

## **AS Spacecom**

### **2010 CONSOLIDATED ANNUAL REPORT**

(Translation of the Estonian original)

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Beginning and end of financial year:	01.01.2010-31.12.2010

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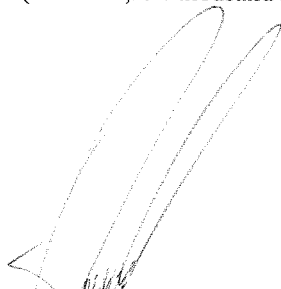
**MANAGEMENT REPORT**

AS Spacecom was founded and registered in Estonia in 2003. The parent of AS Spacecom is Globaltrans Investments Holding PLC (Cyprus). In 2010, the Company merged with its subsidiary Skinest Veeremi AS. The subsidiary SIA Hoover has been liquidated. As at 31.12.2010 AS Spacecom Group (hereinafter "the Group") includes the subsidiary Ekolinja OY (100%). AS Spacecom also has a 25.27% ownership interest in the associate A/S Daugavpils Lokomotivju Remonta Rupnica (Latvia).

The core activity of the Group is leasing of railway rolling stock. As at 31.12.2010, the Group had 3,710 railway tanks and 4 locomotives (as at 31.12.2009: 3,535 railway tanks and 6 locomotives). All railway tanks are rented out mainly for a term of 1-3 years. Next year, the Company plans to further increase its rolling stock by 325 railway tanks.


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 26,991 thousand kroons in 2010 (2009: 9,204 thousand kroons). No remuneration was paid to the members of the Supervisory Board in 2010 and 2009. The average number of employees in the reporting period was 15 (2009: 32 people) and the number of employees at the year-end was 16 (31.12.2009: 15). In 2010, staff costs including taxes amounted to 42,807 thousand kroons (2009: 21,994 thousand kroons).



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Oleg Ossinovski  
Member of the Management Board



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Siarhei Psiola  
Member of the Management Board

Tallinn, 31 March 2011

**CONSOLIDATED BALANCE SHEET**

(in thousands of Estonian kroons)

	Note	31.12.2010	31.12.2009
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and bank	4	29,469	17,866
Trade receivables	5	73,516	71,436
Other receivables and prepayments	6	50,355	48,943
Inventories	7	592	0
<b>Total current assets</b>		<b>153,931</b>	<b>138,246</b>
<b>Non-current assets held for sale</b>	10	<b>0</b>	<b>30,721</b>
<b>Non-current assets</b>			
<b>Long-term financial investments</b>			
Investments in associates	9	17,497	15,059
Long-term receivables	20	147,555	59,724
<b>Total long-term financial investments</b>		<b>165,052</b>	<b>74,783</b>
Property, plant and equipment	10;11	1,391,827	1,311,497
Prepayment for property, plant and equipment	20	100,480	0
<b>Total property, plant and equipment</b>		<b>1,492,307</b>	<b>1,311,497</b>
<b>Total non-current assets</b>		<b>1,657,358</b>	<b>1,386,280</b>
<b>TOTAL ASSETS</b>		<b>1,811,289</b>	<b>1,555,246</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Borrowings and finance lease liabilities	12	237,633	160,446
Trade payables and prepayments	13	239,622	158,446
Tax liabilities and other current liabilities	8;14	3,977	11,996
<b>Total current liabilities</b>		<b>481,232</b>	<b>330,888</b>
<b>Non-current liabilities</b>			
Borrowings and finance lease liabilities	12	172,038	322,582
Other non-current liabilities	14	0	1,709
<b>Total non-current liabilities</b>		<b>172,038</b>	<b>324,291</b>
<b>Total liabilities</b>		<b>653,271</b>	<b>655,179</b>
<b>EQUITY</b>			
Share capital at nominal value	15	400	400
Statutory reserve capital		40	40
Retained earnings		1,157,578	899,627
<b>Total equity</b>		<b>1,158,018</b>	<b>900,067</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,811,289</b>	<b>1,555,246</b>

The notes to the financial statements presented on pages 8-33 are an integral part of the Consolidated Annual Report.

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(in thousands of Estonian kroons)

	Note	01.01.10 - 31.12.10	01.01.09 - 31.12.09
<b>Operating income</b>			
Revenue	16	599,073	420,769
Other operating income	17	4,253	8,533
<b>Total operating income</b>		<b>603,326</b>	<b>429,303</b>
<b>Operating expenses</b>			
Operating expenses	18	247,919	114,969
Depreciation, amortisation and impairment	10	59,540	65,747
<b>Total operating expenses</b>		<b>307,459</b>	<b>180,716</b>
<b>Operating profit</b>		<b>295,867</b>	<b>248,587</b>
Share of profit/loss of associates	9	2 438	5,186
Finance income and costs	19	-40,171	-20,012
<b>Profit before income tax</b>		<b>258,133</b>	<b>233,761</b>
Corporate income tax expense		182	0
<b>Comprehensive income for the financial year</b>		<b>257,951</b>	<b>233,761</b>
incl. attributable to equity holders of the parent company		257,951	233,761

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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of Estonian kroons)

Attributable to equity holders of the parent company

	Share capital	Statutory reserve capital	Retained earnings	Total
Balance as at 31.12.2008	400	40	665,866	666,306
Comprehensive income for the financial year	0	0	233,761	233,761
<b>Balance as at 31.12.2009</b>	400	40	899,627	900,067
Comprehensive income for the financial year	0	0	257,951	257,951
<b>Balance as at 31.12.2010</b>	400	40	1,157,578	1,158,018

More detailed information on share capital and other equity items is set out in Note 15.

The notes to the financial statements presented on pages 8-33 are an integral part of the Consolidated Annual Report.

