AS Spacecom

2008 CONSOLIDATED ANNUAL REPORT

(Translation of the Estonian original)

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Auditor:	AS PricewaterhouseCoopers
Beginning and end of financial year:	01.01.2008-31.12.2008

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MANAGEMENT REPORT

AS Spacecom was founded and registered in Estonia in 2003. The parent of AS Spacecom is Globaltrans Investments Holding PLC (Cyprus). AS Spacecom has two subsidiaries - AS Skinest Veeremi (Estonia) and SIA Hoover (Latvia), hereinafter together the "Group". AS Spacecom also has a 25.27% ownership interest in the associate A/S Daugavpils Lokomotivju Remonta Rupnica (Latvia).

The core activities of the Group are renting of railway tanks and rendering of railway cargo-forwarding services. As at 31.12.2008, the Group had 3 286 railway tanks (as at 31.12.2007: 3 286 railway tanks), all of which were rented out. Railway tanks are rented out for a term of 1-3 years.

In the first quarter of 2008, AS Spacecom terminated the activity of rendering railway transportation services. The main reason for the termination was the unprofitability of this business activity (the Group's expenses related to this activity significantly exceeded the revenue from the activity). In 2007, the volume of cargo transported (oil products) totalled 5.1 million tons and the key customer of the Group was one of the largest oil terminals in Estonia, AS Vopak E.O.S.

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

In 2007, the Group continued renovation and development of its locomotive depot (for locomotive repair and maintenance purposes). The construction and upgrading works were completed in 2008 and the Group started to actively provide locomotive repair services to third parties.

The Group's Management Board has two members and the remuneration paid to them totalled 7 045 thousand kroons (2007: 6 546 thousand kroons) in 2008. No remuneration was paid to the members of the Supervisory Board in 2008 and 2007. The average number of employees in the reporting period was 66 (2007: 130 people) and the number of employees at the year-end was 34 (31.12.2007: 128). In 2008, payroll expenses including taxes amounted to 27 565 thousand kroons (2007: 42 744 thousand kroons).

Oleg Ossinovski	Siarhei Psiola
Member of the Management Board	Member of the Management Board

Tallinn, 23 April 2009

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

The Management Board confirms the correctness and completeness of AS Spacecom 2008 consolidated financial statements as presented on pages 4-37.

The Management Board confirms that:

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

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

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

Oleg Ossinovski
Member of the Management Board

Siarhei Psiola
Member of the Management Board

Tallinn, 23 April 2009

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CONSOLIDATED BALANCE SHEET

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

ASSETS	Notes	31.12.2008 EEK thousand	31.12.2008 USD thousand	31.12.2007 EEK thousand	31.12.2007 USD thousand
Current assets					
Cash and bank	4	29 093	2 620	20 264	1 905
Trade receivables	5	50 992	4 592	53 007	4 983
Other receivables and prepayments	6	41 172	3 707	41 723	3 922
Total current assets		**121 257**	**10 919**	**114 994**	**10 810**
Non-current assets					
Long-term financial investments					
Investments in associates	8	9 873	889	4 243	399
Long-term receivables		818	74	766	72
Total long-term financial investments		**10 692**	**963**	**5 009**	**471**
Property, plant and equipment	9;10	1 364 016	122 827	1 472 011	138 370
Total property, plant and equipment		**1 364 016**	**122 827**	**1 472 011**	**138 370**
Total non-current assets		**1 374 708**	**123 790**	**1 477 020**	**138 841**
TOTAL ASSETS		**1 495 965**	**134 708**	**1 592 014**	**149 651**
LIABILITIES AND EQUITY					
Current liabilities					
Borrowings and finance lease liabilities	11	167 958	15 124	225 023	21 152
Trade payables and prepayments	12	133 676	12 037	229 508	21 574
Other current liabilities	7;13	46 055	4 147	53 840	5 061
Total current liabilities		**347 689**	**31 309**	**508 371**	**47 787**
Non-current liabilities					
Borrowings and finance lease liabilities	11	476 813	42 936	551 635	51 854
Other non-current liabilities	13	5 157	464	14 707	1 382
Total non-current liabilities		**481 970**	**43 400**	**566 342**	**53 237**
Total liabilities		**829 659**	**74 709**	**1 074 713**	**101 024**
EQUITY					
Share capital at nominal value	14	400	28	400	28
Statutory legal reserve		40	3	40	3
Retained earnings		665 866	55 998	516 861	42 063
Currency translation reserve		0	3 969	0	6 534
Total equity		**666 306**	**59 998**	**517 301**	**48 627**
TOTAL LIABILITIES AND EQUITY		**1 495 965**	**134 708**	**1 592 014**	**149 651**

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

The notes to the financial statements presented on pages 9-37 are an integral part of the Annual Report.

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CONSOLIDATED INCOME STATEMENT

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

	Notes	01.01.08 - 31.12.08		01.01.07 - 31.12.07	
		EEK	**USD**	**EEK**	**USD**
Operating income					
Revenue	15	449 013	41 992	603 843	52 793
Other operating income	16	49 953	4 672	26 736	2 337
Total operating income		**498 966**	**46 664**	**630 579**	**55 130**
Operating expenses					
Operating expenses	17	205 247	19 195	431 450	37 721
Depreciation	9	61 169	5 721	64 077	5 602
Total operating expenses		**266 415**	**24 916**	**495 527**	**43 323**
Operating profit		**232 550**	**21 748**	**135 052**	**11 807**
Finance income	18	0	0	95 278	8 329
Finance costs	18	-89 176	-8 340	-87 014	-7 607
Finance income and costs		**-89 176**	**-8 340**	**8 264**	**723**
Share of profit/loss of associates	8	5 630	527	-7 527	-658
Net profit for the financial year		**149 005**	**13 935**	**135 789**	**11 872**

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

The notes to the financial statements presented on pages 9-37 are an integral part of the Annual Report.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of Estonian kroons)

	Share capital	Statutory legal reserve	Retained earning	Total
Balance as at 31.12.2006	400	40	381 072	**381 512**
Net profit for the financial year	0	0	135 789	**135 789**
Balance as at 31.12.2007	400	40	516 861	**517 301**
Net profit for the financial year	0	0	149 005	**149 005**
Balance as at 31.12.2008	400	40	665 866	**666 306**

(in thousands of US dollars)*

	Share capital	Statutory legal reserve	Currency translation reserve	Retained earnings	Total
Opening balance as at 31.12.2006	28	3	1 887	30 191	**32 109**
Net profit for the financial year	0	0	0	11 872	**11 872**
Currency translation differences	0	0	4 646	0	**4 646**
Balance as at 31.12.2007	28	3	6 533	42 063	**48 627**
Net profit for the financial year	0	0	0	13 935	**13 935**
Currency translation differences	0	0	-2 564	0	**-2 564**
Balance as at 31.12.2008	28	3	3 969	55 998	**59 998**

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

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

The notes to the financial statements presented on pages 9-37 are an integral part of the Annual Report.

