

Annual Report 2005

ACE Logistics Group

---





# Contents

---

Strategy of ACE Logistics Group	4
Main Financial Highlights of ACE Logistics Group	6
Managing Director's Report of ACE Logistics Group	7
Managing Director's Report of ACE Logistics Estonia	10
Managing Director's Report of ACE Logistics Latvia	12
Managing Director's Report of ACE Logistics Lithuania	14
Managing Director's Report of Cargo Handling	16
Managing Director's Report of AirProxy	18
ACE Logistics Group Balance Sheet	20
ACE Logistics Group Income Statement	22
ACE Logistics Goup Cash Flow Statement	23
The proposal of the Board of ACE Logistics Group to the Annual General Meeting of shareholders concerning the division of profit	24
Notes to financial statements	25
Structure of ACE Logistics Group	26



# Strategy of ACE Logistics Group

4

## Identity and Business

ACE Logistics Group is a holding company of logistics firms operating in the Baltics with an aim for leading market positions in various fields of logistics. Its management is decentralised and its logistics competency is all embracing. ACE links companies and markets by means of integrated logistics services. ACE logistics covers the entire value chain, ranging from procurement to value adding services and final distribution.

### Business Goals

- The consolidated net sales is to increase 20% annually
- Net profit margin is higher than 5% a year
- Return on equity is higher than 30% a year

## Strategy

ACE is continuously reviewing and optimising its business portfolio. ACE will expand its business areas, both through organic growth and through acquisitions.

ACE strives to establish long-term partnerships with suppliers and customers. ACE aims to achieve significant competitive advantages in terms of flexibility, reliability, quality and innovation. The group carries an active sales and marketing policy. ACE defines the satisfaction of its customers in terms of the business involved; it measures fulfilment of changing demands of its customers at regular

intervals and benchmarks it against its competitors. The ACE companies are those of independent identity. If the services provided by individual companies are similar, then those companies work with a common goal as one business unit. The ACE culture is characterised by entrepreneurial spirit with a major focus on personal responsibility. The group companies are therefore managed decentrally. Each ACE company develops its own strategy within the framework agreed upon with the holding company.

The ACE Logistics Group strategy foresees avoiding competition between individual companies within the group.

### The following services are offered by the group:

- air-, sea- and roadfreight forwarding
- warehousing and distribution
- value adding services
- special services for the airlines
- logistics services integrated with IT solutions



## Management and Culture

The ACE Logistics Group is a management holding. As a rule, the participation of the holding company in the subsidiary companies of the Baltic region is bigger than 50%. The management holding concentrates on defining the group's overall strategy, ensuring optimum allocation of resources and creating added value by exploiting synergy potential.

### The ACE Logistics Group will increase the overall group's shareholder value by:

- developing the corporate strategy, with particular emphasis placed on innovations and new lines of business
- pursuing an active portfolio management policy
- ensuring that know-how is transferred among the group's divisions
- creating a single group identity
- co-ordinating financial, marketing and purchase activities as well as IT management in the overall group and making these functions transparent
- personnel and management development programmes

The ACE Logistics Group is committed to maintaining strict cost efficiency, it will present regular reports to this effect. The ACE Logistics Group promotes transparency and the flow of information and communication within and between its companies.

The Group aims to recruit and retain the best employees and enable them to acquire additional professional skills. The ACE Logistics Group employees are offered the best learning and development opportunities. There is a clear policy in offering to employees career opportunities within the group. In return, ACE expects from its employees a high willingness to achieve good performance, personal responsibility and identification with the company.

ACE has high expectations concerning the performance of its executives; the group is clearly committed to management by objectives and payment by related pay schemes.



# Main Financial Highlights

## ACE Logistics Group Ltd.

6

For the year	2005		2004		2003
<i>in EUR, consolidated</i>		<i>Change</i>		<i>Change</i>	
EBT	579,648	24%	466,165	-12%	528,763
Net sales	9,011,533	31%	6,885,064	24%	5,587,042
Total cash flow	-6,784		-52,615		48,500

### Per share

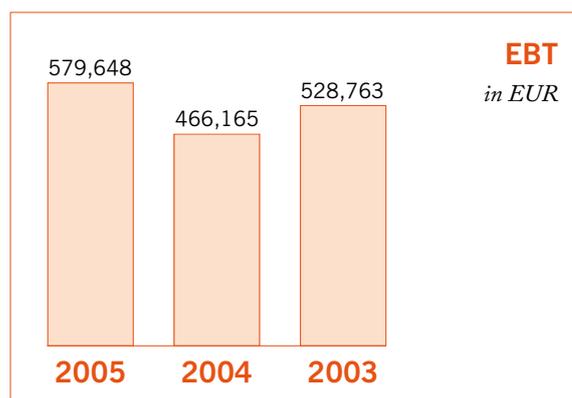
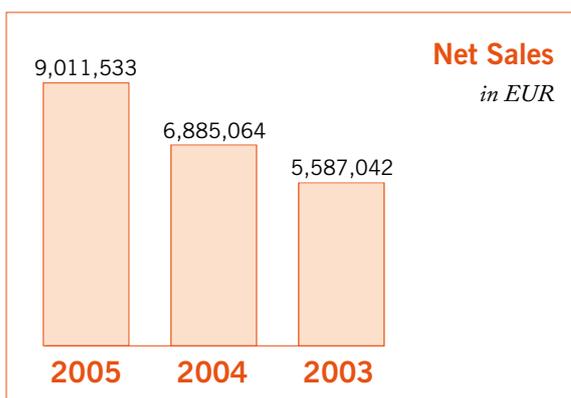
EBT per share	1,317	24%	1,059	-12%	1,202
Dividend proposal per share	1,006	-8%	1,089	127%	479