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**CONSOLIDATED CASH FLOW STATEMENT**

(in thousands of Estonian kroons)

	Note	01.01.10 - 31.12.10	01.01.09 - 31.12.09
<b>Cash flows from operating activities</b>			
Operating profit		295,867	248,587
<b>Adjustments:</b>			
Depreciation, amortisation and impairment	10	59,540	65,747
Amortisation of deferred income	11	-3,477	-9,550
Profit from disposal of non-current assets	17	450	-475
Change in inventories		-515	
Change in receivables and prepayments related to operating activities		-4,300	-6,098
Change in liabilities and prepayments related to operating activities		74,848	1,999
Interest paid		-13,601	-58,830
<b>Total cash flows from operating activities</b>		<b>408,812</b>	<b>241,380</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	-234,490	-86,168
Proceeds from sale of property, plant and equipment		31,249	42,641
Loans granted		-143,510	-93,626
Repayments of loans granted		65,099	31,971
Interest received		6,590	3,788
<b>Total cash flows from investing activities</b>		<b>-275,062</b>	<b>-101,394</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		94,090	0
Repayments of borrowings		-3,934	-147,211
Proceeds from refinancing under finance lease		0	233,816
Proceeds from overdraft/repayment of overdraft	12	-3,881	10,244
Finance lease principal repayments		-199,291	-250,488
<b>Total cash used in financing activities</b>		<b>-113,015</b>	<b>-153,638</b>
<b>Total cash flows</b>		<b>20,735</b>	<b>-13,652</b>
<b>Cash and cash equivalents at the beginning of the period</b>	4	<b>17,866</b>	<b>29,093</b>
<b>Net decrease/increase in cash and cash equivalents</b>		<b>20,735</b>	<b>-13,652</b>
<b>Cash received from business combinations</b>		<b>0</b>	<b>1,307</b>
<b>Effect of exchange rate changes</b>		<b>-9,132</b>	<b>1,117</b>
<b>Cash and cash equivalents at the end of the period</b>	4	<b>29,469</b>	<b>17,866</b>

The notes to the financial statements presented on pages 8-33 are an integral part of the Consolidated Annual Report.

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## NOTES TO THE FINANCIAL STATEMENTS

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

## General information

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

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

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

The 2010 consolidated financial statements comprise the following group entities:

	Domicile	Share		Main area of activity	Owner
		31.12.2010	31.12.2009		
Ekolinja OY	Finland	100%	100%	Sub-lease of railway rolling stock	AS Spacecom

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

The 2010 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 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 31 March 2011. 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 2010 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

## i. Following standards, amendments to published standards and interpretations became effective for the Group from 1 January 2010

**Eligible Hedged Items—Amendment to IAS 39** The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have a material impact on these financial statements.

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**ii. Following new standards, revisions to standards and interpretations to standards became effective for the Group from 1 January 2010, but are not relevant to the Group's operations.**

- *Improvements to International Financial Reporting Standards, issued in April 2009*
- *IFRIC 12, Service Concession Arrangements*
- *IFRIC 15, Agreements for the Construction of Real Estate*
- *Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009*
- *IFRIC 16, Hedges of a Net Investment in a Foreign Operation*
- *IFRIC 17, Distributions of Non-cash Assets to Owners*
- *IFRIC 18, Transfers of Assets from Customers*
- *IAS 27, Consolidated and Separate Financial Statements, revised in January 2008*
- *IFRS 3, Business Combinations, revised in January 2008*
- *Amendment to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1)*
- *IFRS 1, First-time Adoption of International Financial Reporting Standards, revised in December 2008*
- *Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2*
- *Additional Exemptions for First-time Adopters - Amendments to IFRS 1*

**New or revised standards and interpretations not yet adopted by the Group**

**i. Following new standards, revisions to standards and interpretations to standards will become effective for the reporting periods beginning on or after 1 January 2011 which the Group has not applied early:**

**IFRS 9, Financial Instruments Part 1: Classification and Measurement** (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU).

IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. 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.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

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

**ii. New standards, amendments to issued standards and interpretations to current standards which are not yet effective and are not likely to have material effect on the Group's financial reporting:**

- *Classification of Rights Issues - Amendment to IAS 32, issued in October 2009* (effective for annual periods beginning on or after 1 February 2010)
- *Amendment to IAS 24, Related Party Disclosures, issued in November 2009* (effective for annual periods beginning on or after 1 January 2011)
- *IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010)

- *Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14* (effective for annual periods beginning on or after 1 January 2011)
- *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)
- *Disclosures—Transfers of Financial Assets – Amendments to IFRS 7* (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU)
- *Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12* (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU)
- *Severe Hyperinflation and Removal of Fixed Aates for First-time Adopters – Amendment to IFRS 1* (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU)
- *Improvements to International Financial Reporting Standards, issued in May 2010* (effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011; the improvements have not yet been adopted by the EU).

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.

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**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 24).

**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 2010 (as well as at 31 December 2009), 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 a provision for impairment using the effective interest rate method. This method is used in subsequent periods to calculate interest income on receivables (less a 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 *Operating expenses* (see Note 18). 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.

### Inventories

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

Inventories are expensed using the FIFO method.

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

### Impairment of assets

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

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

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

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

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

Land is not depreciated.

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

The expected useful lives of non-current assets are reviewed at each balance sheet date, when recognising subsequent expenditure and in case of significant changes in the Group's development plans. When the estimate of the useful life of the asset differs significantly from the previous estimate, the remaining useful life of the asset is revalued and as a result, the depreciation charge 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 the fair value of the proceeds received (net of transaction costs incurred) and an interest cost is calculated on the liability in subsequent periods using the effective interest rate method.

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

### Employee 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 if, and only if, the Group is demonstrably committed to either terminating the employment of an employee or a group of employees before the normal retirement date; or providing termination benefits as a result of an offer made in order to encourage voluntary redundancy.

### Provisions and contingent liabilities

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

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

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

**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	1.4% of the payroll paid to the employees
Fringe benefit income tax	21/79 on fringe benefits paid to the employees in 2010 and 2009
Income tax on expenses not related to business activities	21/79 on expenses not related to business activities in 2010 and 2009

**Revenue recognition**

Revenue from the sale of goods and services is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates granted. Revenue excludes value added tax, refunds, discounts and intragroup sales transactions. Revenue is recognised when all significant risks and rewards of ownership have been transferred to the buyer and the transaction cost can be determined reliably. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group's estimates are based on historical experience considering the type of each customer and transaction, as well as special terms and conditions. Revenue from rendering of services is recognised after the rendering of the service or if a service is performed over a longer period of time, based on the stage of completion.