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CONSOLIDATED CASH FLOW STATEMENT

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

	Note	01.01.08 - 31.12.08 EEK	01.01.08 - 31.12.08 USD	01.01.07 - 31.12.07 EEK	01.01.07 - 31.12.07 USD
Cash flows from operating activities					
Operating profit		**232 550**	**21 749**	**135 052**	**11 807**
Adjustments:					
Depreciation, amortisation and impairment	9	61 169	5 721	64 077	5 602
Amortisation of deferred income	10	-17 695	-1 655	-21 690	-1 896
Profit/loss from disposal of non-current assets	16	-29 013	-2 713	-3 742	-327
Interest income		-2 418	-226	-1 298	-113
Change in receivables and prepayments related to operating activities	5;6;7	13 511	1 135	29 424	2 572
Change in liabilities and prepayments related to operating activities	7;12;13	-31 700	-4 965	75 046	6 561
Interest paid	18	-60 996	-5 679	-96 918	-8 473
Total cash flows from operating activities		**165 680**	**15 495**	**179 950**	**15 733**
Cash flows from investing activities					
Purchase of property, plant and equipment	9	-3 899	-365	-44 575	-3 897
Proceeds from sale of property, plant and equipment	9	18 502	1 845	90 206	7 886
Collection of deposit/payment to deposit		-16 560	-1 549	66 240	5 791
Loans granted		-2 695	-252	-4 189	-366
Repayments of loans granted		8 941	836	93	8
Interest received		1 882	176	931	81
Total cash flows from investing activities		**6 171**	**692**	**108 706**	**9 504**
Cash flows from financing activities					
Proceeds from borrowings	11	69 671	6 516	93 497	8 174
Repayments of borrowings	11	-205 403	-19 209	-170 999	-14 950
Proceeds from refinancing under finance lease	10	211 070	19 740	32 835	2 871
Proceeds from factoring	11	0	0	4 770	417
Proceeds from overdraft/repayment of overdraft	11	-32 284	-3 019	20 720	1 811
Finance lease principal repayments	11	-210 834	-19 718	-249 032	-21 772
Total cash used in financing activities		**-167 778**	**-15 691**	**-268 209**	**-23 449**
Total cash flows		**4 073**	**381**	**20 446**	**1 788**
Cash and cash equivalents at the beginning of the period	4	**20 264**	**1 905**	**1 876**	**158**
Net decrease/increase in cash and cash equivalents		**4 073**	**381**	**20 446**	**1 788**
Exchange gains/losses on cash and bank balances		**4 757**	**334**	**-2 058**	**-41**
Cash and cash equivalents at the end of the period	4	**29 094**	**2 620**	**20 264**	**1 905**

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

The notes to the financial statements presented on pages 9-37 are an integral part of the 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 lease of railway tanks and railway forwarding services.

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

The 2008 consolidated financial statements comprise the following group entities:

		Share			
	Domicile	**31.12.2008**	**31.12.2007**	**Main activity**	**Owner**
AS Skinest Veeremi	Estonia	100%	100%	Lease of tanks	AS Spacecom
SIA Hoover	Latvia	100%	100%	Sub-lease of tanks	AS Spacecom

In addition, the parent has a 25.27% (2007: 25.27%) ownership interest in the associate A/S Daugavpils Lokomotivju Remonta Rupnica (DLRR), Latvia.

The 2008 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 associates.

The financial year started at 1 January 2008 and ended at 31 December 2008.

For readers' convenience, the primary financial statements are presented in thousands of Estonian kroons and thousands of US dollars. All other 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 23 April 2009. 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 2008 have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements have been prepared under the historical cost convention unless otherwise stated.

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

Standards, amendments to published standards and interpretations which became effective for the Group's reporting periods beginning at 1 January 2008 but which are not relevant to the Group's activities:

IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions".

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IFRIC 12 "Service Concession Arrangements".

IFRIC 14, IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactions".

Reclassification of Financial Assets – Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" and subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition.

New standards, amendments to published standards and interpretations which are effective for reporting periods beginning at or after 1 January 2009 and which the Group has not adopted early:

Amendment to IAS 32 and IAS 1 - Puttable Financial Instruments and Obligations Arising on Liquidation (effective for annual periods beginning at or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The Group is evaluating the effect of the new standard on segment reporting in the financial statements.

IAS 23 "Borrowing Costs" (revised March 2007; effective for annual periods beginning at or after 1 January 2009). The main change to the standard is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Entities are, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is at or after 1 January 2009. The Group is evaluating the effect of the new standard on segment reporting in the financial statements.

IAS 1 "Presentation of Financial Statements" (revised September 2007; effective for annual periods beginning at or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by the statement of comprehensive income which also includes all non-owner changes in equity, such as revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but not the recognition or measurement of specific transactions and balances.

IAS 27 "Consolidated and Separate Financial Statements" (revised January 2008; effective for annual periods beginning at or after 1 July 2009). The revised standard requires an entity to attribute total comprehensive income to the owners of the parent and to minority interests even if this results in the non-controlling interests having a deficit balance (in most cases, the current standard requires the excess losses to be allocated to the owners of the parent). The revised standard specifies that changes in the parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is evaluating the effect of the new standard on segment reporting in the financial statements.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method for making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group's estimates that the amendments do not have a material effect on the financial statements.

Improving Disclosures about Financial Instruments - amendment to ***IFRS 7 "Financial Instruments: Disclosures"*** (effective for annual periods beginning at or after 1 January 2009). The amendment requires additional disclosures about measurement of fair value and liquidity risk. An entity shall disclose an analysis of financial instruments using a three-level fair value hierarchy. The amendment (a) explains that the liquidity analysis of liabilities by contractual maturities shall include financial guarantees issued in the maximum amount of the guarantee and in the earliest period in which the guarantee can be collected; and (b) requires disclosure of remaining contractual maturities of financial derivatives when information about contractual maturities is material for

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understanding the timing of cash flows. In addition, an entity shall disclose an analysis of financial assets held for the hedging purposes by maturities when this information is useful for the readers of the financial statements in order to understand the nature and scope of liquidity risk. The Group is currently assessing the effect of the amendment on its financial statements.

New standards, amendments to published standards and interpretations that are effective for reporting periods beginning at or after 1 January and that the Group has not adopted early and that are not relevant to the Group

Vesting Conditions and Cancellations - Amendment to IFRS 2 "Share-based Payment" (revised in January 2008; effective for annual periods beginning at or after 1 January 2009).

IFRS 8 "Operating Segments" (effective for annual periods beginning at or after 1 January 2009).

IFRS 3 Business Combinations (revised in January 2008; effective for business combinations for which the acquisition date is at or after the beginning of the first annual reporting period beginning at or after 1 July 2009).