### Capital ratios

Return On Equity (%)	32%	0%	32%	-17%	44%
Profitability	6%	-14%	7%	-22%	9%

### By the end of the year

Total assets	4,081,035	23%	3,322,299	-8%	3,608,324
Share capital	28,121	0%	28,121	0%	28,121
Equity	1,517,904	-1%	1,538,333	11%	1,382,654
Number of employees	84	25%	67	3%	65



# Managing Director's Report of ACE Logistics Group

In general the year 2005 was successful for ACE Logistics Group. The company fulfilled its main long-term business objectives concerning net sales growth, profitability and Return on Equity (ROE) level. The turnover grew 31% and the Earning Before Taxes (EBT) increased 24%, reaching EUR 579,648.

## Overview of the Economy of the Baltic States

The economies of the Baltic States – Estonia, Latvia and Lithuania – are among the fastest growing and most dynamic in EU. GDP growth rates have averaged above 6% over the last five years, last year even between 7 and 10% (Lithuania – 7%, Estonia 9% and Latvia 10%). Baltic States offer open, fully liberal market economy with some of Europe's lowest corporate income tax rates. Furthermore, the business environment in our countries comes with the security assurances guaranteed by full membership in the EU and NATO. The regional workforce is well educated and productive; English and Russian are widely spoken among the business community. This all gives significant savings and provides high competitiveness for the business environment.

All three countries are taking advantage of growing domestic demand, household spending in particular has flourished in recent years, supported by low interest, stronger financial systems and steadily growing incomes. On the other hand high economic growth tends to bring about high inflation (between 3 to 7% yearly) and extensive imports, along with high current account deficit. This principle applies to all three countries and as a result, Estonia and Lithuania had to postpone their euro zone accession from beginning of 2007. The next target to join the euro zone is 01.01.2008, together with Latvia.

I believe that the most strategic advantage of the Baltic countries is our region's geographic position. Their location on the Eastern shore of the Baltic Sea, forming EU's new direct border with Russia and Byelorussia, means that all three Baltic States are one of the major crossroads of commerce between EU and Russia. This gives opportunities to a wide variety of businesses, especially in the logistics sector, where handling of transit goods becomes more and more comprehensive.

## General Description of ACE Logistics Group

ACE Logistics Group consists of seven companies offering logistics and transport services. According to the long-term strategy of the group approved in 1998, the companies of the group render air; sea and road transport services as well as various warehousing and logistics services. The Baltic region has been identified as the home market of the group. Group makes use of various agent networks worldwide; consequently the company can call on professional partners anywhere in the world.

ACE Logistics Group would like to achieve at least 30% Return on Equity and 5% of net profitability annually.

### As of December 31, 2005, the group comprises the following independent companies:

1. **ACE Logistics, Estonia** – forwarding, logistics services
2. **ACE Logistics, Latvia** – forwarding, logistics services
3. **ACE Logistics, Lithuania** – forwarding, logistics services
4. **Cargo Handling, Estonia** – air cargo handling services
5. **Air Proxy, Estonia** – representation of airlines
6. **Air Proxy, Latvia** – representation of airlines
7. **Sepise Kinnisvara, Estonia** – real estate management



**As of December 31, 2005 ACE Logistics Group belongs to the following shareholders:**

1. **Ithal Nõukoja AS** – 58,41%
2. **Mr Karli Lambot** – 34,09%
3. **Mr Teet Järvekülg** – 7,5%

All seven companies are owned 100% by ACE Logistics Group, except ACE Logistics UAB, Lithuania, where Managing Director of the company Mr Ignas Pulukis owns 10%.

### Services of ACE Logistics Group

#### Road Haulage

The group has devoted serious effort to building up regular groupage lines between the Baltics and Central European countries. In 2005 we were able to make progress in this particular field by opening the second weekly service line from German hubs. This enabled us to shorten the lead-time of transit shipments and due to the high share of timely deliveries we were able to increase our volumes significantly. Our road haulage concept involves shuttle service with fixed departure dates between hubs and short lead-time along with high quality.

Considerable rise can also be reported in the export direction. Today we have weekly direct departures from all the three Baltic States to a German hub. Shipments are delivered to all over Central Europe from this hub. In general it must be stated that export has great potential in the Baltic States and the trend reveals clear change from raw materials to the export of manufactured products.

#### Sea Freight Forwarding

We have noticed good prospect for sea freight forwarding already for several years. In Lithuania, for example, the year 2005 was very successful in this field, the turnover and number of shipments showed satisfactory increase there. At the same time the outcomes in Estonia and Latvia were more modest, however some rise can also be reported in these countries. We are optimistic about the development and plan to accelerate the increase, mainly in the volume of LCL, but also of FCL traffic in the coming years.

#### Air Freight Forwarding

The companies of the group have long history in airfreight forwarding. We belong among the three biggest airfreight forwarders in Estonia. The market share on Lithuanian and Latvian airfreight market is not so remarkable, but good development and increase in sales can be reported as well.

