daugavpils Lokomotivju Remonta Rupnica
Country of incorporation	Latvia
Date of purchase	22.06.2004
Main area of activity	Repair of railway tanks and locomotives

	2009	2008
% of shares at the beginning of the reporting period	**25.27%**	**25.27%**
Cost of investment at the beginning of the reporting period	**10,586**	**10,586**
Carrying value of shares at the beginning of the reporting period	**9,873**	**4,243**
Profit/loss under the equity method	5,186	5,630
% of shares at the end of the reporting period	**25.27%**	**25.27%**
Cost of investment at the end of the reporting period	**10,586**	**10,586**
Carrying value of shares at the end of the reporting period	**15,059**	**9,873**

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

	31.12.2009	31.12.2008
Cash and bank	2,437	730
Property, plant and equipment	145,495	154,486
Other assets	151,993	178,434
Total assets	**299,926**	**333,650**
Current liabilities	122,868	133,999
Non-current liabilities	45,123	50,246
Equity	131,935	149,405
Total liabilities and equity	**299,926**	**333,650**

	2009	2008
Revenue	249,243	412,779
Other income	2,491	3,054
Operating expenses	256,097	392,325
Operating profit (-loss)	-4,363	23,508
Net profit for the financial year	**-4 363**	**23,508**

Note 9. Property, plant and equipment

	Land	Buildings	Rolling stock	Machinery and equipment	Other fixtures	Pre-payment	Total
Balance as at 31.12.2007							
Cost	**2,555**	**27,365**	**1,667,977**	**5,632**	**2,088**	**380**	**1,705,997**
Accumulated depreciation	0	-915	-230,948	-1,263	-860	0	**-233,986**
Carrying amount	**2,555**	**26,450**	**1,437,029**	**4,369**	**1,228**	**380**	**1,472,011**
Changes occurred in 2008							
Additions	0	3,251	0	775	409	53	**4,488**
Disposals	0	0	-50,747	-73	-114	-381	**-51,315**
Depreciation charge	0	-1,003	-58,825	-919	-421	0	**-61,169**
Balance as at 31.12.2008							
Cost	**2,555**	**30,616**	**1,610,589**	**6,334**	**2,241**	**53**	**1,652,388**
Accumulated depreciation	0	-1,918	-283,132	-2,182	-1,139	0	**-288,372**
Carrying amount	**2,555**	**28,698**	**1,327,457**	**4,152**	**1,102**	**53**	**1,364,016**
Changes occurred in 2009							
Additions	0	1,502	81,576	0	3,089	0	**86 168**
Disposals	0	,0	-42,166	0	-1	-53	**-42 220**
Reclassification to non-current assets held for sale	0	-27,592	-3,129	0	0	0	**-30,721**
Impairment	0	0	-5,388	0	0	0	**-5,388**
Depreciation charge	0	-1,146	-57,556	-214	-1,444	0	**-60,359**
Balance as at 31.12.2009							
Cost	**2,555**	**4,526**	**1,622,533**	**6,334**	**4,784**	**0**	**1,640,732**
Accumulated depreciation	0	-3,064	-321,739	-2,396	-2,037	0	**-329,236**
Carrying amount	**2,555**	**1,462**	**1,300,794**	**3,938**	**2,747**	**0**	**1,311,497**

Purchases of property, plant and equipment
In the financial year, the Group acquired 250 tanks (in 2008, there were no purchases of rolling stock).

Disposals and write-down of property, plant and equipment
In the reporting period, the Group sold 2 railway locomotives. There was also one insurance case involving a Group-owned railway tank as a result of which the Group received an insurance benefit in the amount of EEK 736 thousand.
In 2008, the Group sold 5 railway locomotives. Additional information about the gains and losses from sales transactions is provided in Note 16.

Reclassification as non-current assets held for sale
As at 31.12.2009, the Group reclassified two locomotives and investments related to Iru Depot as non-current assets held for sale. These assets will be disposed of in the first half of 2010.