IFRIC 13 "Customer Loyalty Programmes" (effective for annual periods beginning at or after 1 July 2008).

IFRIC 15 "Arrangement for the Construction of Real Estate" (effective for annual periods beginning at or after 1 January 2009).

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning at or after 1 October 2008).

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—*Amendments* to ***IFRS 1 and IAS 27 (issued in May 2008; effective for annual periods beginning at or after 1 January 2009).***

Eligible Hedged Items – Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" (effective with retrospective application for annual periods beginning at or after 1 July 2009).

IFRIC 17 "Distribution of Non-Cash Assets to Owners" (effective for annual periods beginning at or after 1 July 2009).

IFRS 1 "First-time Adoption of International Financial Reporting Standards" (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning at or after 1 July 2009).

IFRIC 18 "Transfers of Assets from Customers" (effective for annual periods beginning at or after 1 July 2009).

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009).

Other than the situations mentioned above, new standards and interpretations do not have a significant effect 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.

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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 cost cannot be recovered. Net profit and equity attributable to minority interest is included within equity in the consolidated balance sheet separately from equity attributable to majority shareholders and in a separate line in the income statement.

Investments in associates

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

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

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

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 22).

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

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

The financial statements are presented in thousands of Estonian kroons, rounded to the nearest thousand. For readers' convenience, the primary financial statements are presented in thousands of Estonian kroons and thousands of US dollars, 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.

Factoring

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

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

Financial assets
Depending on the purpose for which the financial assets were acquired and management's intentions, financial assets are classified at initial recognition in the following categories:
- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments; and
- available-for-sale financial assets.

As at 31 December 2008 (and as at 31 December 2007), the Group held only financial assets classified as loans and receivables.

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

Management makes a decision regarding classification of financial assets upon their purchase.

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

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

Trade receivables

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

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

Impairment of non-current 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.

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

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

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

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

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

Land is not depreciated.

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

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

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

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

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

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.

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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 shall be recognised immediately.

Financial liabilities

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

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

Employee benefits

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

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

Provisions and contingent liabilities

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

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

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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 of the Republic of Estonia, the net profit earned by entities is not taxed and thus no deferred tax assets and liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to income tax of 21/79 of net dividend paid (until 31 December 2008, the tax rate was 21/79 and until 31 December 2007, the tax rate was 22/78) from which the income tax paid before 1 January 2000 can be deducted using the respective coefficient. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

In accordance with the Income Tax Act 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). Deferred income tax is calculated on all significant temporary differences between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. The main temporary differences arise from depreciation and the tax loss carry-forward. Deferred tax assets for deductible temporary differences and tax loss carry-forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

Tax	Tax rate
Social tax	33% on the payroll and fringe benefits paid to the employees
Unemployment insurance premium	0.3% of the payroll paid to the employees
Fringe benefit income tax	21/79 on fringe benefits paid to the employees (from 01.01.09: 21/79)
Income tax on expenses not related to business activities	21/79 on expenses not related to business activities (from 01.01.09: 21/79)

Revenue recognition

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

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

A statutory legal reserve 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 transferred to the statutory legal reserve, until the reserve reaches one-tenth of share capital. The statutory legal reserve may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from the statutory legal reserve.

Note 2. Management of financial risks

Financial risk factors

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

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Liquidity risk

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

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

	Up to 3 months	Between 4 months and 1 year	Between 1 and 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
As at 31.12.2008						
Repayments of finance lease liabilities (Note 11)	50 205	139 421	330 597	41 012	561 234	501 379
Repayments of short-term bank loans (Note 11)	0	2 592	0	0	2 592	2 356
Repayments of other loans (Note 11)	0	0	169 126	0	169 126	141 036
Trade payables (Note 12)	126 013	0	0	0	126 013	126 013
Other liabilities (Note 13)	308	27 421	0	0	27 729	27 729
Total cash flows related to financial obligations	**176 526**	**169 434**	**499 723**	**41 012**	**886 694**	**798 514**

	Up to 3 months	Between 4 months and 1 year	Between 1 and 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
As at 31.12.2007						
Repayments of finance lease liabilities (Note 11)	54 689	142 390	330 597	7 184	534 860	477 291
Repayments of short-term bank loans (see Note 11)	0	36 487	0	0	36 487	34 377
Repayments of other loans (Note 11)	0	0	328 588	0	328 588	264 990
Trade payables (Note 12)	161 146	0	0	0	161 146	161 146
Other liabilities (Note 13)	717	28 876	0	0	29 593	29 593
Total cash flows related to financial obligations	**216 552**	**207 753**	**659 185**	**7 184**	**1 090 674**	**967 397**

The cash flows presented in the table have not been discounted and therefore, these amounts do not correspond to the amounts disclosed in Note 11 Borrowings. As the bank loans and the loans from the owners are denominated in US dollars, the exchange rate of USD 1 =EEK 11.1052 (31.12.2007: USD 1=EEK 10.6382) prevailing at 31.12.2008 has been used.

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

	31.12.2008	31.12.2007
Interest rates used in analysis		
Bank loans	4.85%-7.26%	5.25%-8%
Loans from owners	8.5%-12%	12%
Trade payables and other payables	0%	0%

Credit risk

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

Market risks

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

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Foreign exchange risk

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

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

31.12.2008	USD	EEK	Other currencies	Total
Cash	28 889	70	134	29 094
Trade receivables	46 091	4 888	13	50 992
Other receivables	1 495	33 407	365	35 268
Borrowings	637 960	6 811	0	644 771
Trade payables	2 125	123 631	257	126 013
Other payables	27 729	8 775	0	36 505

31.12.2007	USD	EEK	Other currencies	Total
Cash	1 108	18 413	742	20 264
Trade receivables	49 519	1 774	1 712	53 006
Other receivables	5 899	18 096	327	24 322
Borrowings	735 121	39 415	2 122	776 658
Trade payables	3 441	154 880	2 824	161 146
Other payables	29 593	6 552	0	36 145

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 2008 and 31 December 2007 had floating interest rates based on the 6-month LIBOR and 6-month EURIBOR (see also Note 11). The effect of interest rate risk on the Group's results of operations is reviewed on a regular basis. During the analysis, different options are considered to mitigate the risks. These options include refinancing, renewal of current positions and alternative financing.