#### Cargo Handling and Integrated Warehousing

Airfreight volumes carried by regular passenger flights have remained stable over the last years based on Tallinn Airport cargo statistics. There was significant increase in volumes carried by charter cargo planes in 2005. Investments into cargo security as well as training were made and we are glad to admit that we are the leading edge company in this respect on the local air cargo handling market.

The volume of integrated warehousing and logistics services went through stable growth in 2005. It is considered to be one of the most important fields of the activities of our group in the future. Today we operate a standard height warehouse of 4000 m<sup>2</sup>.



### Airline Representation – GSA Activities

At the end of 2004 a specialized company was established in Latvia, whereas in Estonia we have been active in airlines' representation activities for over a decade already. We look optimistically to the future on Latvian market – at the beginning of this year Lufthansa was launched as one of the main principals. The company has also plans to open an office in Lithuania to extend these services to Vilnius Airport as well.

### Real Estate Management

Real Estate ownership and management is our side business, at the same time it is quite important for us. In 2005 we were able to secure almost 100% fulfilment rate of our warehouse and office rental space in Sepise Street, Tallinn.

### Objectives and Personnel

All companies of the group aim to achieve autonomous growth in the gross margin and net profit. The Group is pursuing the policy of constant improvement of service quality through further development of knowledge management as well as focusing on customer-orientation and innovation.

The key financial objective is the sustained increase of the value of the company for the shareholders, with the maintenance of healthy solvency level.

In all the companies of the group the prevailing mentality expresses the aim of each employee being to focus on the demands of the customers, which may change over time, and to keep in mind the interests of the shareholders while doing it. Comprehensive selection of personnel along with creating conditions for continuous improvement of the competence of the colleagues are the key guarantors of our performance.

At the end of 2005, ACE Logistics Group employed 84 persons.

### Dividends

EUR 1006 as net dividend per share was the proposal of the management of ACE Logistics Group to the shareholders' general meeting.

I would like to thank our staff for the commitment and loyalty they have shown in their work for the benefit of our companies.

---

Andres Matkur

Managing Director



# Managing Director's Report of ACE Logistics Estonia

10

On the whole the year 2005 was a successful year for ACE Logistics Estonia. The company achieved its budget goals, the turnover rose 24% and the net profit increased 6%.

The year 2004 with the expansion of EU brought along significant changes for ACE and the impact continued in 2005. Customs procedures were changed dramatically, the customs clearance between member states disappeared and at the same time the trade with third countries became more complicated and costly. It had considerable effect on the activities of ACE.

#### **ACE Logistics Estonia provides the following services to its customers:**

Air and Sea Freight  
Road Haulage  
Customs Clearance  
Warehousing

#### **Air and Sea Freight**

Air freight has been the core activity from the establishment of the company. No major changes can be reported in 2005, we experienced stable and moderate growth in goods' volume. The launch of regular combined transport of import cargo from Far East and North America is worth mentioning, blending the speed of air transport and the favourable price of road haulage. Goods

are shipped by air from Far East and North America to major European airports and then delivered to Estonia by road. The customers benefit by much lower rates than normal air freight as well as more secure delivery times.

Since June 2005 we have created a special job for sea transport and the decision has proved to be well justified. We focused more on the development and sales of LCL service. We have regular weekly departures from Far East and North America; in addition we can arrange shipment of goods to more exotic regions. Our lead-time and the service quality are competitive. We have managed to build up loyal customer base and we add new customers gradually. The door-to-door full service package covers also FCL service. There are more than 10 shipping lines on the list of our regular co-operation partners. That enables us to find the most suitable solution for our customer.

#### **Road Haulage**

Road haulage experienced the fastest growth among the services of ACE in 2005. In April we introduced the second weekly departure of groupage cargo transport. The service attracted immediate attention and the customers started to use it promptly, mainly for the short delivery time. The shipment picked up in Germany on Tuesday is delivered in Tallinn on Friday; the shipment picked up on Friday is delivered in Tallinn on Monday. Such arrangement is the most optimal and the fastest for operating a regular route.



The regular routes for the import of groupage cargo reach two terminals in Germany, a hub in Italy and one in Holland, which enables us to cover entire Central Europe. The German terminal in Dortmund feeds the delivery of export goods across Central Europe and partly to Eastern Europe.

In addition to the above the preparations were started in autumn for opening a regular route to Finland in partnership with company Transpoint. Similar plans are drafted in the direction of Poland in near future.

### Customs Clearance

2005 was the first full year of operation for ACE Tollivormistuse Ltd, the daughter company of ACE Logistics Estonia. The purpose of establishing the daughter company was further specialization in the field of customs clearance under the circumstances of decreased volumes that resulted in intensified competition. There are four employees at daughter company, who offer the service of filling out Intrastat forms in addition to customs clearance operations.

The volume of customs clearance dropped by 32%. However it must be taken into consideration that the results of 2004 include the first four months prior to EU accession, when the volume of customs clearance still exceeded the volume after the accession for about four times. In general the results of the year are satisfactory, they follow the expected scenario and the budget goals were achieved.

### Warehousing

The re-structuring of warehousing services took place at the end of 2005 in ACE Logistics Group. The former warehousing services of Cargo Handling are included in the range of services offered by ACE Logistics Estonia today. The change took place due to the need for focused attention to more complex customer service. Warehousing services enjoy increasing customer interest as a major field of activities.