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

**Statutory reserve capital**

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

**Note 2. Management of financial risks****Financial risk factors**

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

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	Total undiscounted cash flows	Carrying amount
<b>As at 31.12.2010</b>					
Borrowings (Note 12)	44,437	202,716	175,423	422,576	409,671
Trade payables (Note 13)	144,898	169	0	145,067	145,067
Other liabilities (Note 14)	0	0	0	0	0
<b>Total cash flows related to financial obligations</b>	<b>189,334</b>	<b>202,885</b>	<b>175,423</b>	<b>567,643</b>	<b>554,738</b>
<b>As at 31.12.2009</b>					
Borrowings (Note 12)	48,393	124,587	343,658	516,638	483,129
Trade payables (Note 13)	132,295	18,197	0	150,492	150,492
Other liabilities (Note 14)	867	0	0	867	867
<b>Total cash flows related to financial obligations</b>	<b>181,555</b>	<b>142,784</b>	<b>343,658</b>	<b>667,997</b>	<b>634,488</b>

The cash flows presented in the table have not been discounted and therefore, these amounts do not correspond to the amounts disclosed in Note 12 *Borrowings*. As the bank loans and the loans from the owners are denominated in US dollars, the exchange rate of USD 1 =EEK 11.7107 prevailing at 31.12.2010 (31.12.2009: USD 1=EEK 10.8653) has been used for computation of future cash flows.

Undiscounted cash flows have been determined according to the current payment schedules valid as at the end of the period. For bank loans with floating interest rates, the LIBOR rate prevailing at the balance sheet date has been used. See also Note 22 *Group's liquidity*.

	31.12.2010	31.12.2009
<b>Interest rates used in analysis</b>		
Bank loans	2.26%-5.5%	2.69%-7.85%

#### 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.

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

31.12.2010	USD	EEK	Other currencies	Total
Cash (Note 4)	8,565	20,303	600	29,469
Trade receivables (Note 5)	70,573	1,987	955	73,515
Other receivables	148,040	33,120	0	181,160
Borrowings (Note 12)	407,666	0	2,006	409,671
Trade receivables (Note 13)	21,676	122,781	610	145,067

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 12)	467,593	130	15,406	483,129
Trade receivables (Note 13)	28,005	122,483	4	150,492
Other payables	101	610	156	867

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

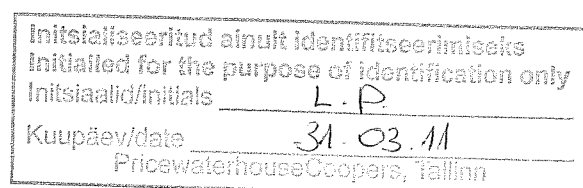
The Group's cash flow interest rate risk is primarily related to long-term borrowings (bank loans) with floating interest rates. Interest rate risk is primarily related to potential fluctuations of LIBOR and the changing of the average interest rates of banks.

The Group's long-term borrowings (bank loans) as at 31 December 2010 and 31 December 2009 had floating interest rates based on the 6-month LIBOR and 6-month EURIBOR (see also Note 12). 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 11.7107 at 31.12.2010 (USD 1 = EEK 10.8653 at 31.12.2009).
- 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 31.12.2010 (2.26-5.5%). 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 +100 basis points / -100 basis points in the market interest rates of EEK overnight deposits as compared to the rates prevailing at 31.12.2010 (1.10 – 5.05%). Change by +100 basis points / -100 basis points in the market interest rates of EEK overnight deposits as compared to the year-end rate of 3.65 – 5.05% at 31.12.2009.



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

	31.12.2010	Foreign exchange risk		Interest rate risk	
		USD appreciates 10%	USD depreciates 10%	Interest rate increases 100 basis points	Interest rate decreases 100 basis points
Carrying amount		Effect on net profit	Effect on net profit	Effect on net profit	Effect on net profit
Financial assets	284,144				
<b>Total effect from financial assets</b>		<b>22,718</b>	<b>-22,718</b>	<b>136</b>	<b>-136</b>
Financial liabilities	554,738				
<b>Total effect from financial liabilities</b>		<b>-42,934</b>	<b>42,934</b>	<b>-2,988</b>	<b>2,988</b>
<b>Total effect on net profit</b>		<b>-20,216</b>	<b>20,216</b>	<b>-2,851</b>	<b>2,851</b>

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

If as at 31.12.2010, 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 20,216 thousand (2009: EEK 35,713 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 20,216 thousand (2009: EEK 35,713 thousand) lower. The net profit in 2010 is less impacted by changes in the USD/EEK exchange rate than in 2009 because the amounts of the loans assumed in USD have decreased and the financial assets denominated in USD have increased.

If as at 31.12.2010, the interest rate in the USD credit market had been 100 basis points (2009: 100 basis points) higher and all other variables had remained constant, the net profit for the financial year would have been EEK 2,851 thousand (31.12.2009: EEK 4,460 thousand) lower.

If as at 31.12.2010, the interest rates in the USD credit market had been 100 basis points (2009: 100 basis points) lower and all other variables had remained constant, the net profit for the financial year would have been EEK 2,851 thousand (31.12.2009: EEK 4,460 thousand) higher.

In the financial year, the Group used EEK and EUR overnight deposits (2009: EEK, USD and EUR overnight deposit). The effect of changes in market interest rates of overnight deposits on the Group's profit may be considered insignificant.

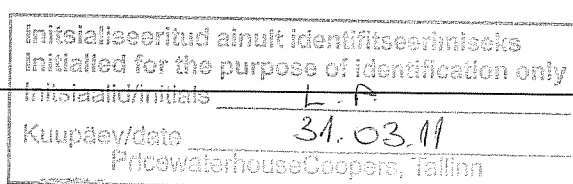
### Capital risk management

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 optimal 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 31.12.2010	AS Spacecom actual ratio as at 31.12.2010	Bank's requirement as at 31.12.2009	AS Spacecom actual ratio as at 31.12.2009
Net borrowings / EBITDA	Maximum 8	1.2	Maximum 8	1.5

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 31.12.2010 and 31.12.2009. 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 12.

**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 to the carrying amount of assets and liabilities in the next financial year include: Evaluation of useful lives of property, plant and equipment (Note 10), Estimated impairment of property, plant and equipment (Note 10) and Provisions and contingent liabilities (Note 21).

*Valuation of doubtful receivables*

The impairment of the receivables that are individually significant is assessed individually for each receivable. Evidence of potential impairment includes the bankruptcy or major financial difficulties of the debtor and non-adherence to payment dates. The amount of doubtful receivables is adjusted as at each balance sheet date, using information based on prior experience in respect of how many of the receivables deemed as doubtful will be collected in subsequent periods and how many of them will be not. As at 31 December 2010, the Company had doubtful receivables in the amount of EEK 1,869 thousand (31 December 2009: EEK 1,745 thousand) (Note 5).