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

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

- Proportionate movement in the USD exchange rate - 10% appreciation of USD (depreciation of EEK) and 10% depreciation of USD (appreciation of EEK); USD 1 = EEK 11.1052 at 31.12.2008 (USD 1 = EEK 10.6382 at 31.12.2007).
- Change by +150 basis points / -50 basis points in the interest rates of the USD credit market as compared to the rates prevailing at 31.12.2008 (2.40-7.16%) (parallel change by +100 basis points/-100 basis points in the interest rates of the USD credit market as compared to the year-end rate of 4.596% at 31.12.2007).
- Change by +100 basis points in the market interest rates of USD overnight deposits as compared to the rate of 0.10% prevailing at 31.12.2008 and a change by +50 basis points / -150 basis points in market interest rates of EUR overnight deposits as compared to the rate of 2.15% prevailing at 31.12.2008 (parallel change by + 90 basis points / -90 basis points in the market interest rates of USD overnight deposits as compared to the year-end rate of 4.15% at 31.12.2007). In 2007 and 2008, the Group did not have any overnight deposits.
- Change by +50 basis points / -150 basis points in the market interest rates of EEK overnight deposits as compared to the rate of 5.35% prevailing at 31.12.2008 (change by + 210 basis points/ -210 basis points in the market interest rates of EEK overnight deposits as compared to the year-end rate of 5.25% at 31.12.2007). In 2007 and 2008, the Group did not have any overnight deposits.

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

	31.12.2008	Foreign exchange risk		Interest rate risk	
		USD appreciates 10%	USD depreciates 10%	Interest rate increases 150 basis points	Interest rate decreases 50 basis points
	Carrying amount	Effect on net profit	Effect on net profit	Effect on net profit	Effect on net profit
Financial assets					
Cash and bank	29 094	2 889	-2 889	0	0
Trade receivables	50 992	4 609	-4 609	0	0
Other receivables	35 268	150	-150	0	0
Total effect from financial assets		**7 648**	**-7 648**	**0**	**0**
Financial liabilities					
Borrowings	644 771	-63 796	63 796	-5 363	1 788
Trade payables	126 013	-212	212	0	0
Other liabilities	36 505	-2 773	2 773	0	0
Total effect from financial liabilities		**-66 781**	**66 781**	**-5 363**	**1 788**
Total effect on net profit		**-59 134**	**59 134**	**-5 363**	**1 788**

	31.12.2007	Foreign exchange risk		Interest rate risk	
		USD appreciates 10%	USD depreciates 10%	Interest rate increases 100 basis points	Interest rate decreases 100 basis points
	Carrying amount	Effect on net profit	Effect on net profit	Effect on net profit	Effect on net profit
Financial assets					
Cash and bank	20 264	111	-111	0	0
Trade receivables	53 007	4 952	-4 952	0	0
Other receivables	24 322	590	-590	0	0
Total effect from financial assets		**5 653**	**-5 653**	**0**	**0**
Financial liabilities					
Borrowings	776 658	-73 512	73 512	-3 528	3 528
Trade payables	161 146	-344	344	0	0
Other liabilities	36 145	-2 959	2 959	0	0
Total effect from financial liabilities		**-76 816**	**76 816**	-3 528	3 528
Total effect on net profit		**-71 163**	**71 163**	-3 528	3 528

If as at 31.12.2008, 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 59 134 thousand (2007: EEK 71 163 thousand) higher, primarily related to the revaluation of USD loans, offset by costs in USD from revaluation of cash and receivables. And vice versa, if the EEK exchange rate had depreciated against the USD and all other variables had remained constant, the net profit of the reporting period would have been EEK 59 134 thousand (2007: EEK 71 163 thousand) lower. The net profit in 2008 is less impacted by changes in the USD/EEK exchange rate than in 2007 because the amounts of the loans assumed in USD have decreased.

If as at 31.12.2008, the interest rates in the USD credit market had been 150 basis points (2007: 100 basis points) higher and all other variables had remained constant, the net profit for the financial year would have been EEK 5 363 thousand (31.12.2007: EEK 3 528 thousand) lower.

If as at 31.12.2008, the interest rates in the USD credit market had been 50 basis points (2007: 100 basis points) lower and all other variables had remained constant, the net profit for the financial year would have been EEK 1 788 thousand (31.12.2007: EEK 3 528 thousand) higher.

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Capital risk management

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

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

	Bank's requirement as at 31.12.2008	AS Spacecom actual ratio as at 31.12.2008	Bank's requirement as at 31.12.2007	AS Spacecom actual ratio as at 31.12.2007
Net borrowings / EBITDA	Maximum 8	3	Maximum 8	4.9

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 31.12.2008 and 31.12.2007. 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 Group refinanced several lease agreements in the autumn of 2008, therefore, management estimates that the contractual interest rates as at the balance sheet date reflect the market interest rate. Therefore, the carrying amounts of these instruments do not significantly differ from their fair values as at 31.12.2008.

For determining the fair value of other long-term instruments, there was no information available as at the year-end about transactions with similar instruments and although the Group may determine the overall level of market interest rates, it may not be know which credit or other risk levels were considered by market participants when determining the price of the instrument at that date. The Group may not have information available on recent transactions to determine the required price spread between the credit and base interest rates in order to use this price spread to determine the discount rate for calculating the present value. If there is no evidence to the contrary, it is reasonable to assume that no changes have occurred in the price spread that existed at the date the loan was taken.

Changes in global 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 let 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:

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.

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Note 3. Key accounting estimates and judgements

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

Useful lives of property, plant and equipment

Management has evaluated the useful lives of items of property, plant and equipment while considering business conditions and volumes, historical experience in this area and potential future use. The depreciation charge of the Group in the reporting period totalled 61 million kroons (2007: 64 million kroons). If the depreciation rates are increased/reduced by 10%, the annual depreciation charge will increase/decrease by approximately 6.1 million kroons (2007: depreciation would increase/decrease by about 6.4 million kroons).

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

Impairment of property, plant and equipment

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

Provisions and contingent liabilities

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

Note 4. Cash and bank

	31.12.2008	31.12.2007
Cash at bank	391	866
Overnight deposits	28 702	19 398
Total	**29 093**	**20 264**

In 2008, the average interest rate on the overnight deposit was 2.44% (2007:3.42%).

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

Cash and bank	31.12.2008	31.12.2007
Aa2	29 093	20 264
Total cash and bank	**29 093**	**20 264**

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Note 5. Trade receivables

	31.12.2008	31.12.2007
Receivables from non-related parties		
Accounts receivable for lease of railway tanks	44 949	48 312
Accounts receivable for forwarding	203	1 709
Accounts receivable for freight transportation	1 317	1 326
Accounts receivables for repair services rendered	734	0
Other receivables	139	64
Total:	**47 342**	**51 411**
Allowance for doubtful receivables (see Note 17)	0	-1 645
Total from non-related parties	**47 342**	**49 766**
Receivables from related parties		
Accounts receivables for lease of railway tanks	2 418	23
Other receivables	2 977	3 218
Total:	**5 395**	**3 241**
Allowance for doubtful receivables	-1 745	0
Total from related parties (see Note 19)	**3 650**	**3 241**
Total	**50 992**	**53 007**

During the period, trade receivables in the amount of EEK 1 745 thousand (2007: EEK 1 645 thousand) were impaired and provided for.