3000 m<sup>2</sup> of regular warehouse, customs terminal and excise warehouse are at the disposal of our customers.

I would like to thank our customers and employees, whose devotion has contributed to our stable growth and courage to welcome the future challenges.

---

Maanus Mätlik

Managing Director



# Managing Director's Report of ACE Logistics Latvia

12

The last year was the most successful of all in the life span of ACE Logistics Latvia. I would like to express my gratitude to all collaboration partners and colleagues for persistent work and creativity in search for new solutions for promoting the development of the company. Many thanks to our clients for their confidence and support for the introduction and advancement of new services during many years.

In 2005 the company fulfilled the planned budget and exceeded the projected goals. The number of shipments doubled in 2005 in comparison with 2004 and the net turnover rocketed by 210%.

The choice of offered services has not substantially changed over the last year; we still render the following services to our customers:

Road Freight Forwarding  
Air Freight Forwarding  
Sea Freight Forwarding  
Customs Clearance

## Road Haulage

The results succeeded in 2005 in road freight are satisfactory indeed.

The target set in the beginning of the year – to operate export road freight to Germany and other European countries - was launched and well achieved. The comparative number of shipments in the beginning and the end of the year can serve as an example – it grew six times. Currently the customers can count on regular and timely forwarding of export shipments, thus being able to plan their own activities better. Our objective is to proceed along this path and start providing several departures a week.

In March the second departure of import freight shipments from Dortmund was started. The increment of import freight volume is 208% as compared to 2004. This number confirms that the decision made in the beginning of the year was correct. Now we are working on improving the freight flow between warehouses and the exchange of information between collaboration partners. Regular road haulage with Italy and Holland has stabled its position on the market during 2005, however it is not possible to report such fast increase as with cargo flows from Germany.

Regular route to and from Poland along with further development of existing road haulage destinations will be our main assignment for the next year.



### Air and Sea Freight Forwarding

Gradual development in air freight forwarding can be observed. In comparison with 2004 the number of shipments increased 37%, whereas the growth in export was 9%. Clients have shown more interest in the combined air-road feeder services, where goods are shipped to Frankfurt by air and then trucked to Riga.

In 2006 we plan to hire a sales person to accelerate the development in export.

The number of LCL and FCL shipments is increasing and it can be projected to take a certain place within the range of services we offer, however the dynamics of the development is still missing.

### Future Objectives

In 2006 the main target is the overall development of the company. Since the beginning of the year new employees have been working; in addition to new IT software was adopted in February in order to optimise the work and enable better customer service.

Our main objective is to sustain the high quality of the services while increasing the volume of present operations and expanding regular road haulage routes to Poland.

Transfer to new, more spacious office premises is scheduled to mid-year. I hope that this improvement will be a stimulus for the employees as well as our clients in their personal and professional development.

---

Daina Zvirgzde

Managing Director



# Managing Director's Report of ACE Logistics Lithuania

14

ACE Logistics UAB started its activities in Lithuania at the end of 1996. The year 2005 was the 9th year of operation for the company.

The budget plan of the company was successfully fulfilled. Other figures indicate positive development as well - the turnover increased 36 % and gross profit rose 33 %. The operational cost grew 15 %, which shows high efficiency of the activities. (All numbers are in comparison with 2004).

Last year was the first full year for Lithuania as a member of EU. No dramatic changes in the company's business portfolio took place, instead stable growth in air, road and sea cargo forwarding can be reported. The revenue and the number of transactions of customs clearance grew steadily due to the increased procedures for air and ocean shipments.

#### **ACE Logistics UAB business activities include:**

Air Freight Forwarding

Road Haulage

Sea Freight Forwarding

Customs Clearance

All services cover import and export and door- to- door delivery.

#### **Air Freight**

The success in air freight development is mainly rooted in our policy to continue long- term reliable partnerships all over the world. Our target is to co-operate with market leaders in regions like Far East, the USA and naturally Europe.

Being an independent company we have the possibility to evaluate the cost and service quality of our partners. Based on that we search for the best solutions - the task was successfully accomplished and introduced to our customers.

Air freight export volumes rose and the number of airfreight export shipments increased by 18 %.

The number of shipments of airfreight import has also grown by 18 %.

Growing demand for reliable scheduled transportation from our customers made us launch a regular route from Frankfurt airport operated twice a week. The number of "air plus road" and "combined" shipments doubled over last year. It confirms that the company is on the right track by offering this service to the market.

Export shipments via our European hub were arranged in combination with road export trailers every week on regular basis.

We successfully entered the niche market of transportation of live animals and dangerous goods. Licensed employees of ACE Logistics UAB have proven to be able to provide professional service to our new customers.



## Road Haulage

It is a pleasure to report firm development in road freight during 2005. The integration into Dascher's European network was tightened; two departures from Munich were continued. Since the very beginning of the year, the second departure from Dortmund to Vilnius has been operated. Special arrangements and commitments made it possible to pick up groupage shipments in Germany at latest on Tuesday and Friday for delivery in Vilnius on Friday and Monday accordingly. The market accepted our offers, which is expressed in the increase of the number of shipments by 38 %.