Information about items of property, plant and equipment pledged as collateral for the bank guarantee is disclosed in Note 21. 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, 11):

Cost 31.12.2008	1,611,235
Accumulated depreciation	283,141
Carrying amount 31.12.2008	**1,328,094**
Cost 31.12.2009	1,603,152
Accumulated depreciation	324,016
Carrying amount 31.12.2009	**1,279,136**

Carrying amount as at 31.12.2007	**32,402**
Deferred income in 2008 (see also Note 16)	-17,695
Carrying amount as at 31.12.2008 (see also Note 13)	**14,708**
Deferred income in 2009 (see also Note 16)	-9,550
Carrying amount as at 31.12.2009 (see also Note 13)	**5,158**

For refinancing of the purchase of rolling stock, the Group has concluded contracts with lessors with the term of 4-7 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, locomotives and cars.

The excess of the sales proceeds over the carrying amount of assets sold in sale-leaseback transactions is accounted as deferred income over the lease terms (see Note 16).

Minimum lease payments

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

	2009	**2008**
Minimum lease payments	505,011	561,234
Unrealised financial expenses	-34,482	-59,855
Present value of minimum lease payments (Note 11)	470,529	501,379

	Minimum lease payments	**Present value of minimum lease payments**
31.12.2009		
Total	**505,011**	**470,529**
incl. due in 12 months	161,354	147,947
between 1 and 5 years	343,657	322,582
over 5 years	0	0
31.12.2008		
Total	**561,234**	**501,379**
incl. due in 12 months	189,626	165,602
between 1 and 5 years	330,597	295,698
over 5 years	41,012	40,079

The Group is the lessee

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

	31.12.2009	**31.12.2008**
Operating lease payments during the period	2,817	1,984

The Group is the lessor

	31.12.2009	31.12.2008
Railway tanks leased out under the operating lease terms (pcs.)	**3,535**	**3,286**
leased to related parties	*257*	*598*
leased to non-related parties	*3,278*	*2,688*

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

Cost 31.12.2008	1,504,359
Accumulated depreciation	263,448
Carrying amount 31.12.2008	**1,240,911**
Cost 31.12.2009	1,622,533
Accumulated depreciation	321,739
Carrying amount 31.12.2009	**1,300,794**

2009	
Operating lease revenue (see also Note 15)	385,611
Future minimum lease payments under non-cancellable operating leases	
incl. due in 12 months:	20,179
Expected lease revenue in 2010 based on existing contracts as at 31.12.2009	364,293

2008	
Operating lease revenue (see also Note 15)	346,252
Future minimum lease payments under non-cancellable operating leases	
incl. due in 12 months:	40,624
Expected lease revenue in 2009 based on existing contracts as at 31.12.2008	369,631

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

Note 11. Borrowings and finance lease liabilities

2009

	Balance as at 31.12.2009	Incl. current portion	Incl. non-current portion	Maturity	Interest rate
Finance lease liabilities	**470,529**	147,846	322,582	2010-2015	fixed 7-7.2% 1-6 month Libor+1.7-3% 6month Euribor+1.2-1.7%
Overdraft	**12,600**	12,600	0	2010	1 month Talibor+2.9%
Total borrowings	**483,129**	**160,446**	**322,582**		

2008

	Balance as at 31.12.2008	Incl. current portion	Incl. non-current portion	Maturity	Interest rate
Loans					
Loans from group entities	133,262	0	133,262	2010	8.5% up to 12%
Loans from other related parties	7,774	0	7,774	2011	12%
Total loans (see Note 20)	**141,036**	**0**	**141,036**		
Finance lease liabilities (see Note 10)	**501,379**	165,602	335,777	2009-2015	fixed 7-7.2% 1-6 month Libor+1.7-3% 6month Euribor+1.2-1.7%
Overdraft	**2,356**	2,356	0	2009	1-month Talibor+2.9%
Total borrowings	**644,771**	**167,958**	**476,813**		

The exposure of the Group to interest-rate changes:

As at 31.12.2009

	1 month	3 months	6 months	Fixed	Total
Finance lease liabilities	7,042	208,985	253,218	1,285	470,529
Overdraft	12,600	0	0	0	12,600
Total:	**19,642**	**208,985**	**253,218**	**1,285**	**483,129**

As at 31.12.2008

	1 month	3 months	6 months	Fixed	Total
Loans	0	0	0	141,036	141,036
Finance lease liabilities	16,503	50,586	413,387	20,904	501,379
Overdraft	2,356	0	0	0	2,356
Total:	**18,859**	**50,586**	**413,387**	**161,940**	**644,771**

Fair value of long-term borrowings:

	31.12.2009	31.12.2008
Loans	**0**	**141 202**
Finance lease liabilities	**322 631**	**336 077**
Total fair value of long-term borrowings	**322 631**	**477 279**

Note 12. Trade payables and prepayments

	31.12.2009	31.12.2008
Trade payables	150,492	126,013
incl. related parties (see also Note 20)	*21,095*	*419*
Customer prepayments	7,954	7,663
Total:	**158,446**	**133,676**

Note 13. Other liabilities

	Current portion		Non-current portion		Total	Total
	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Payables to employees	610	1,322	0	0	610	1,322
Vacation payables	375	725	0	0	375	725
Interest liabilities	101	27,729	0	0	101	27,729
Deferred income (see also Note 10)	3,449	9,551	1,709	5,157	5,158	14,708
Other	41	24	0	0	41	24
Total:	**4,575**	**39,351**	**1,709**	**5,157**	**6,284**	**44,508**

Interest liabilities

	31.12.2009	31.12.2008
Interest liabilities related to lease agreements	101	308
Interest liabilities related to loans		
to group entities (see Note 20)	*0*	*26,488*
to other related parties(see Note20)	*0*	*933*
Total interest liabilities related to loans	0	27,421
Total:	**101**	**27,729**

Note 14. Equity

The share capital consists of 40,000 common shares with the nominal value of EEK 10. 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 2009 was EEK 899,627 thousand (2008: EEK 665,866 thousand).

As at the balance sheet date, it is possible to pay out dividends to the shareholders in the amount of EEK 710,705 thousand (2008: EEK 526,034 thousand) and the corresponding income tax would amount to EEK 188,922 thousand (2008: EEK 139,832 thousand).

Note 15. Revenue

The Group's consolidated revenue is divided as follows:

By activities

	2009	2008
Lease of rolling stock	385,611	346,252
Forwarding services	1,478	24,422
Railway transportation services	0	56,111
Repair and maintenance services	13,384	5,839
Other	20,296	16,389
Total:	**420,769**	**449,013**

By geographic regions

	2009	2008
Finland	177,664	200,194
Kazakhstan	155,750	134,976
Estonia	87,335	84,242
Latvia	0	619
Lithuania	0	6,412
Other	0	22,569
Total:	**420,769**	**449,013**

Note 16. Other income and costs

	2009	2008
Amortisation of deferred income (see also Note 10)	9,550	17,695
Profit from disposal of fixed assets (see also Note 9)	475	29,013
Negative goodwill (see also Note 19)	173	0
Other income and costs	-1,664	827
Total:	**8,533**	**47,535**

Note 17. Operating expenses

	2009	2008
Rolling stock maintenance and lease expenses	45,289	58,609
Forwarding expenses	1,503	24,119
Railway infrastructure usage fee and expenses	0	58,066
Expenses related to provided repair services	7,390	3,120
Allowance for doubtful receivables (see also Note 5)	180	1,785
Staff costs (see below)	21,994	27,565
Administrative expenses	19,816	20,837
Other	18,797	11,147
Total:	**114,969**	**205,247**

Staff costs

	2009	2008
Wages and salaries	16,210	19,325
incl. remuneration to members of the Management Board	*9,204*	*5,038*
Vacation payable	280	1,368
Social security tax	5,504	6,872
Total:	**21,994**	**27,565**

Note 18. Finance income and costs

	2009	2008
Finance income		
Interest income		
Interest income on bank deposits	2,410	2,034
On loans	2,422	384
Incl. to related parties see Note 20	*2,310*	*384*
Total interest income	**4,832**	**2,418**
Foreign exchange gains	**139,087**	**188,560**
Finance costs		
Interest costs		
On loans received	7,857	28,143
Incl. from related parties see Note 20	*5,629*	*25,003*
On finance lease	23,761	28,464
Other	0	1,464
Total :	**31,619**	**58,071**
Foreign exchange losses	**132,313**	**219,665**
Total finance income and costs	**-20,012**	**-86,758**

Note 19. Business combination

At 30 December 2009, the Group acquired a new subsidiary – Ekolinja OY, registered in Finland, the main activity of which is leasing of rolling stock, by paying EEK 156 thousand for the 100% ownership interest. Negative goodwill arose in acquisition of Ekolinja OY in the amount of EEK 173 thousand which was immediately recognised in the income statement (see Note 16). In 2009, the share of the acquired entity in the Groups revenue and profit is zero.
This transaction was a business combination between independent parties, and it was recognised under the purchase method.