	31.12.2008	31.12.2007
Allowance for doubtful receivables	**-1 645**	**-233**
Receivables deemed irrecoverable in the reporting period	1 685	233
Receivables deemed doubtful in the reporting period	-1 785	-1 645
Allowance for doubtful receivables at the end of the period	**-1 745**	**-1 645**

Distribution of receivables by due dates:

	31.12.2008		31.12.2007	
	Receivables	incl. VAT	Receivables	incl. VAT
Not overdue	36 978	0	29 392	0
Overdue up to 2 weeks	3 579	3 039	1 642	1 605
Overdue by 2-4 weeks	4 061	3 420	3 495	104
Overdue by 1 - 2 months	4 585	4 041	2 835	2 165
Overdue by 2 - 3 months	575	709	1 954	1 743
Overdue over 3 months	1 214	0	13 690	9 027
Total	**50 992**	**11 209**	**53 007**	**14 643**

As at 31.12.2008 and as at 31.12.2007, the Group did not have any significant overdue receivables from those lessees who as at 31.12.2008 have overdue receivables in the amount of EEK 36 978 thousand (as at 31.12.2007: EEK 29 392 thousand).

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

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Note 6. Other receivables and prepayments

	31.12.2008	31.12.2007
Prepaid expenses (see table below)	3 925	16 094
Term deposit* (Note 20)	33 120	16 560
Loans granted	1 214	7 366
incl. related parties (see also Note 19)	*117*	*6 881*
Interest charge on loans granted	932	396
incl. related parties (see also Note 19)	*788*	345
Other receivables	1 980	0
incl. related parties (see also Note 19)	*1 980*	*0*
Prepaid and deferred taxes (Note 7)	0	1 307
Total	**41 172**	**41 723**

*According to the bond ratings of the international rating agency Moody's Investors Service, the Group's term deposits has been deposited in a financial institutions with a rating of Aa2 (31.12.2007: Aa2).

Prepaid expenses

	31.12.2008	31.12.2007
Forwarding expenses	504	937
Prepayment of infrastructure usage fee	0	8 962
Prepaid VAT	0	1 427
Other prepayments	3 421	4 768
Total	**3 925**	**16 094**

Note 7. Taxes

	31.12.2008		31.12.2007	
Tax	**Prepayment**	**Liability**	**Prepayment**	**Liability**
Value added tax	0	6 056	1 307	589
Personal income tax	0	217	0	258
Social tax	0	392	0	182
Unemployment insurance tax	0	5	0	24
Contributions to mandatory funded pension	0	16	0	43
Corporate income tax	0	17	0	64
Total	**0**	**6 703**	**1 307**	**1 160**

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Note 8. Investments in associates

	31.12.2008	31.12.2007
Shares of associates	9 873	4 243
Total	**9 873**	**4 243**

	AS Daugavpils Lokomotivju Remonta Rupnica	Total
Country of incorporation	Latvia	
Date of purchase	22.06.204	
Main activity	Repair of railway tanks and locomotives	
% of shares at the beginning of the reporting period	25.27%	
Cost of investment at the beginning of the reporting period	10 586	10 586
Carrying value of shares at the beginning of the reporting period	4 243	4 243
Profit/loss under the equity method	5 630	5 630
% of shares at the end of the reporting period	25,27%	
Cost of investment at the end of the reporting period	10 586	10 586
Carrying value of shares the end of the reporting period	9 873	9 873

Condensed financial information on Daugavpils Lokomotivju Remonta Rupnica (DLRR):

	31.12.2008	31.12.2007
Cash and bank	730	2 709
Property, plant and equipment	154 486	158 246
Other assets	178 434	202 639
TOTAL ASSETS	**333 650**	**363 594**
Current liabilities	133 999	177 268
Non-current liabilities	50 246	58 244
Equity	149 405	128 081
Total liabilities and equity	**333 650**	**363 594**

	2 008	2007
Revenue	412 779	353 040
Other income	3 054	8 315
Operating expenses	392 325	384 906
Operating profit (-loss)	23 508	-23 551
Corporate income tax	0	1 833
Net profit for the financial year	**23 508**	**-21 718**

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Note 9. Property, plant and equipment

	Land	Buildings	Railway tanks and locomotives	Machinery and equipment	Other fixtures	Prepayment	Total
Balance as at 31.12.2006							
Cost	**2 555**	**14 326**	**1 736 804**	**5 540**	**1 445**	**294**	**1 760 964**
Accumulated depreciation	0	-214	-182 322	-376	-558	0	**-183 470**
Carrying amount	**2 555**	**14 112**	**1 554 482**	**5 164**	**887**	**294**	**1 577 494**
Changes occurred in 2007							
Additions	0	13 039	31 658	123	643	86	**45 549**
Disposals	0	0	-86 933	-2	0	0	**-86 935**
Depreciation charge	0	-701	-62 178	-896	-302	0	**-64 077**
Balance as at 31.12.2007							
Cost	**2 555**	**27 365**	**1 667 977**	**5 632**	**2 088**	**380**	**1 705 997**
Accumulated depreciation	0	-915	-230 948	-1 263	-860	0	**-233 986**
Carrying amount	**2 555**	**26 450**	**1 437 029**	**4 369**	**1 228**	**380**	**1 472 011**
Changes occurred in 2008							
Additions	0	3 251	0	775	409	53	**4 488**
Disposals	0	0	-50 747	-73	-114	-381	**-51 315**
Depreciation charge	0	-1 003	-58 825	-919	-421	0	**-61 169**
Balance as at 31.12.2008							
Cost	**2 555**	**30 616**	**1 610 589**	**6 334**	**2 241**	**53**	**1 652 388**
Accumulated depreciation	0	-1 918	-283 132	-2 182	-1 139	0	**-288 372**
Carrying amount	**2 555**	**28 698**	**1 327 457**	**4 152**	**1 102**	**53**	**1 364 016**

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

Impairment test of property, plant and equipment

Management has performed an impairment test for a cash generating unit – the locomotive depot belonging to the Group.

During an impairment test, the recoverable amount of the assets of the cash-generating unit is compared with their carrying amount.

For determining the recoverable amount of assets, management used historical experience and expectations of future market developments. The recoverable amount of the assets is determined as their value in use from the leasing of the depot. Management's cash flow forecasts for the next 5 years are used in the test. Subsequent cash flows are extrapolated using reasonable growth rates. The growth rates of income and expenses do not exceed the long-term trends in the business areas in which the Group plans to operate, and they are in accordance with industry forecasts. The weighted average cost of capital has been used as a discount rate which takes into consideration the Group's operating activity and risk level.

Assumptions used for determining value in use:

Budget period, years	5
Average growth rate of income during the budget period, %	-30%-->10%
Average growth rate of expenses during the budget period, %	5%
Cash flow discount rate, %	10%
Growth rate of income applied beyond the budget period, %	4.5%
Growth rate of expenses applied beyond the budget period, %	2.5%

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The most sensitive inputs in the impairment test are:

a) Discount rate
b) Growth rate of the rental price in the next period

If the discount rate were 1% higher, value in use would decrease by 2 687 thousand kroons.
If the discount rate were 1% lower, value in use would increase by 3 110 thousand kroons.