We are still facing increased competition concerning European road haulage. Consequently the 38 % of more shipments brought only 17 % of growth in gross margin. However we managed to adapt to the market rules and were able to secure the existing customers regardless of the competition.

Efficient and tight co-operation with our sister companies in Latvia and Estonia was further developed. ACE Logistics Estonia acts as a disposition centre for traffic from Italy. In spring 2005 our sister company in Riga introduced a hub for handling road shipments from Germany. More frequent departures resulted in concentrated volumes, lowered costs and increased level of service quality.

## Sea Freight

The success of the previous year of 2004 in sea freight forwarding was continued in 2005 - the turnover more than doubled and the number of shipments rose 53 %.

There is still great potential for development in both, LCL and FCL services in Lithuania. The customer base was expanded due to active sales and competitive rates' policy. Long-term commitments allowed us to offer our customers even better conditions than are made directly by shipping lines. On the one hand, our close connection to worldwide logistics networks secures us equal position with multinational companies; on the other hand we are able to maintain all the advantages of an independent local company.

## Personnel and IT solutions

ACE Logistics employed 14 persons at the end of 2005. The number of employees increased by 16 %, while total number of shipments increased by 28 % and turnover by 36 %. The new transport management software was adopted on April 1, 2005 in the prospect of the positive development of the company.

I am grateful for our loyal as well as new customers. I am also grateful for the hard work of the staff of ACE Logistics UAB.

---

**Ignas Puluikis**

Managing Director



# Managing Director's Report of Cargo Handling Ltd

16

2005 was the twelfth full year of operations for Cargo Handling Ltd. During this time the company has specialized in goods' handling, warehousing and distribution services for different groups of customers. The main goal of Cargo Handling is to offer international airlines and road haulage companies, forwarding agents and international trade companies top - quality services of cargo handling, warehousing and domestic distribution with value added by customs terminal and bonded warehouse. We also offer air cargo handling services on Tallinn Airport.

Cargo Handling has long- term experience in cargo handling in Tallinn Airport, it was started right after the establishment of the company at the end of 1993. The majority of the carriers flying to Tallinn Airport are serviced by Cargo Handling (Estonian Air, SAS, Lufthansa, LOT, Czech Airlines etc.).

The sales revenue of Cargo Handling increased 17 %, however the budgeted target was not achieved due to the low sales revenue of the ordinary warehousing services and heavy competition. The volume of the export shipments continued the falling trend. Simplified border crossing and customs procedures streamline road transport within EU, resulting in the obvious growth of combined air and road transport services. The handling volume of charter flights exceeded all expectations – the sales revenue amounted to 2.4 times the result of the previous year.

In March 2005 Cargo Handling rented additional 700 m<sup>2</sup> of storage space to improve the service of road freight. The volume of road cargo had doubled in a year and the customers needed more flexible solutions for unloading, warehousing and distribution arrangements.





At the end of 2005 The State Taxation and Customs Department issued the excise warehouse license for excise products to Cargo Handling. It enables us to raise the service level for the clients trading in excise products.

Supported by EU and the Foundation “Enterprise Estonia”, the company finished the process of developing the quality standards in the second half of 2005 in order to keep pace with the increasing requirements in our market segment. Cargo Handling also passed the regular quality audit of ISO 9000:2000, that was carried out by the international certification office Det Norske Veritas in the fourth quarter of 2005.

The average number of employees increased to 34, the annual growth was 22%.

The objectives for 2006 are the increase in the performance efficiency and the level of customer service. Growth in the turnover and profitability should be secured by offering additional services to our customers, introducing innovative IT solutions, terminating loss- making activities as well as increasing the professional competence of the company and the efficiency of personnel.

I would like to thank all the employees, our partners and customers for their contribution and pleasant cooperation. I wish you all luck and the achievement of goals next year.

---

Viljar Leht mets

Managing Director



# Managing Director's Report of AirProxy

18

The year 2005 was the ninth year of operation for Air Proxy. The year was full of challenges and today it is good to acknowledge that our hard- working team met the challenges effectively. By the end of 2004 we had set our main objectives to be the expansion to the other Baltic countries and to extend our market share in Estonia. Last year was fruitful for entire Air Proxy group – the turnover rose 21%, the customer survey revealed increase in customer satisfaction with our collaboration and new initiatives were launched successfully.