*Evaluation of useful lives of property, plant and equipment*

Management has evaluated the useful lives of items of property, plant and equipment while considering business conditions and volumes, historical experience in this area and potential future use. The depreciation charge of the Group in the reporting period totalled EEK 59.5 million (2009: EEK 60 million). If the depreciation rates are increased/reduced by 10%, the annual depreciation charge will increase/decrease by approximately EEK 5.9 million (2009: depreciation would increase/decrease by about EEK 6.0 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 economic and social environment, and the assumptions and conditions of the possible events in the future based on the best knowledge of the situation.

**Note 4. Cash and bank**

	31.12.2010	31.12.2009
Cash at bank	29,469	14,366
Bank term deposit	0	3,500
<b>Total</b>	<b>29,469</b>	<b>17,866</b>

In 2010, the average interest rate on the EEK 3-month term deposit was 2.22% (in 2009, the average interest rate on the USD overnight deposit was 3.62%).

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	31.12.2010	31.12.2009
Aa2	28,806	0
Baa3	649	17,725
A1	13	12
B2	0	16
Aa3	0	112
<b>Total cash and bank</b>	<b>29,469</b>	<b>17,866</b>

**Note 5. Trade receivables**

	31.12.2010	31.12.2009
<b>Receivables from non-related parties</b>		
<i>Accounts receivable for lease of rolling stock</i>	46,448	37,054
<i>Other receivables</i>	1,647	19,427
<b>Total from non-related parties</b>	<b>48,094</b>	<b>56,481</b>
<b>Receivables from related parties (Note 20)</b>		
<i>Accounts receivable for lease of rolling stock</i>	24,748	10,106
<i>Other receivables</i>	2,542	6,594
Total:	<b>27,290</b>	<b>16,700</b>
Allowance for doubtful receivables	-1,869	-1,745
<b>Total from related parties</b>	<b>25,421</b>	<b>14,955</b>
<b>Total</b>	<b>73,516</b>	<b>71,436</b>

The Group's management estimates that as at 31.12.2010, the Group's doubtful receivables totalled EEK 1,869 thousand (2009: EEK 1,745 thousand).

	31.12.2010	31.12.2009
<b>Allowance for doubtful receivables</b>	<b>-1,745</b>	<b>-1,745</b>
Receivables deemed irrecoverable in the reporting period	242	180
Receivables deemed doubtful in the reporting period (Note 18)	-366	-180
<b>Allowance for doubtful receivables at the end of the period</b>	<b>-1,869</b>	<b>-1,745</b>

In the reporting period, the Group recognised an allowance for doubtful receivables in the amount of EEK 10,161 thousand. This was related to the fact that the subsidiary of Spacecom AS which acted as a service intermediary, leased out railway tanks of a related party to a third party which refused to meet its obligations and declared bankruptcy in 2010. As a result, the Related Party was exposed to the afore-mentioned business risks and the related party waived its claim against the Group in the amount of EEK 10,123 thousand.

**Distribution of receivables by due dates:**

	31.12.2010	31.12.2009
Not overdue	53,362	45,755
Overdue up to 1 month	10,310	7,472
Overdue by 1 - 3 months	8,493	720
Overdue by 3 - 6 months	26	244
Overdue up to 1 year	0	15,928
Overdue over 1 year	1,326	1,317
<b>Total</b>	<b>73,516</b>	<b>71,436</b>

As at 31.12.2010 and as at 31.12.2009, the Group did not have any significant overdue receivables from those lessees who as at 31.12.2010 have not overdue receivables in the amount of EEK 53,362 thousand (as at 31.12.2009: EEK 45,755 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, significant amount of these receivables have been collected.

**Note 6. Other receivables and prepayments**

	31.12.2010	31.12.2009
Prepaid expenses (see below)	10,798	5,461
<i>incl. related parties (see also Note 20)</i>	1,850	1,253
Term deposit* (Note 21)	33,120	33,120
Current portion of loans granted	0	200
<i>incl. related parties (see also Note 20)</i>	0	200
Interest charge on loans granted	485	1,623
<i>incl. related parties (see also Note 20)</i>	485	1,623
Other receivables	0	16
<i>incl. related parties (see also Note 20)</i>	0	16
Prepaid and deferred taxes (Note 8)	5,952	8,525
<b>Total</b>	<b>50,355</b>	<b>48,943</b>

\*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 A2.

**Prepaid expenses**

	31.12.2010	31.12.2009
Rental expenses	7,622	0
Forwarding expenses	0	1,253
Other prepayments	3,175	4,208
<b>Total</b>	<b>10,797</b>	<b>5,461</b>

**Note 7. Inventories**

	31.12.2010	31.12.2009
Spare parts	592	0
<b>Total</b>	<b>592</b>	<b>0</b>

**Note 8. Taxes**

Tax	31.12.2010		31.12.2009	
	Prepayment	Liability	Prepayment	Liability
Value added tax	5,715	1	8,525	6,213
Personal income tax	0	380	0	414
Social security tax	0	677	0	720
Unemployment insurance tax	0	41	0	46
Contributions to mandatory funded pension	0	15	0	4
Corporate income tax	237	219	0	26
<b>Total</b>	<b>5,952</b>	<b>1,333</b>	<b>8,525</b>	<b>7,422</b>

## Note 9. Investments in associates

	31.12.2010	31.12.2009
Shares of associates	17,497	15 059
<b>Total</b>	<b>17,497</b>	<b>15,059</b>
	<b>AS Daugavpils Lokomotivju Remonta Rupnica</b>	
Country of incorporation	Latvia	
Date of purchase	22.06.2004	
Main area of activity	Repair of railway tanks and locomotives	
	<b>2010</b>	<b>2009</b>
<b>% of shares at the beginning of the reporting period</b>	<b>25.27%</b>	<b>25.27%</b>
<b>Cost of investment at the beginning of the reporting period</b>	<b>10,586</b>	<b>10,586</b>
<b>Carrying amount of shares at the beginning of the reporting period</b>	<b>15,059</b>	<b>9,873</b>
Profit/loss under the equity method	2,438	5,186
<b>% of shares at the end of the reporting period</b>	<b>25.27%</b>	<b>25.27%</b>
<b>Cost of investment at the end of the reporting period</b>	<b>10,586</b>	<b>10,586</b>
<b>Carrying amount of shares at the end of the reporting period</b>	<b>17,497</b>	<b>15,059</b>

