



Annual Report 2006 ACE Logistics Group



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Goals and Strategy of ACE Logistics Group 2007–2011

MISSION

The mission of ACE Logistics Group (hereinafter Group) is to be the leading provider of logistics solutions in the Baltic region, that:

- ▶ Helps its customers to achieve their business goals by offering professional logistics solutions corresponding to their needs;
- ▶ Facilitates the achievement of the personal professional objectives of its employees by securing contemporary working environment, in-service training and other development opportunities;
- ▶ Supports its business partners in being successful by working for the mutual satisfaction, values long-term business partnerships and stays loyal to them;
- ▶ Guarantees the satisfaction of the owners by sufficient long-term growth of company value.

The company should ensure persistent satisfaction of the owners, employees and customers of the company through its activities.

MAIN TARGET

The overall target of the company is the steady increase of its value. The raise in value is primarily assessed by the focus on long-term stable growth (turnover), profitability (cost-effectiveness) and return on equity.

FINANCIAL GOALS

- ▶ The growth in consolidated net sales shall exceed the average level in the market and reach two times the general economic growth of the area;

- ▶ Net profit margin shall be at least 5% annually;
- ▶ Return on equity is at least 30%.

The financial goals can be achieved as the result of natural growth. At the same time the company is open to the possibility of acquisition of other firms.

STRATEGY Management

ACE Logistics Group is a holding company of logistics firms operating in the Baltic countries. The holding company is involved in management and concentrates on defining the Group's overall strategy, ensuring the optimal allocation of resources as well as adding value by utilizing the synergy effect of the Group.

The companies of the group work independent of one another. The business interactions of the companies of the Group are based on general business principles.

The strategy of the Group determines the avoidance of competition between the companies of the Group.

The holding company creates additional value for the owners by the following actions:

- ▶ Developing and revision of the corporate strategy of the Group;
- ▶ Development and improvement of the common identity of the Group's companies;
- ▶ Regular participation in the strategic manage-

ment of the Group's companies by councils' memberships;

- ▶ Coordination of financial information and securing the exchange of it between the owners, the Group and the companies of the Group;
- ▶ Coordination of the auxiliary activities of the companies including accounting, IT, quality and personnel management, purchasing, marketing and other activities with the aim to achieve synergy and optimal utilization of resources;
- ▶ Ensuring the exchange of know-how and personnel resources among the companies of the Group when necessary;
- ▶ Participation in the creation of the development plans of executives.

The management of the companies of the Group is decentrally performed by the managements, the authority has been delegated to them and the attention is centred on personal initiative and responsibility. Each of the Group's companies creates its own strategy in accordance with the overall strategy of the Group.

The prime competitive advantages of the companies of the Group are:

- ▶ Operations in carefully selected fields along with dedicated specialisation in them;
- ▶ Active sales and marketing policy;
- ▶ Effective production;
- ▶ Innovation, IT solutions;
- ▶ Flexibility, ability to change swiftly

Personnel

The objective of the Group is to recruit the best employees and insure their long-term dedication. It is achieved by offering the employees a regularly renewed performance-based motivation system, advanced training and development opportunities as well as career opportunities within the Group

Services

ACE Logistics Group renders the following services:

- ▶ Air-, sea- and road freight forwarding;
- ▶ Customs brokerage services;
- ▶ Warehousing and distribution services;
- ▶ GSA services for airlines;
- ▶ Cargo handling services for airlines;
- ▶ Real estate development (as necessary for core activities).

Domestic Market

The domestic market of the Group covers the Baltic countries. The Group is open and prepared to penetrate markets in the neighbouring areas in cooperation with partner organisations.

Strategic Liaisons

The Group values highly persistent business relationships with cooperation partners and remains loyal to them.

Infrastructure

Considering long-term development objectives and strategic partnerships the development of infrastructure is crucial.



Main Financial Highlights

ACE Logistics Group Ltd

For the year	2006		2005		2004
in EUR, consolidated		Change		Change	
For the Year					
Net sales	12,010,728	33%	9,011,533	31%	6,885,064
EBT	942,117	62%	579,648	24%	466,165
Total cash flow	489,577		-6,784		-52,615

Per share					
EBT per share	2,141	62%	1,317	24%	1,059
Dividend proposal per share	1,452	44%	1,006	-8%	1,089

Capital ratios					
Return On Equity	48%	50%	32%	0%	32%
Profitability	8%	33%	6%	-14%	7%

By the end of the year					
Total assets	4,765,372	17%	4,081,035	23%	3,322,299
Share capital	28,121	0%	28,121	0%	28,121
Equity	1,733,213	14%	1,517,904	-1%	1,538,333
Number of employees	91	8%	84	25%	67



2006 2005 2004
Net sales *EUR in millions*



2006 2005 2004
EBT *EUR in millions*



Managing Director's Report of ACE Logistics Group

ACE Logistics Group had altogether a very successful year of 2006, it was a year of continuous development and growth. Despite the increase in competition, we succeeded to raise our turnover by one third from the last year. In 2006 we achieved an excellent increase in business revenues in the areas of the competition and we succeeded in cost effectiveness, which both speak of the positive trends in the improvement of our Group's competitiveness.