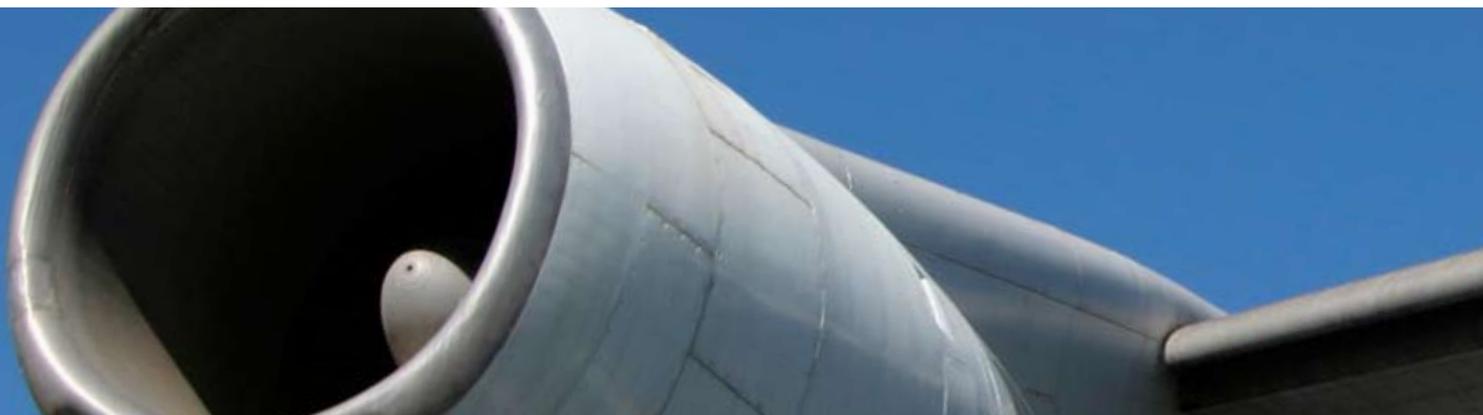
The preparations done in 2004 to facilitate the expansion to Latvia resulted in the secured position on the Latvian market in 2005, expressed by the constant growth of the number of loyal customers as well as the number of shipments. AirProxy SIA started its operations in Latvia in October 2004 as GSA for Czech Airlines. In September 2005 China Airlines was added to our list of principals, we offer general sales agent's services for them based on SUB-GSA contract. There is still one employee in the company, whose contribution to the development of the company has been significant.

AirProxy Tallinn experienced a productive year as well. We continued the collaboration with our principals, who include (chronologically): Lufthansa Cargo, SAS Cargo,

Lithuanian Airlines, Aeroflot, Czech Airlines, Air Baltic and Copterline. The positive image of AirProxy as a trustworthy partner of airlines was further confirmed last year by the addition of a new airline – the negotiations that had been in progress with Singapore Airlines Cargo since the beginning of the year were accomplished with Air Proxy being selected as the exclusive representative of the carrier in Estonia. Our agents can benefit from the addition of a superb transport channel. We are eager to admit that regardless of the tightened competition on the air freight market we managed to maintain our market share. We consider long- term mutually beneficial co-operation to be the foundation for good partnership with airlines.

AirProxy is still a member of EGSAC for Estonia, the consortium uniting international general sales agents. The membership has given us the opportunity to learn from the experience of the European partners as well as increased the options to sign new contracts with carriers in the whole Baltic area. In 2006 we expect to be recognized as the EGSAC member for the Baltic countries.

AirWalker service was started in 2004 and showed good progress in 2005 as well. We managed to increase the sales in Latvia in addition to Estonia and opened the sales activities in Lithuania. The Dutch company AirSupport has



proven to be a reliable partner for this service and we expect to proceed with it flexibly for the benefit of both parties. The road haulage company we picked at the start, Linter Transport, has been a trustworthy partner in rendering the combined service of air and road transport to our agents. In 2006 we pursue to increase the sales of the service on Latvian and Lithuanian market.

The main objective of AirProxy group for 2006 is to head persistently towards our long- term goal to be well positioned on the market in all three Baltic countries.

We also focus on extending the representation rights of our principals to the entire Baltic region in order to tighten the cooperation and improve the profitability for us as well as the airlines. We should keep in mind the core principles that contribute to the positive image of the company and through it secure the satisfaction of the airlines and the agents we service. The scope of representation activities, involving seven carriers, gives us the opportunity to render services meeting the demands of each agent. There should not be a destination in the whole world that cannot be reached if AirProxy participates in the shipment.

Our team strives to improve the professional and personal skills to be satisfied with the outcome of the work and also personal growth.

In conclusion, I would like to express my appreciation to my diligent colleagues, who are always willing to make an extra step and whose professionalism is highly recognized in the field. Thank you and I wish us right judgements for 2006!

---

**Helena Roots**

Managing Director



# ACE Logistics Group

## Balance Sheet

20

ASSETS	31/12/2005	31/12/2004
<i>in EUR</i>		<i>Consolidated</i>
<b>CURRENT ASSETS</b>		
1 Cash and bank	340,126	346,912
2 Receivables		
Customer receivables	1,159,311	722,100
Prepaid/refundable taxes receivables	11,699	23,136
Other receivables	212,188	220,960
Other prepaid expenses	24,900	20,977
<b>Total</b>	<b>1,408,098</b>	<b>987,172</b>
<b>TOTAL CURRENT ASSETS</b>	<b>1,748,224</b>	<b>1,334,084</b>
<b>NON-CURRENT ASSETS</b>		
3 Non-current physical assets		
Buildings, land	2,224,777	1,877,426
Plant and equipment	41,969	56,833
Other equipment and fixtures	50,234	47,639
Prepayments for noncurrent physical assets	15,830	6,317
<b>Total</b>	<b>2,332,811</b>	<b>1,988,214</b>
<b>TOTAL NON-CURRENT ASSETS</b>	<b>2,332,811</b>	<b>1,988,214</b>
<b>TOTAL ASSETS</b>	<b>4,081,035</b>	<b>3,322,299</b>

## LIABILITIES AND OWNER'S EQUITY 31/12/2005 31/12/2004

*in EUR*

*Consolidated*

### CURRENT LIABILITIES

#### 4 Short-term loans

Current portion of long-term debt	76,233	7,370
Short-term loans from credit institutions	166,499	130,208