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

	31.12.2010	31.12.2009
Cash and bank	13,449	2,437
Property, plant and equipment	141,757	145,495
Other assets	138,835	151,993
<b>Total assets</b>	<b>294,041</b>	<b>299,926</b>
Current liabilities	123,379	122,868
Non-current liabilities	39,504	45,123
Equity	131,158	131,935
<b>Total liabilities and equity</b>	<b>294,041</b>	<b>299,926</b>
	<b>2010</b>	<b>2009</b>
Revenue	329,668	249 243
Other income	2,407	2,491
Operating expenses	331,710	256,097
Operating profit (-loss)	365	-4,363
<b>Net profit for the financial year</b>	<b>365</b>	<b>-4 363</b>

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## Note 10. Property, plant and equipment

	Land	Buildings	Rolling stock	Machinery and equipment	Other fixtures	Total
<b>Balance as at 31.12.2008</b>						
Cost	2,555	30,616	1,610,589	6,334	2,241	1,652,335
Accumulated depreciation	0	-1,918	-283,132	-2,182	-1,139	-288,372
<b>Carrying amount</b>	<b>2,555</b>	<b>28,698</b>	<b>1,327,457</b>	<b>4,152</b>	<b>1,102</b>	<b>1,363,964</b>
<b>Changes occurred in 2009</b>						
Additions	0	1,502	81,576	0	3,089	86,168
Disposals	0	0	-42,166	0	-1	-42,167
Reclassification to non-current assets held for sale	0	-27,592	-3,129	0	0	-30,721
Impairment	0	0	-5,388	0	0	-5,388
Depreciation charge	0	-1,146	-57,556	-214	-1,444	-60,359
<b>Balance as at 31.12.2009</b>						
Cost	2,555	4,526	1,622,533	6,334	4,784	1,640,732
Accumulated depreciation	0	-3,064	-321,739	-2,396	-2,037	-329,236
<b>Carrying amount</b>	<b>2,555</b>	<b>1,462</b>	<b>1,300,794</b>	<b>3,938</b>	<b>2,747</b>	<b>1,311,497</b>
<b>Changes occurred in 2010</b>						
Additions	0	0	137,873	2,350	218	140,441
Disposals	0	0	0	-103	-468	-570
Depreciation charge	0	-300	-56,991	-463	-1,785	-59,540
<b>Balance as at 31.12.2010</b>						
Cost	2,555	4,526	1,760,406	8,581	4,534	1,780,603
Accumulated depreciation	0	-3,364	-378,730	-2,859	-3,822	-388,776
<b>Carrying amount</b>	<b>2,555</b>	<b>1,162</b>	<b>1,381,676</b>	<b>5,723</b>	<b>712</b>	<b>1,391,827</b>

Purchases of property, plant and equipment

In the financial year, the Group acquired 175 railway tanks (in 2009: 250 tanks).

Disposals and write-down of property, plant and equipment

In the reporting period, the Group sold 2 maneuvering locomotives.

In 2009, the Group sold 2 railway locomotives. Additional information about the gains and losses from sales transactions is provided in Note 17.

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 were disposed of in 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 11.

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**Note 11. Finance lease and operating lease****Finance lease**

The Group is the lessee

Rolling stock acquired under the finance lease (additional information in Notes 10 and 12):

Cost 31.12.2009	1,603,152
Accumulated depreciation	324,016
<b>Carrying amount 31.12.2009</b>	<b>1,279,136</b>
Cost 31.12.2010	965,676
Accumulated depreciation	209,211
<b>Carrying amount 31.12.2010</b>	<b>756,465</b>
<b>Carrying amount as at 31.12.2008</b>	<b>14,708</b>
Deferred income in 2009 (see also Note 17)	-9,550
<b>Carrying amount as at 31.12.2009 (see also Note 13)</b>	<b>5,158</b>
Deferred income in 2010 (see also Note 17)	-3,477
<b>Carrying amount as at 31.12.2010 (see also Note 13)</b>	<b>1,681</b>

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

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 term (see Note 17).

**Minimum lease payments**

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

	2010	2009
Minimum lease payments	323,949	505,011
Unrealised financial expenses	-12,807	-34,482
Present value of minimum lease payments	311,141	470,529
	<b>Minimum lease payments</b>	<b>Present value of minimum lease payments</b>
<b>31.12.2010</b>		
<b>Total</b>	<b>323,949</b>	<b>311,141</b>
<i>incl. due in 12 months</i>	145,994	139,103
<i>  between 1 and 5 years</i>	177,955	172,038
<i>  over 5 years</i>	0	0
<b>31.12.2009</b>		
<b>Total</b>	<b>505,011</b>	<b>470,529</b>
<i>incl. due in 12 months</i>	161,354	147,947
<i>  between 1 and 5 years</i>	343,657	322,582
<i>  over 5 years</i>	0	0

**The Group is the lessee**

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

	31.12.2010	31.12.2009
Operating lease payments during the period	2,174	2,817

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## The Group is the lessor

	31.12.2010	31.12.2009
Railway tanks leased out under the operating lease terms (pcs.)	3,710	3,535
<i>leased to related parties</i>	1,517	257
<i>leased to non-related parties</i>	2,193	3,278

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

Cost 31.12.2009	1,622,533
Accumulated depreciation	321,739
<b>Carrying amount 31.12.2009</b>	<b>1,300,794</b>
Cost 31.12.2010	1,622,533
Accumulated depreciation	378,730
<b>Carrying amount 31.12.2010</b>	<b>1,243,803</b>

## 2010

Operating lease revenue (see also Note 16)	579,902
Future minimum lease payments under non-cancellable operating leases <i>incl. due in 12 months:</i>	20,304
Expected lease revenue in 2011 based on existing contracts as at 31.12.2010	579,297

## 2009

Operating lease revenue (see also Note 16)	385,611
Future minimum lease payments under non-cancellable operating leases <i>incl. due in 12 months:</i>	20,179
Expected lease revenue in 2010 based on existing contracts as at 31.12.2009	364,293

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

## Note 12. Borrowings and finance lease liabilities

## 2010

	Balance as at 31.12.2010	Incl. current portion	Incl. non- current portion	Maturity	Interest rate
<b>Borrowings</b>	<b>89,811</b>	<b>89,811</b>	<b>0</b>	2011	1-month USD Libor+2%
					3-6 month USD Libor+1.7-5.0%
<b>Finance lease liabilities (see Note 11)</b>	<b>311,141</b>	<b>139,103</b>	<b>172,038</b>	2011-2015	6- month Euribor+1.7-2.7%
<b>Overdraft</b>	<b>8,719</b>	<b>8,719</b>	<b>0</b>	2011	1-month USD Libor+2%
<b>Total borrowings</b>	<b>409,671</b>	<b>237,633</b>	<b>172,038</b>		