If the growth rate of rental prices in the next period were 10% higher, the value in use would increase by 3 432 thousand kroons.
If the growth rate of rental prices in the next period were 10% lower, the value in use would decrease by 3 432 thousand kroons.

Upon a reasonable change in the sensitive rates provided above, no impairment losses would be incurred. No impairment was identified

Note 10. Finance lease and operating lease

Finance lease

The Group is the lessee

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

Cost 31.12.2007	1 667 977
Accumulated depreciation	230 948
Carrying amount 31.12.2007	**1 437 029**
Cost 31.12.2008	1 611 235
Accumulated depreciation	283 141
Carrying amount 31.12.2008	**1 328 094**

Until 01.01.2005 the Group has concluded long-term sale-leaseback contracts for refinancing of the purchase of railway tanks. The term of contracts was 4-7 years. The contracts are accounted for in the balance sheet as a finance lease. The interest rates for the sale and leaseback contracts consist of USD LIBOR or EURIBOR, and a fixed risk margin. The abovementioned contracts were used for financing the purchase of railway tanks, locomotives and cars.

The excess of the sales proceeds over the carrying amount of assets sold in sale-leaseback transactions is accounted as deferred income over the lease terms (see Note 13).

Carrying amount as at 31.12.06	**54 092**
Deferred income in 2007 (Note 16)	-21 690
Carrying amount as at 31.12.07 (see also Note 13)	**32 402**
Deferred income in 2008 (Note 16)	-17 695
Carrying amount as at 31.12.08 (see also Note 13)	**14 708**

Minimum lease payments

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

	2008	2007
Minimum lease payments (Note 2)	561 234	534 859
Unrealised financial expenses	-59 855	-57 568
Present value of minimum lease payments (Note 11)	501 379	477 291

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	Minimum lease payments	Present value of minimum lease payments
31.12.2008		
Total	561 234	501 379
incl. due in 12 months	189 626	165 602
between 1 and 5 years	330 597	295 698
over 5 years	41 012	40 079
31.12.2007		
Total	534 860	477 291
incl. due in 12 months	197 079	169 371
between 1 and 5 years	330 597	300 969
over 5 years	7 184	6 951

The Group is the lessee

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

	31.12.2008	31.12.2007
Operating lease payments during the period	1 984	3 129

The Group is the lessor

The Group leases out 3 286 railway tanks under the operating lease:

	31.12.2008	31.12.2007
Total	**3 286**	**3 286**
leased to related parties	598	598
leased to non-related parties	2 688	2 688

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

Cost 31.12.2007	1 501 623
Accumulated depreciation	208 287
Carrying amount 31.12.2007	**1 293 336**
Cost 31.12.2008	1 504 359
Accumulated depreciation	263 448
Carrying amount 31.12.2008	**1 240 911**

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

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2007

Operating lease revenue(see also Note 15)	317 807
Future minimum lease payments under non-cancellable operating leases	
incl. due in 12 months	27 797
Expected rental revenue in 2008 based on existing contracts	
as at 31.12.2007	302 700

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

Note 11. Borrowings and finance lease liabilities

2008

	Balance as at 31.12.2008	current portion	non-current portion	Maturity	Interest rate
Borrowings					
Loans from group entities	133 262	0	133 262	2010	8.5% up to 12%
Loans from other related parties	7 774	0	7 774	2011	12%
Total borrowings from non-financial institutions	**141 036**	**0**	**141 036**		
(see Note 19)					
Finance lease liabilities	**501 379**	165 602	335 777	2009-2015	fixed 7-7.2% 1-6 month Libor+1.7-3 6-month Euribor+1.21.
Overdraft	**2 356**	2 356	0	2009	1-month Talibor+2.9%
Total borrowings	**644 771**	**167 958**	**476 813**		

2007

	Balance as at 31.12.2007	current portion	non-current portion	Maturity	Interest rate
Borrowings					
Loans from group entities	227 656	21 275	206 381	2008-2009	5% - 12%
Loans from other related parties	37 334	0	37 334	2 009	12%
Total borrowings from non-financial institutions	**264 990**	**21 275**	**243 715**		
(see Note 19)					
Finance lease liabilities (see Note 11)	477 291	169 371	307 920	2008-2015	1-month Libor+1.7-3% 6-month Euribor+1.6-1
Factoring	9 932	9 932	0	2 007	5.25%
Overdraft	24 445	24 445	0	2 007	1-month Talibor+2.9%
Total borrowings	**776 658**	**225 023**	**551 635**		

The exposure of the Group to interest-rate changes:

As at 31.12.2008

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

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As at 31.12.2007

	1 month	3 months	6 months	Fixed	Total
Borrowings	0	0	0	264 990	264 990
Finance lease liabilities	46 950	58 941	340 191	31 209	477 291
Factoring	0	0	0	9 932	9 932
Overdraft	24 445	0	0	0	24 445
Total:	**71 395**	**58 941**	**340 191**	**306 131**	**776 658**

Note 12. Trade payables and prepayments

	31.12.2008	31.12.2007
Trade payables	126 013	161 146
incl. related parties (Note 19)	*419*	*5 283*
Customer prepayments	7 663	68 362
incl. related parties (Note 19)	*0*	*67 515*
Total	**133 676**	**229 508**

Note 13. Other liabilities

	Current portion		Non-current portion		Total	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Payables to employees	1 322	3 572	0	0	1 322	3 572
Vacation payables	725	1 764	0	0	725	1 764
Interest liabilities	27 729	29 593	0	0	27 729	29 593
Deferred income (Note 12)	9 551	17 695	5 157	14 707	14 708	32 402
Other	24	56	0	0	24	56
Total:	**39 352**	**52 680**	**5 157**	**14 707**	**44 509**	**67 387**

Interest liabilities

	31.12.2008	31.12.2007
Interest liabilities related to lease agreements	308	717
Interest liabilities related to loans		
to group entities (see Note 19)	*26 488*	*24 396*
to other related parties(see Note 19)	*933*	*4 480*
Total liabilities to the related parties	27 421	28 876
Total interest liabilities:	**27 729**	**29 593**

Note 14. Equity

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

The unrestricted equity of the Group as at 31. December 2008 was 666 306 thousand kroons (2007: 517 301 thousand kroons).

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It would have been possible to pay out 526 034 thousand kroons (2007: 408 320 thousand kroons) out of retained earnings as net dividends to owners and the accompanying income tax would have amounted amount to 139 832 thousand kroons (2007: 108 541 thousand kroons).