<b>Total</b>	<b>242,732</b>	<b>137,578</b>
--------------	----------------	----------------

#### 5 Liabilities and advances

Supplier payables	1,336,792	823,433
Payables to employees	173,649	117,959
Taxes payable	166,709	84,283
Other payables	42,259	26,082
Advances from customers	10,501	7,176

<b>Total</b>	<b>1,729,909</b>	<b>1,058,933</b>
--------------	------------------	------------------

6 Short-term provisions	0	9,587
-------------------------	---	-------

<b>TOTAL CURRENT LIABILITIES</b>	<b>1,972,642</b>	<b>1,206,097</b>
----------------------------------	------------------	------------------

### NON-CURRENT LIABILITIES

#### 7 Long-term liabilities

Bank loans	577,638	569,357
------------	---------	---------

<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>577,638</b>	<b>569,357</b>
--------------------------------------	----------------	----------------

<b>TOTAL LIABILITIES</b>	<b>2,550,280</b>	<b>1,775,454</b>
--------------------------	------------------	------------------

### EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

8 Share capital	28,121	28,121
-----------------	--------	--------

9 Statutory legal reserve	2,812	
---------------------------	-------	--

10 Retained earnings	1,005,985	1,158,576
----------------------	-----------	-----------

11 Net profit (loss) for the financial year	480,069	353,020
---	---------	---------

12 Unrealised exchange rate differences	916	-4,196
---	-----	--------

<b>TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>	<b>1,517,904</b>	<b>1,538,333</b>
--	------------------	------------------

<b>MINORITY INTEREST</b>	<b>12,851</b>	<b>8,512</b>
--------------------------	---------------	--------------

<b>TOTAL EQUITY</b>	<b>1,530,755</b>	<b>1,546,845</b>
---------------------	------------------	------------------

<b>TOTAL LIABILITIES AND EQUITY</b>	<b>4,081,035</b>	<b>3,322,299</b>
-------------------------------------	------------------	------------------

# ACE Logistics Group

## Income Statement

22

<i>in EUR</i>	<b>2005</b>	<b>2004</b>
	<i>Consolidated</i>	
<b>REVENUE</b>		
Net sales	9,009,743	6,800,708
Other revenue	1,790	84,356
<b>TOTAL REVENUE</b>	<b>9,011,533</b>	<b>6,885,064</b>
<b>EXPENSES</b>		
Materials and supplies	6,534,854	4,694,320
Other operating expenses	593,528	605,272
Personnel expenses		
wages and salaries	819,981	714,215
social security and other costs	271,281	228,969
Depreciation	116,113	112,928
Other expenses	76,742	32,457
<b>TOTAL EXPENSES</b>	<b>8,412,498</b>	<b>6,388,160</b>
<b>OPERATING PROFIT</b>	<b>599,035</b>	<b>496,904</b>
<b>FINANCIAL INCOME</b>		
other interest and similar income	8,635	9,178
<b>TOTAL FINANCIAL INCOME</b>	<b>8,635</b>	<b>9,178</b>
<b>FINANCIAL EXPENSES</b>		
interest expences	28,022	39,917
<b>PROFIT BEFORE TAXES</b>	<b>579,648</b>	<b>466,165</b>
Provision for taxes	95,240	104,633
<b>NET PROFIT FOR THE FINANCIAL YEAR</b>	<b>484,408</b>	<b>361,532</b>
Equity holders of the parent	<b>480,069</b>	<b>353,020</b>
Minority interest	<b>4,339</b>	<b>8,512</b>

# ACE Logistics Group

## Cash Flow Statement

<i>in EUR</i>	<b>2005</b>	<b>2004</b>
	<i>Consolidated</i>	
Operating profit	599,610	496,904
Depreciation of fixed assets	116,113	112,928
Profit from sales of fixed assets	0	-118
Loss from sales of fixed assets	0	2,437
Change in current receivables	-412,341	341,700
Change in current liabilities	608,399	-196,594
Interest received	3,567	1,725
Interest paid	-28,144	-30,951
Income tax paid	-77,285	-152,875
<b>Cash flow from operating activities</b>	<b>809,919</b>	<b>575,155</b>
Purchase of fixed assets	-460,709	-49,823
Loans provided	0	-172,562
Acquisition of tangible assets	0	-2,866
Sale of tangible assets	0	1,714
<b>Cash flow from investing activities</b>	<b>-460,709</b>	<b>-223,537</b>
Repayment of loans	-149,473	-194,736
Amounts received from sales of treasury stock	193,972	0
Amounts paid on purchasing treasury stock	-639,117	0
Loans received	708,053	0
Paid dividends	-474,544	-210,908
<b>Cash flow from financing activities</b>	<b>-361,108</b>	<b>-405,645</b>
<b>TOTAL CASH FLOW</b>	<b>-11,898</b>	<b>-54,026</b>
Cash at the beginning of the period	346,912	399,527
Cash at the end of the period	340,126	346,912
Effect of exchange rate changes	5,112	1,412
<b>CHANGE IN CASH</b>	<b>-6,786</b>	<b>-52,615</b>

# The **proposal** of the Board of ACE Logistics Group to the Annual General Meeting of shareholders concerning the **division of profit**

24

The Board of ACE Logistics Group confirmed the retained earning of the company of previous periods of **EUR 1 005 67** and the audited net profit in 2005 of **EUR 479 965**. The proposal of the Board to the general meeting of shareholders is to divide the profit of ACE Logistics Group in the following way:

1. The sum of **EUR 1 042 920** to leave to the company.
2. The sum of **EUR 442 811** to share to shareholders as net dividends

ACE Logistics Group

---

**Karli Lambot**

Chairman of the Board



# Notes to financial statements

## General Principles

The financial statements of ACE Logistics Group Ltd have been drafted in accordance with the Law on Accounting of Estonian Republic and generally accepted accounting principles. The accounting principles of subsidiary companies used are identical to the ones of previous years. The value of fixed assets is shown in purchase value.