## 2009

	Balance as at 31.12.2009	Incl. current portion	Incl. non- current portion	Maturity	Interest rate
<b>Finance lease liabilities (see Note 11)</b>	<b>470,529</b>	<b>147,846</b>	<b>322,582</b>	2010-2015	fixed 7-7.2% 1-6 month Libor+1.7-3%
<b>Overdraft</b>	<b>12,600</b>	<b>12,600</b>	<b>0</b>	2010	6-month Euribor+1.2-1.7% 1-month Talibor+2.9%
<b>Total borrowings</b>	<b>483,129</b>	<b>160,446</b>	<b>322,582</b>		

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## The exposure of the Group to interest-rate changes:

As at 31.12.2010

	1 month	3 months	6 months	Fixed	Total
Borrowings	89,811	0	0	0	89,811
Finance lease liabilities	0	141,786	169,355	0	311,141
Overdraft	8,719	0	0	0	8,719
<b>Total:</b>	<b>98,531</b>	<b>141,786</b>	<b>169,355</b>	<b>0</b>	<b>409,671</b>

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
<b>Total:</b>	<b>19,642</b>	<b>208,985</b>	<b>253,218</b>	<b>1,285</b>	<b>483,129</b>

Fair value of long-term borrowings:

	31.12.2010	31.12.2009
Finance lease liabilities	172,038	322,631
<b>Total fair value of long-term borrowings</b>	<b>172,038</b>	<b>322,631</b>

## Note 13. Trade payables and prepayments

	31.12.2010	31.12.2009
Trade payables	145,067	150,492
<i>incl. related parties (see also Note 20)</i>	5,366	21,099
Customer prepayments	94,556	7,954
<b>Total:</b>	<b>239,622</b>	<b>158,446</b>

## Note 14. Other liabilities

	Current portion		Non-current portion		Total	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Payables to employees	595	610	0	0	595	610
Vacation payables	326	375	0	0	326	375
Interest liabilities	0	101	0	0	0	101
Deferred income (see also Note 11)	1,681	3,449	0	1,709	1,681	5,158
Other	42	41	0	0	42	41
<b>Total:</b>	<b>2,645</b>	<b>4,575</b>	<b>0</b>	<b>1,709</b>	<b>2,645</b>	<b>6,284</b>

## Interest liabilities

	31.12.2010	31.12.2009
Interest liabilities related to lease agreements	0	101
<b>Total:</b>	<b>0</b>	<b>101</b>

## Note 15. 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 2010 was EEK 1,157,578 thousand (2008: EEK 899,627 thousand).

As at the balance sheet date, it is possible to pay out dividends to the shareholders in the amount of EEK 914,487 thousand (2009: EEK 710,705 thousand) and the corresponding income tax would amount to EEK 243,091 thousand (2009: EEK 188,922 thousand).

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**Note 16. Revenue**

The Group's consolidated revenue is divided as follows:

**By activities**

	2010	2009
Lease of rolling stock	579,902	385,611
Repair and maintenance services	6,384	13,384
Forwarding services	560	1,478
Other	12,227	20,296
<b>Total:</b>	<b>599,073</b>	<b>420,769</b>

**By geographic regions**

	2010	2009
Russia	214,647	0
Kazakhstan	157,695	155,750
Byelorussia	90,823	0
Estonia	73,209	87,335
Finland	262	177,684
Others	62,437	0
<b>Total:</b>	<b>599,073</b>	<b>420,769</b>

**Note 17. Other income and costs**

	2010	2009
Amortisation of deferred income (see also Note 11)	3,477	9,550
Profit/loss from disposal of fixed assets (see also Note 10)	-450	475
Negative goodwill	0	173
Other income and costs	1,226	-1,664
<b>Total:</b>	<b>4,253</b>	<b>8,533</b>

**Note 18. Operating expenses**

	2010	2009
Rolling stock maintenance and lease expenses	152,159	45,289
Forwarding expenses	509	1,503
Expenses related to provided repair services	3,769	7,390
Allowance for doubtful receivables (see also Note 5)	366	180
Staff costs (see below)	42,807	21,994
Administrative expenses	17,939	19,816
Other	30,370	18,797
<b>Total:</b>	<b>247,919</b>	<b>114,969</b>

**Staff costs**

	2010	2009
Wages and salaries	31,807	16,210
<i>incl. remuneration to members of the Management Board</i>	26,991	9,204
Vacation payable	326	280
Social security tax	10,674	5,504
<b>Total:</b>	<b>42,807</b>	<b>21,994</b>

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## Note 19. Finance income and costs

	2010	2009
<b>Finance income</b>		
<b>Interest income</b>		
Interest income on bank deposits	3,320	2,410
On loans	1,872	2,422
<i>Incl. to related parties see Note 20</i>	<i>1,853</i>	<i>2,310</i>
<b>Total interest income</b>	<b>5,192</b>	<b>4,832</b>
<b>Total finance income:</b>	<b>5,192</b>	<b>4,832</b>
<b>Finance costs</b>		
<b>Interest costs</b>		
On loans received	-372	-7,857
<i>Incl. from related parties see Note 20</i>	<i>0</i>	<i>5,629</i>
On finance lease	-13,128	23,761
Other	-237	0
<b>Total interest costs</b>	<b>-13,737</b>	<b>-31,618</b>
<b>Foreign exchange gains/losses</b>	<b>-31,626</b>	<b>6,774</b>
<b>Total finance income</b>	<b>-45,363</b>	<b>-24,844</b>
<b>Total finance income and costs</b>	<b>-40,171</b>	<b>-20,012</b>

## Note 20. Related party transactions

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

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

The parent of the Group is Globaltrans Investment Holding PLC (registered in Cyprus) which in turn belongs to the Transportation Investment Holding Limited (TIHL) Group.