Receivables and liabilities of the acquired entity as at 31.12.2009

	Fair value	Carrying value
Cash and bank	1 307	1 307
Trade receivables	51 605	52 832
Trade payables	-51 700	-51 700
Borrowings	-884	-884
Fair value of net assets	**329**	**1 556**
Carrying amount of acquired ownership interest	**156**	
Negative goodwill	**173**	

During the purchase analysis, the receivables and liabilities of the subsidiary to be acquired were valued to their fair value. The overdue receivables of the subsidiary are due from one customer. The Group's management believes that the receivables from this customer will be collected in the next financial year. Therefore, a provision for impairment of these receivables has been recognised.

In 2008, there were no business combinations.

Note 20. Related party transactions

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

a. owners (parent and owners of the parent);
b. other entities in the same consolidation group (incl. fellow subsidiaries);
c. management and supervisory boards;
d. 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 Group has purchased and sold its goods and rendered services to the following related parties:

2009	Purchases	Sales
Lease of rolling stock	88	44,006
Other services	12,134	26,305
Total transactions with group entities	**12,223**	**70,311**
Other services (entities related to the management)	2,458	1,273
Other services (associates)	3,775	0
Total	**18,456**	**71,585**

2008	Purchases	Sales
Lease of rolling stock	0	6,221
Railway transportation services	0	56,102
Other services	5,204	13,203
Total transactions with group entities	**5,204**	**75,526**
Other services (entities related to the management)	19,957	290
Purchases-disposals of non-current assets (associates)	64	619
Total	**25,225**	**76,435**

	2009	**2008**
Interest income (Note 18)	2,310	384
Interest cost (Note 18)	5,629	25,003

Balances with related parties:

	31.12.2009	**31.12.2008**
Trade receivables		
Group entities	14,556	3,587
Entities related to the management	399	63
Total trade receivables (see Note 5)	**14,955**	**3,650**
Other receivables		
Loans granted to other related parties	200	117
Interests receivable from group entities	1,591	678
Interest receivables from entities related to management	0	92
Interest receivables from other related parties	31	18
Other receivables	1,268	1,980
Total other receivables (see Note 6)	**3,091**	**2,885**
Long-term receivables		
Loans granted to group entities	58,803	0
Total long-term receivables	**58,803**	**0**
Interest liabilities		
Group entities	0	26,488
Entities related the management	0	933
Total interest liabilities (see Note 13)	**0**	**27,421**

Other liabilities		
Other liabilities to group entities	21,095	0
Other liabilities to entities related to the management	4	419
Total other liabilities (see Note 12)	**21,099**	**419**
Total current liabilities	**21,099**	**419**
Group entities	0	133,262
Entities related to the management	0	7,774
Other related parties	0	0
Total loans received from related parties (see Note 11)	**0**	**141,036**
Total non-current liabilities	**0**	**141,036**

Remuneration paid to the members of the Management Board and Supervisory Board is disclosed in Note 17. Upon premature termination of an employment contract with members of the Management Board, they are not paid compensation.

In the financial year, no receivables from related parties were impaired (2008: EEK 1,745 thousand). See also Note 5.

Note 21. 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 2006-2009. 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.

Other contingent liabilities

The Group has a pending litigation since year 2004 with AS Eesti Raudtee (Estonian Railways) over the infrastructure usage fee in the period of 31.05.04-31.05.05. The amount of the mentioned usage fee is regulated by the Railways Act and orders of the Estonian Railways Inspectorate.

As the usage fee calculated by the Group was significantly lower than that calculated by AS Eesti Raudtee, the Group has paid only that portion of the fee indicated in the invoices from AS Eesti Raudtee which was considered fair and calculated by the Group itself. At the same time, all invoices have been charged to expenses in the total amount (Note 12).

As a result of a statement of claim by AS Eesti Raudtee, the court has ordered the Group to pay the amount of collateral or obtain a bank guarantee as collateral in the total amount of EEK 82,800 thousand. At the end of 2006, the Group obtained a bank guarantee against which the court freed EEK 82,800 thousand from the court deposit at the beginning of 2007. In accordance with the guarantee contract entered into with the bank, the Group had to transfer EEK 16,560 thousand to the term deposit in 2007 and additional EEK 16,560 thousand in 2008. As at 31.12.2009 the term deposit totalled EEK 33,120 thousand (as at 31.12.2008: EEK 33,120 thousand). Since the use of money in the deposit is restricted, the amount is not included within cash and cash equivalents, but within receivables (see Note 6).