## Consolidation

The financial statements of ACE Logistics Group Ltd presented in this annual report include the audited financial reports of the subsidiaries in consolidation form. The financial result given in the proposal of the Board concerning the division of profit is calculated based on consolidated method.

## Auditing

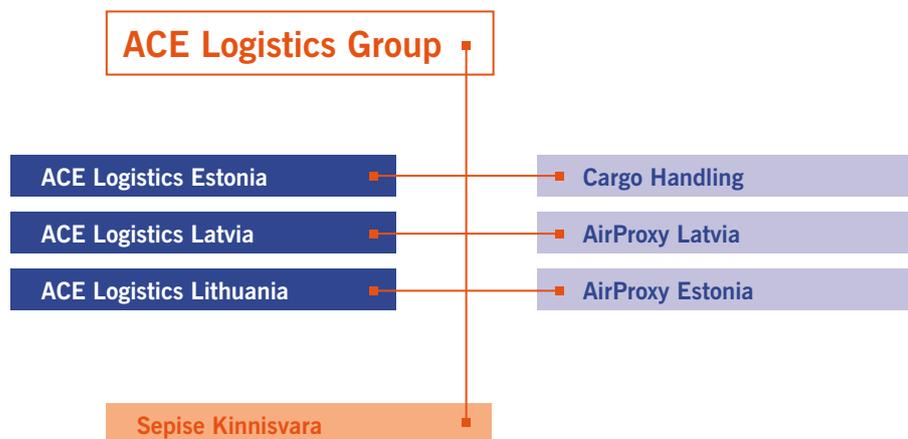
KPMG has audited the consolidated financial statements of ACE Logistics Group and Auditor's Report to the shareholders was issued without any remarks.



# Structure of ACE Logistics Group

26

ACE Logistics Group consists of seven companies offering logistics and transport services. According to the long-term strategy of the group approved in 1998, the companies of the group render air; sea and road transport services as well as various warehousing and logistics services. The Baltic region has been identified as the home market of the group. Group makes use of various agent networks worldwide; consequently the company can call on professional partners anywhere in the world.



**As of December 31, 2005, the group comprises the following independent companies:**

1. **ACE Logistics Estonia/Air Cargo Estonia AS** – forwarding, logistics services
2. **ACE Logistics SIA, Latvia** – forwarding, logistics services
3. **ACE Logistics UAB, Lithuania** – forwarding, logistics services
4. **Cargo Handling AS, Estonia** – air cargo handling services
5. **Air Proxy AS, Estonia** – representation of airlines
6. **Air Proxy SIA, Latvia** – representation of airlines
7. **Sepise Kinnisvara OÜ, Estonia** – real estate management

# Contacts

---

## ACE LOGISTICS GROUP AS

Sepise 18/20  
11415 Tallinn, ESTONIA  
Phone: +372 6401 401  
Fax: +372 6401 408  
E-mail: andres@ace.ee  
www.acegroup.ee

## ACE LOGISTICS ESTONIA

Sepise 18/20  
11415 Tallinn, ESTONIA  
Phone: +372 6401 401  
Fax: +372 6401 408  
E-mail: ace@ace.ee  
www.ace.ee

## ACE LOGISTICS LATVIA

Riga Internatinal Airport  
BALTIC CARGO CENTRE  
LV 1053 Riga, LATVIA  
Phone: +371 7207 039  
Fax: +371 7207 059  
E-mail: ace@ace.lv  
www.ace.lv

## ACE LOGISTICS LITHUANIA

Dariaus ir Gireno str. 113 A  
2038 Vilnius, LITHUANIA  
Phone: +370 52104 332  
Fax: +370 52104 037  
E-mail: ace@ace.lt  
www.ace.lt

## CARGO HANDLING

Kesk-Sõjamäe 10A  
11415 Tallinn, ESTONIA  
Phone: +372 6058644  
Fax: +372 6058589  
E-mail: ch@ch.ee  
www: www.ch.ee

## AIRPROXY ESTONIA

Kesk-Sõjamäe 10A  
11415 Tallinn, ESTONIA  
Phone: +372 6058227  
Fax: +372 6058228  
E-mail: gsa@airproxy.ee  
www.airproxy.ee

## AIRPROXY LATVIA

Starptautiska Lidosta "Riga"  
LV 1053, LATVIA  
Phone: +371 766 8245  
Fax: +371 766 8246  
E-mail: iveta@airproxy.lv

## SEPISE KINNISVARA

Sepise 18/20  
11415 Tallinn, ESTONIA  
Phone: +372 6401 401  
Fax: +372 6401 408  
E-mail: andres@ace.ee



---

*ace* Logistics Group