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

2010	Purchases	Sales
Lease of rolling stock	42,266	251,204
Disposal of non-current assets	0	28,000
Other services	1,764	13,036
<b>Total transactions with group entities</b>	<b>44,030</b>	<b>292,240</b>
Purchase of non-current assets (entities related to the management)	236,740	0
Disposal of non-current assets (entities related to the management)	0	120
Other services (entities related to the management)	520	1,137
Disposal of non-current assets (associates)	0	3,129
Other services (associates)	3,821	33
<b>Total</b>	<b>285,111</b>	<b>296,660</b>
2009	Purchases	Sales
Lease of rolling stock	88	44,006
Other services	12,134	26,305
<b>Total transactions with group entities</b>	<b>12,223</b>	<b>70,311</b>
Other services (entities related to the management)	2,458	1,273
Other services (associates)	3,775	0
<b>Total</b>	<b>18,456</b>	<b>71,585</b>
	2010	2009
Interest income (Note 19)	1,853	2,310
Interest cost (Note 19)	0	5,629

Balances with related parties:	31.12.2010	31.12.2009
<b>Trade receivables</b>		
Group entities	25,100	14,556
Entities related to the management	321	399
<b>Total trade receivables (see Note 5)</b>	<b>25,421</b>	<b>14,955</b>
<b>Other receivables</b>		
Loans granted to other related parties	0	200
Interests receivable from group entities	485	1,591
Interest receivables from other related parties	0	31
Other receivables	1,850	1,268
<b>Total other receivables (see Note 6)</b>	<b>2,335</b>	<b>3,091</b>
<b>Long-term receivables</b>		
Loans granted to group entities	147,555	59,724
Prepayment for property, plant and equipment (entities related to management)	100,480	0
<b>Total long-term receivables</b>	<b>248,035</b>	<b>59,724</b>
<b>Other liabilities</b>		
Other liabilities to group entities	5,359	21,095
Other liabilities to entities related to the management	7	4
<b>Total other liabilities (see Note 13)</b>	<b>5,366</b>	<b>21,099</b>
<b>Total current liabilities</b>	<b>5,366</b>	<b>21,099</b>

Remuneration paid to the members of the Management Board and Supervisory Board is disclosed in Note 18. Upon expiration or premature termination of an employment contract with members of the Management Board, termination benefits totalling up to 6-month remuneration are payable to the members of the Management Board.

In the financial year, receivables from related parties were impaired in the amount of EEK 10 123 thousand (2009: 0 EEK). 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 2006-2010. 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

Spacecom AS (hereinafter "the Company") 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.

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

On the 1st of February 2010 Harju County Court has published a ruling which satisfied AS's Eesti Raudtee claim for principal debt of the infrastructure usage fee in the amount of €7 637 thousand, fine for delay in the amount of €7 820 thousand and legal costs in the amount of €562. The ruling of Harju County Court has not come into force as the Company has appealed the decision on the 2 March 2010 in Tallinn Circuit Court.

On the 14th of January 2011 the Tallinn Circuit Court has published a ruling which partially annulled the ruling of Harju County Court and reduced the fine for delay down to €6 878 thousand without reducing the claim for principal debt of the infrastructure usage fee and legal costs. The ruling of Tallinn Circuit Court has not come into force as the Company has appealed the ruling in Estonian Supreme Court on the 14 February 2011 asking to annul the ruling of Tallinn Circuit Court made on the 14th of January 2011 and the ruling of Harju County Court made on the 1st of February 2010 and return the case back to Harju County Court for investigation. In addition, the request to Estonian Supreme Court to seek for the preliminary ruling from the Court of Justice of

European Communities concerning the appropriateness of application of European directives when calculating the infrastructure usage fee has been included into the appeal case.

In the opinion of the Company's management, it is likely that the appeal case will be accepted by the Estonian Supreme Court and the rulings will be annulled. In the opposite case, the Company's management intends to turn to the European Court of Human Rights and Freedoms concerning the execution of European convention on procedural matters.

The Company continues the €3,8 million compromise negotiations with AS Eesti Raudtee. As of today the compromise decision has been approved by the supervisory boards of both the Company and AS Eesti Raudtee. The timing of the final decision of the AS Eesti Raudtee's shareholders meeting cannot be foreseen.

Therefore the litigation has not ended to date and the result cannot be foreseen. The Company's management is of opinion that the disputed claim does not bring about any additional significant expenses to the Company, which would have an effect on its financial statements.

See also information disclosed in Note 23

#### 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 is 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 2010 and 2009, no additional deposits were made.

The Group has pledged its rolling stock with the carrying amount of EEK 573,803 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 (31.12.2009: carrying amount of rolling stock: EEK 678,317 thousand, outstanding balance of the bank deposit: EEK 33,120 thousand) (Note 6).

#### Note 22. Liquidity of the Group

As at 31 December 2010, the current liabilities of the Group exceeded current assets by EEK 327 million and as at 31.12.2009, by EEK 193 million. Such a situation is related to the fact that the lease of the railway tanks acquired has been accounted for as finance lease (thus the future lease payments are recognised as a liability in the balance sheet; see Notes 11 and 12) 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 11). 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. Events after the balance sheet date

On 1 January 2011, the Republic of Estonia joined the euro area and adopted the euro as a national currency, replacing the Estonian kroon. Consequently, the functional currency of the Group is the euro from 2011 and the annual reports for 2011 and subsequent years to be submitted to the Commercial Register will be presented in euros. Comparative figures will be recalculated to euros using the conversion rate of EUR 1 = EEK 15.6466, which is the fixed exchange rate that was applicable also in the earlier periods.

On the 15th of March 2011 the Harju County Court committed itself to forward to the Group the documents received from the Republic of Latvia, which are related to the AS Eesti Raudtee request to the foreign country court to recognise and execute the court ruling.

As set out in the documents forwarded, on the 3rd of December 2010 the Tallinn Circuit Court ruled to pledge and impose the prohibition of the use of the shares of AS Spacecom in a/s "Daugavpils Lokomotivju Repair Rupnica (25,27%), thus satisfying the claim of action of AS

Eesti Raudtee under the litigation process between AS Eesti Raudtee and the Group (Note 21.)

The Company's management believes that the arrest and the prohibition of the use of the shares of AS Spacecom in a/s "Daugavpils Lokomotivju Repair Rupnica (25,27%) do not have effect either on the result of the litigation between AS Eesti Raudtee and the Group or the Group's financial position.