At 1 February, Harju County Court has published a ruling which satisfied Eesti Raudtee's claim for principal debt of the infrastructure usage fee in the amount of EEK 119,497 thousand, fine for delay in the amount of EEK 122,368 thousand and legal costs in the amount of EEK 8,799. The ruling of County Court has not come into force as the Group has appealed the decision on the 2 March 2010 in Tallinn Circuit Court; the appeal gives a complete overview of substantial violations of procedural rules and also County Court violations by relevant legal issues and components of items of evidence. In the opinion of the Group's management, it is very likely that the County Court ruling will be annulled. Therefore the litigation has not ended to date and the result cannot be foreseen. The Group's management is of opinion that the disputed claim does not bring about any additional significant expenses to the Group, which would have an effect on its financial statements.

Guarantees issued

The Group concluded a bank guarantee contract at the end of 2006 in order to free funds from the court deposit (Note 6).The guarantee is used as collateral for possible expenses in case the litigation with AS Eesti Raudtee (Estonian Railways) does not have a favourable outcome for the Group. The amount of the guarantee makes up a total of EEK 82,800 thousand. The court accepted the application of the Group to substitute the funds for the guarantee and accepted the guarantee issued by the bank. The amount deposited in previous periods into the court deposit was credited to the Group at the beginning of 2007. According to the conditions of the guarantee contract, the Group had to deposit EEK 16,560 thousand in 2008 (in 2007: EEK 16,560 thousand) in the bank deposit as part of the collateral for the guarantee (Note 6). In 2009, no additional deposits were made.

The Group has pledged its rolling stock with the carrying amount of EEK 678,317 thousand and the outstanding balance of the bank deposit of EEK 33,120 thousand as collateral for the bank guarantee in favour of the bank (31.12.2008: carrying amount of rolling stock: EEK 678,317 thousand, outstanding balance of the bank deposit: EEK 32,120 thousand) (Note 6).

Note 22. Liquidity of the Group

As at 31 December 2009, the current liabilities of the Group exceeded current assets by EEK 193 million and as at 31.12.2008,by EEK 226 million. Such situation is related to the fact that the lease of the railway tanks acquired has been accounted for as finance lease (thus the future lease payments are recognised as a liability in the balance sheet; see Notes 10 and 11) and transactions to lease out the railway tanks have been recognised as 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 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.

BALANCE SHEET

ASSETS	31.12.2009	31.12.2008
Current assets		
Cash and bank	16,518	28,960
Trade receivables	58,756	50,992
Other receivables	40,173	41,037
Prepaid and deferred taxes	**115,446**	**120,988**
Non-current assets held for sale	**30,721**	**0**
Non-current assets		
Long-term financial investments		
Investments in subsidiaries and associates	90,887	90,731
Long-term receivables	59,724	818
Total long-term financial investments	**150,611**	**91,548**
Property, plant and equipment	1,131,968	1,175,632
Prepayments for intangible assets	0	53
Total property, plant and equipment	**1,131,968**	**1,175,685**
Total non-current assets	**1,282,579**	**1,267,234**
TOTAL ASSETS	**1,428,746**	**1,388,223**

LIABILITIES AND EQUITY		
Current liabilities		
Loans and finance lease liabilities	149,665	135,038
Trade payables and prepayments	172,903	157,160
Tax payable	6,703	5,980
Other liabilities	22,270	53,209
Total current liabilities	**351,541**	**351,387**
Non-current liabilities		
Loans and finance lease liabilities	392,882	539,488
Other payables	1,709	4,884
Total non-current liabilities	**394,591**	**544,371**
Total liabilities	**746,132**	**895,758**
EQUITY		
Share capital at nominal value	400	400
Statutory reserve capital	40	40
Retained earnings	492,025	388,087
Net profit for the financial year	190,149	103,938
Total equity	**682,614**	**492,465**
TOTAL LIABILITIES AND EQUITY	**1,428,746**	**1,388,223**