Note 15. Revenue

The Group's consolidated revenue is divided as follows:

By activities

	2008	2007
Lease of railway tanks and locomotives (see also Note 12)	346 252	317 807
Forwarding services	24 422	36 314
Railway transportation services	56 111	224 650
Repair and maintenance services	5 839	832
Other	16 389	24 240
Total:	**449 013**	**603 843**

By geographical regions

	2008	2007
Estonia	84 242	283 208
Latvia	619	40
Lithuania	6 412	18 490
Kazakhstan	134 976	156 982
Finland	200 194	126 811
Other	22 569	18 312
Total	**449 013**	**603 843**

Note 16. Other operating income

	2008	2007
Amortisation of deferred income (see also Note 10)	17 695	21 690
Profit from disposal of fixed assets*	29 013	2 940
Interest income	2 418	1 298
Other income and expenses	827	808
Total	**49 953**	**26 736**

*In the reporting period, the Group sold 5 main-line locomotives at the price of 79 767 thousand kroons. The carrying amount of the sold locomotives as at the transaction day totalled 50 747 thousand kroons (see Note 9). As a result of the selling of main-line locomotives, the Group received profit in the amount of 29 013 thousand kroons.

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Note 17. Operating expenses

	2008	2007
Maintenance and rent of railway tanks and locomotives	58 609	148 798
Forwarding expenses	24 119	35 134
Railway infrastructure usage fee and expenses	58 066	183 918
Expenses related to provided repair services	3 120	0
Allowance for doubtful receivables (see also Note 5)	1 785	1 645
Staff costs (see below)	27 565	42 744
Other operating expenses	31 984	19 211
Total:	**205 247**	**431 450**

Staff costs

	2008	2007
Wages and salaries	19 325	29 581
incl. remuneration to members of the Management Board	*5 038*	*4 922*
Vacation payable	1 368	2 495
Social tax	6 872	10 668
Total:	**27 565**	**42 744**

Note 18. Other finance income and costs

	2008	2007
Interest expense		
on loans	28 143	34 557
on finance lease	28 464	50 771
other	1 464	1 686
Total interest expense:	**58 071**	**87 014**
Foreign exchange gains (-losses) - net	**-31 105**	**95 278**
Total finance income and costs	**-89 176**	**8 264**

Note 19. Related party transactions

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

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

The parent of the Group is Globaltrans Investment Holding PLC (registered in Cyprus) and in turn, it belongs to the Group of Leverret Holding Limited.

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

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

2007	Purchases	Sales
Railway transportation services	0	221 754
Other services	3 940	9 585
Total transactions with group entities	**3 940**	**231 339**
Other services (entities related to the management)	43 957	262
Purchases-disposals of non-current assets (associates)	1 685	40
Total	**49 582**	**231 641**

Balances with the related parties:

	31.12.2008	**31.12.2007**
Trade receivables		
Group entities	3 587	3 213
Entities related to the management	63	5
Other related parties	**0**	23
Total trade receivables (see Note 5)	**3 650**	**3 241**
Other receivables		
Loans granted to group entities	0	3 617
Loans granted to entities related to management	0	3 191
Loans granted to other related parties	117	73
Interests receivable from group entities	678	272
Interest receivables from entities related to management	92	65
Interest receivables from other related parties	18	8
Other receivables	1 980	0
Total other receivables (see Note 6)	**2 885**	**7 226**
Interest liabilities		
Group entities	26 488	24 396
Entities related the management	933	1 148
Other related parties	0	3 332
Total interest liabilities (see Note 13)	**27 421**	**28 876**

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Other liabilities	31.12.2008	31.12.2007
Other liabilities to group entities	0	67 539
Other liabilities to entities related to the management	419	4 256
Other liabilities to related parties	0	1 003
Total other liabilities (see Note 12)	**419**	**72 798**
Total current liabilities	**27 840**	**101 674**
Loans from the owners	133 262	227 656
Loans from the entities related to the management	7 774	9 568
Other related parties	0	27 766
Total loans received from related parties (see Note 11)	**141 036**	**264 990**
Total non-current liabilities	**141 036**	**264 990**

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

In the financial year, receivables from related parties in the amount of 1 745 thousand kroons (2007: 0 thousand kroons) were impaired and provided for. See also Note 5.

Note 20. Contingent liabilities

Potential liabilities arising from the tax audit

The tax authorities have not inspected the books and records of the Group during the years 2006-2008. The tax authorities have the right to verify the Group's tax records up to 6 years from the time of submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The Group's management estimates that there are not any circumstances which may lead the tax authorities to impose additional significant taxes on the Group.

Other contingent liabilities

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

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

The Group has filed a claim with the Tallinn City Court to attain a fair rate of infrastructure usage fee. As a result of a statement of claim by AS Eesti Raudtee, the court ruled the Group to pay the amount of collateral or obtain a bank guarantee as a collateral in the total amount of 82 800 thousand kroons. The Group made a transfer to the court deposit in the amount of 13 800 thousand kroons at the end of 2004 and in the amount of 69 000 thousand kroons in January 2005.

In 2005, the Railway Inspectorate determined that from 31 May 2005, the rate of service fees should be closer to the rate used in the calculations of the Group as compared to those of AS Eesti Raudtee. The Management Board believes that this fact may influence the court judgement and therefore, a positive judgement in favour of the Group is expected in the litigation.

At the end of 2006, the Group obtained a bank guarantee against which the court freed 82 800 thousand kroons from the court deposit at the beginning of 2007.

In accordance with the guarantee contract entered into with the bank, the Group had to transfer 16 560 thousand kroons to the term deposit in 2007 and additional 16 560 thousand kroons in 2008. As at 31.12.2008 the term deposit totalled 33 120 thousand kroons (as at 31.12.2007: 16 560 thousand kroons) (see Note 6). Since the use of money in the deposit is restricted, the amount is not included within cash and cash equivalents, but within receivables. On account of funds freed from the court deposit and transferred to the bank deposit, loans from the owners have been repaid.

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The litigation has not ended to date and the result cannot be foreseen. The Group's management is of opinion that the disputed claim does not bring about any additional significant expenses to the Group and therefore, no corresponding liabilities have been recognised in the Group's financial statements and no provision has been set up to cover potential expenditures.

Guarantees issued

The Group concluded a bank guarantee contract at the end of 2006 in order to free funds from the court deposit (Note 6).The guarantee is used as collateral for possible expenses in case the litigation with AS Eesti Raudtee (Estonian Railways) does not have a favourable outcome for the Group. The amount of the guarantee makes up a total of 82 800 thousands kroons. The court accepted the application of the Group to substitute the funds for the guarantee and 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 in 2008 16 560 thousand kroons (in 2007: 16 560 thousand kroons) in the bank deposit as part of the collateral for the guarantee (Note 6).

The Group pledged the railway tank as collateral for the bank guarantee in favour of the bank in the amount of 678 317 thousand kroons and the outstanding balance of the bank deposit is 33 120 thousand kroons (31.12.2007: carrying amount of railway tanks: 563 403 thousand kroons, outstanding balance of the bank deposit: 16 560 thousand kroons) (Note 6).