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**Note 24. 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**

<b>ASSETS</b>	<b>31.12.2010</b>	<b>31.12.2009</b>
<b>Current assets</b>		
Cash and bank	27,479	16,518
Trade receivables	59,713	58,756
Other receivables	41,346	40,173
Inventories	592	0
Prepaid and deferred taxes	<b>129 130</b>	<b>115,446</b>
<b>Non-current assets held for sale</b>	<b>0</b>	<b>30,721</b>
<b>Non-current assets</b>		
<b>Long-term financial investments</b>		
Investments in subsidiaries and associates	10,742	90,887
Long-term receivables	147,555	59,724
<b>Total long-term financial investments</b>	<b>158,297</b>	<b>150,611</b>
Property, plant and equipment	1,391,828	1,131,968
Prepayments for intangible assets	100,480	0
<b>Total property, plant and equipment</b>	<b>1,492,308</b>	<b>1,131,968</b>
<b>Total non-current assets</b>	<b>1,650,605</b>	<b>1,282,579</b>
<b>TOTAL ASSETS</b>	<b>1,779,735</b>	<b>1,428,746</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Loans and finance lease liabilities	237,634	149,665
Trade payables and prepayments	218,826	172,903
Tax payable	0	6,703
Other liabilities	922	22,270
<b>Total current liabilities</b>	<b>457,381</b>	<b>351,541</b>
<b>Non-current liabilities</b>		
Loans and finance lease liabilities	172,039	392,882
Other payables	0	1,709
<b>Total non-current liabilities</b>	<b>172,039</b>	<b>394,591</b>
<b>Total liabilities</b>	<b>629,420</b>	<b>746,132</b>
<b>EQUITY</b>		
Share capital at nominal value	400	400
Statutory reserve capital	40	40
Retained earnings	895,229	492,025
Net profit for the financial year	254,646	190,149
<b>Total equity</b>	<b>1,150,315</b>	<b>682 614</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,779,735</b>	<b>1,428,746</b>

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## Statement of comprehensive income

	01.01.10 - 31.12.10	01.01.09 - 31.12.09
<b>Operating income</b>		
Revenue	511,980	423,053
Other operating income	3,243	8,017
<b>Total operating income</b>	<b>515,223</b>	<b>431,069</b>
<b>Operating expenses</b>		
Operating expenses	160,211	164,085
Depreciation, amortisation and impairment	59,540	57,216
<b>Total operating expenses</b>	<b>219,751</b>	<b>221,301</b>
<b>Operating profit</b>	<b>295,472</b>	<b>209,769</b>
Finance income and costs	-40,826	-19,620
<b>Net profit for the financial year</b>	<b>254,646</b>	<b>190,149</b>
<b>Comprehensive income for the financial year</b>	<b>254,646</b>	<b>190,149</b>

## Statement of changes in equity

	Share capital	Statutory reserve capital	Retained earnings	Total
<b>Balance as at 31.12.2008</b>	<b>400</b>	<b>40</b>	<b>492,026</b>	<b>492,466</b>
Net profit for financial year			190,149	190,149
<b>Balance as at 31.12.2009</b>	<b>400</b>	<b>40</b>	<b>682,175</b>	<b>682,615</b>
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
<b>Adjusted unconsolidated equity as at 31.12.2009</b>				<b>900,067</b>
Merger with the subsidiary			213,054	213,054
Net profit for financial year			254,646	254,646
<b>Balance as at 31.12.2010</b>	<b>400</b>	<b>40</b>	<b>1,149,875</b>	<b>1,150,315</b>
Carrying amount of investments under control and significant influence				-10,742
Value of investments under control and significant influence under the equity method				18,446
<b>Adjusted unconsolidated equity as at 31.12.2010</b>				<b>1,158,018</b>

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## Cash flow statement

	01.01.10 - 31.12.10	01.01.09 - 31.12.09
<b>Cash flows from operating activities</b>		
Operating profit	295,472	209,769
<b>Adjustments:</b>		
Depreciation, amortisation and impairment	59,540	57,216
Amortisation of deferred income	-3,477	-9,003
Profit from disposals of fixed assets	450	-10
Interest income	-592	0
Change in receivables and prepayments related to operating activities	1,070	-8,399
Change in liabilities and prepayments related to operating activities	68,493	9,590
Interest paid	-13,601	-57,520
<b>Total cash flows from operating activities</b>	<b>407,356</b>	<b>201,641</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	-234,490	-86,168
Proceeds from sale of property, plant and equipment	31,249	42,167
Investments in subsidiaries	0	-156
Loans granted	-143,510	-93,626
Repayments of loans granted	65,983	31,971
Interest received	6,800	3,902
<b>Total cash flows from investing activities</b>	<b>-273,968</b>	<b>-101,910</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	94,090	0
Repayments of borrowings	-3,934	-147,211
Proceeds from refinancing under finance lease	0	233,817
Proceeds from overdraft/repayment of overdraft	-3,881	10,244
Finance lease principal repayments	-199,291	-211,613
<b>Total cash flows from financing activities</b>	<b>-113,015</b>	<b>-114,763</b>
<b>Total cash flows</b>	<b>20,374</b>	<b>-15,032</b>
Cash and cash equivalents at the beginning of the period	16,518	28,960
Net increase/decrease in cash and cash equivalents	20,374	-15,032
Exchange gains/losses on cash and bank balances	41	0
Cash flows from the merger	-9,454	2,590
Cash and cash equivalents at the end of the period	27,478	16,518

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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 2010 and the consolidated statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management Board's Responsibility for the Consolidated Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation, and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2010, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



### Emphasis of Matter

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. Our opinion is not qualified in respect of this matter.

AS PricewaterhouseCoopers

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

Tiit Raimla  
Auditor's Certificate No.287

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

Aleksei Kadõrko  
Auditor's Certificate No.557

31 March 2011

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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 2010 in the amount of EEK 257,951 thousand to retained earnings.

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Member of the Management Board  
Oleg Ossinovski

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Member of the Management Board  
Siarhei Psiola

**Signatures of the Management to the 2010 Annual Report**

Signing of AS SPACECOM 2010 annual report on March 31, 2011:

\_\_\_\_\_  
Member of the Management Board  
Oleg Ossinovski

\_\_\_\_\_  
Member of the Management Board  
Siarhei Pstola

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**AS Spacecom unconsolidated revenue according to EMTAK 2008**

<b>EMTAK</b>	<b>Area of activity</b>	<b>2010</b>
77391	Lease of railway tanks and locomotives (Note 10)	493,568
52291	Forwarding services	560
33171	Repair and maintenance services of other transport equipment	6,239
82991	Other business support service activities not classified elsewhere	11,611
	<b>Total unconsolidated revenue</b>	<b>511,980</b>