Statement of comprehensive income

	01.01.09 - 31.12.09	01.01.08 - 31.12.08
Operating income		
Revenue	423,053	450,939
Other operating income	8,017	48,606
Total operating income	**431,069**	**499,545**
Operating expenses		
Operating expenses	164,085	252,312
Depreciation	57,216	52,629
Total operating expenses	**221,301**	**304,942**
Operating profit	**209,769**	**194,604**
Finance income and costs	-19,620	-90,666
Net profit for the financial year	**190,149**	**103,938**
Comprehensive income for the financial year	**190,149**	**103,938**

Statement of changes in equity

	Share capital	Statutory reserve capital	Retained earnings	Total
Balance as at 31.12.2007	**400**	**40**	**388,088**	**388,528**
Net profit for financial year			103,938	**103,938**
Balance as at 31.12.2008	**400**	**40**	**492,026**	**492,466**
Carrying amount of investments under control and significant influence				**-90,731**
Value of investments under control and significant influence under the equity method				**264,571**
Adjusted unconsolidated equity as at 31.12.2008				**666,306**
Net profit for financial year			190,149	**190,149**
Balance as at 31.12.2009	**400**	**40**	**682,175**	**682,615**
Carrying amount of investments under control and significant influence				**-90,887**
Value of investments under control and significant influence under the equity method				**308,339**
Adjusted unconsolidated equity as at 31.12.2009				**900,067**

Cash flow statement

	01.01.09 - 31.12.09	01.01.08 - 31.12.08
Cash flows from operating activities		
Operating profit	**209,769**	**194,604**
Adjustments:		
Depreciation, amortisation and impairment	57,216	52,629
Amortisation of deferred income	-9,003	-17,148
Profit from disposals of fixed assets	-10	-29,013
Interest income	-4,832	-2,418
Change in receivables and prepayments related to operating activities	-6,047	12,104
Change in liabilities and prepayments related to operating activities	15,420	-36,050
Interest paid	-57,520	-56,646
Total cash flows from operating activities	**204,991**	**118,063**
Cash flows from investing activities		
Purchase of property, plant and equipment	-86,168	-3,899
Proceeds from sale of property, plant and equipment	42,167	18,502
Investments in subsidiaries	-156	0
Disposals of associates	0	0
Collection of deposit/payment to deposit	0	-16,560
Loans granted	-93,626	-2,695
Repayments of loans granted	31,971	8,941
Interest received	3,902	1,881
Total cash flows from investing activities	**-101,910**	**6,171**
Cash flows from financing activities		
Proceeds from borrowings	0	74,849
Repayments of borrowings	-147,211	-205,403
Proceeds from refinancing under finance lease	233,817	213,854
Proceeds from overdraft/repayment of overdraft	10,244	-22,089
Finance lease principal repayments	-211,613	-181,784
Total cash flows from financing activities	**-114,763**	**-120,572**
Total cash flows	**-11,682**	**3,662**
Cash and cash equivalents at the beginning of the period	**28,960**	**20,241**
Net increase/decrease in cash and cash equivalents	**-11,682**	**3,662**
Exchange gains/losses on cash and bank balances	**-760**	**5,058**
Cash and cash equivalents at the end of the period	**16,518**	**28,960**

Note 24. Events after the balance sheet date

At 20 January 2010, AS Spacecom and its wholly-owned subsidiary AS Skinest Veeremi signed a merger agreement of the entities. The resolution of shareholders in respect of the merger is to be expected in April 2010.

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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 2009 and the consolidated statement of comprehensive income, 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 as adopted by the European Union. 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 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

PRICEWATERHOUSECOOPERS

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 21 in the consolidated financial statements, which discloses the Group's lawsuit with AS Eesti Raudtee under which AS Eesti Raudtee claims unpaid fees from the Group for use of railway infrastructure for the traffic period of 2004/2005, penalties and court expenses. The ultimate outcome of the matter cannot presently be determined.

Tiit Raimla
AS PricewaterhouseCoopers

Stan Nahkor
Authorised Auditor

30 March 2010

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

PROFIT ALLOCATION PROPOSAL

The Management Board of AS Spacecom proposes to the General Meeting of Shareholders to transfer the net profit for 2009 in the amount of EEK 233,761 thousand to retained earnings.

Member of the Management Board
Oleg Ossinovski

Member of the Management Board
Siarhei Psiola