Note 21. Liquidity of the Group

As at 31 December 2008, the current liabilities of the Group exceeded current assets by 226 million kroons and as at 31.12.2007 – by 393 million kroons. Such situation is related to the fact that the lease of the railway tanks acquired has been accounted for as finance lease (thus the future lease payments are recognised as a liability in the balance sheet; see Notes 10 and 11) and transactions to lease out the railway tanks have been recognised as an operating lease (thus, the future rent receivables are accounted for off balance sheet; the expected rent receivable is specified in Note 10). All railway tanks are covered by long-term or extendable contracts.

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

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Note 22. Financial information on the parent

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

The accounting policies applied for the preparation of the separate financial statements of the parent are the same as those which have been used for the preparation of the current consolidated financial statements.

BALANCE SHEET

ASSETS	31.12.2008	31.12.2007
Current assets		
Cash and bank	28 960	20 241
Trade receivables	50 992	53 007
Other receivables	41 037	40 253
Prepaid and deferred taxes	0	1 307
Total current assets	**120 988**	**114 808**
Non-current assets		
Long-term financial investments		
Investments in subsidiaries and associates	90 731	90 731
Long-term receivables	818	766
Total long-term financial investments	**91 548**	**91 497**
Property, plant and equipment	1 175 632	1 274 761
Prepayments for intangible assets	53	380
Total property, plant and equipment	**1 175 685**	**1 275 141**
Total non-current assets	**1 267 234**	**1 366 638**
TOTAL ASSETS	**1 388 223**	**1 481 446**

LIABILITIES AND EQUITY

Current liabilities		
Loans and finance lease liabilities	135 038	174 203
Trade payables and prepayments	157 160	240 742
Tax payable	5 980	571
Other liabilities	53 209	62 101
Total current liabilities	**351 387**	**477 617**
Non-current liabilities		
Loans and finance lease liabilities	539 488	601 414
Other payables	4 884	13 887
Total non-current liabilities	**544 371**	**615 301**
Total liabilities	**895 758**	**1 092 918**
EQUITY		
Share capital at nominal value	400	400
Statutory legal reserve	40	40
Retained earnings	388 087	273 006
Net profit for the financial year	103 938	115 082
Total equity	**492 465**	**388 528**
TOTAL LIABILITIES AND EQUITY	**1 388 223**	**1 481 446**

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Income statement

	01.01.08 - 31.12.08	01.01.07 - 31.12.07
Operating income		
Revenue	450 939	605 247
Other operating income	48 606	26 816
Total operating income	**499 545**	**632 063**
Operating expenses		
Operating expenses	252 312	474 005
Depreciation	52 629	55 522
Total operating expenses	**304 942**	**529 527**
Operating profit	**194 604**	**102 536**
Finance income and costs	-90 666	12 546
Net profit for the financial year	**103 938**	**115 082**

Statement of changes in equity

	Share capital	Statutory legal reserve	Retained earnings	Total
Balance as at 31.12.2006	**400**	**40**	**273 006**	**273 446**
Net profit for financial year	0	0	115 082	**115 082**
Balance as at 31.12.2007	**400**	**40**	**388 088**	**388 528**
Carrying amount of investments under control and significant influence				**-90 731**
Value of investments under control and significant influence under the equity method				**219 504**
Adjusted unconsolidated equity as at 31.12.2007				**517 301**
Balance as at 31.12.2007	**400**	**40**	**388 088**	**388 528**
Net profit for financial year			103 938	**103 938**
Balance as at 31.12.2008	**0**	**0**	**492 026**	**492 466**
Carrying amount of investments under control and significant influence				**-90 731**
Value of investments under control and significant influence under the equity method				**264 571**
Adjusted unconsolidated equity as at 31.12.2008				**666 306**

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Cash flow statement

	01.01.08 - 31.12.08	01.01.07 - 31.12.07
Cash flows from operating activities		
Operating profit	**194 604**	**102 536**
Adjustments:		
Depreciation, amortisation and impairment	52 629	55 522
Amortisation of deferred income	-17 148	-21 143
Profit/loss from disposals of fixed assets	-29 013	-3 568
Interest income	-2 418	-1 297
Change in receivables and prepayments related to operating activities	12 104	29 385
Change in liabilities and prepayments related to operating activities	-18 982	77 350
Interest paid	-56 646	-89 170
Total cash flows from operating activities	**135 131**	**149 615**
Cash flows from investing activities		
Purchase of property, plant and equipment	-3 899	-45 377
Proceeds from sale of property, plant and equipment	18 502	90 206
Collection of deposit/payment to deposit	-16 560	66 240
Loans granted	-2 695	-4 189
Repayments of loans granted	8 941	93
Interest received	1 881	930
Total cash flows from investing activities	**6 171**	**107 903**
Cash flows from financing activities		
Proceeds from borrowings	69 671	93 497
Repayments of borrowings	-205 401	-170 999
Proceeds from refinancing under finance lease	211 070	32 835
Proceeds from factoring	0	4 770
Proceeds from overdraft/repayment of overdraft	-32 284	20 720
Finance lease principal repayments	-181 784	-218 836
Total cash flows from financing activities	**-138 081**	**-238 013**
Total cash flows	**3 219**	**19 504**
Cash and cash equivalents at the beginning of the period	**20 241**	**1 848**
Net increase/decrease in cash and cash equivalents	**3 219**	**19 504**
Exchange gains/losses on cash and bank balances	**5 550**	**-1 111**
Cash and cash equivalents at the end of the period	**28 960**	**20 241**

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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 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Tiit Raimla
AS PricewaterhouseCoopers

Stan Nahkor
Authorised Auditor

23 April 2009

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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 2008 in the amount of 149 005 thousand kroons to retained earnings.

Member of the Management Board
Oleg Ossinovski

Member of the Management Board
Siarhei Psiola

Signatures of the Management Board and Supervisory Board to the 2008 Annual Report

The 2008 Annual Report of AS SPACECOM, approved of by the General Meeting of Shareholders at ___ _____________ 2009 and signed at ___ _____________ 2009.

Member of the Management Board Oleg Ossinovski	Member of the Management Board Siarhei Psiola
Chairman of the Supervisory Board Vasily Barashkov	Member of the Supervisory Board Sergey Tolmachev
Member of the Supervisory Board Dmitry Frolov	
Member of the Supervisory Board Vladimir Mironov	

AS Spacecom unconsolidated revenue according to EMTAK 2008

EMTAK	Area of activity	2008
77391	Lease of railway tanks and locomotives (note 10)	346 252
52291	Forwarding services	24 422
49201	Railway transportation services	56 111
33171	Repair and maintenance services of other transport equipment	5 839
82991	Other business support service activities not classified elsewhere	18 315
	Total unconsolidated revenue	**450 939**