The Group fulfilled its main long term business objectives like the growth of net sales, profitability and return on Equity (ROE) level. The turnover grew by 33% and the Earning Before Taxes (EBT) rose by 62% and was EUR 942 thousand in total.

The economies of the three Baltic States – Estonia, Latvia and Lithuania, are among the fastest growing and the most dynamic in EU. The 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 is accompanied by the security guarantees of full membership of EU. The regional workforce is well-educated and productive; in addition to that English and Russian are widely spoken among the business community. This all gives outstanding opportunities and provides high competitiveness for the business environment.

The truth is that a rather significant part of this growth is due to the catching-up-process, as the Baltic countries are still among the poorest in EU. All three countries are taking advantage of the growing domestic demand. Household spending in particular has flourished in recent years, supported by low interest rates, stronger financial systems and growing incomes.

Radical growth tends to bring about high inflation and extensive import, along with the current account deficits. This principle applies to all three countries, where the strongest advancement in inflation rates took place in Latvia and Estonia and as a result these countries have difficulties to meet euro zone accession requirements.

The Baltic countries' fast economic growth of the last few years and the development of international business relations have resulted in very fast market growth in the areas of logistics, where ACE Logistics Group's companies are active in.

ACE Logistics Group in general

ACE Logistics Group consists of seven independent companies offering logistics and transport services. According to the long-term strategy, 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, as a result the company can call on professional partners everywhere in the world.

As for our financial targets, ACE Logistics Group would like to achieve annually at least 30% return on equity and 5% of net profitability.

As of December 31, 2006, the group comprises the following independent companies

- ▶ ACE Logistics Estonia – forwarding, logistics services;
- ▶ ACE Logistics Latvia – forwarding, logistics services;
- ▶ ACE Logistics Lithuania – forwarding, logistics services;

- ▶ Air Proxy Ltd, Estonia – representation of airlines;
- ▶ Air Proxy Ltd, Latvia – representation of airlines;
- ▶ Cargo Handling Ltd – air cargo handling services;
- ▶ Sepise Kinnisvara Ltd – real estate management.

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

As of December 31, 2006 ACE Logistics Group belongs to the following shareholders:

- ▶ Ithal Nõukoja Ltd – 58,41%
- ▶ Mr Karli Lambot – 34,09%
- ▶ Mr Teet Järvekülg – 7,5%

Services provided by the ACE Logistics Group's companies

- ▶ Airfreight Forwarding
- ▶ Roadfreight Forwarding
- ▶ Seafreight Forwarding
- ▶ Integrated logistics and warehousing
- ▶ Airport Cargo handling
- ▶ Airline representation – GSA activities
- ▶ Real Estate Management

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 steady improvement of service quality through further development of better management of experience and know-how as well as a customer-oriented and innovative ap-

proach. The most important financial objective is the continued increase of the value for the shareholders, with the maintenance of a healthy solvency level.

The mentality, that each employee focuses on the changing needs of the customers and by doing it secures the interests of the shareholders of the group, is the backbone of the activities in all the group's companies. The comprehensive selection of personnel along with generating conditions for sustained improvement of the competence of the colleagues are the key elements of our performance.

At the end of 2006, ACE Logistics Group employed 91 persons.

Dividends

The dividend policy of ACE Logistics Group has laid down the following principles – securing optimal liquidity and solvency level of the company as well as making investments with reasonable productivity and risk levels.

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



Andres Matkur
Managing Director

Managing Director's Report of ACE Logistics Estonia

The year 2006 was a successful one for ACE Logistics Estonia Ltd (ACE). All the financial goals were fulfilled, the sales turnover increased 28% and the net profit was 7%. The company employed 39 persons. It is due to the overall economic growth and as a result of natural growth. The positive results of 2006 confirm that ACE is still an increasing enterprise.

During the report year the following services were rendered to the customers:

- ▶ road haulage;
- ▶ air and sea freight;
- ▶ customs clearance and Intrastat;
- ▶ warehousing services.

Road Haulage

In road haulage ACE has specialised on LCL cargo shipped on regular routes towards Western-Europe, though we can also assist with transport to Scandinavia and Eastern Europe. The advantage of ACE services lies in the short lead-time and optimal schedules. The traffic to Germany as well as Holland and Belgium is more dense with departures twice a week. The products finished on Monday or Tuesday will be loaded in Wednesday morning already and arrive at Tallinn Friday morning. The products finished from Wednesday to Friday will be loaded on the second regular weekly departure in Saturday morning and arrive at Tallinn Monday morning. The latter option is the most suitable for those among our customers, who tend to finalise their products in the Friday afternoon. On routes to Belgium and Holland another departure on Tuesday has been added to the Friday departure allowing more stable deliveries for our customers. In addition the cargo volumes have increased to various other destinations. Routes from France and Germany have become very popular with regular traffic to the HUB in Germany followed by smooth forwarding to Estonia.

As for export ACE operates a weekly departure to Dortmund HUB on Fridays, which serves as a distribution centre for the rest of Europe. The delivery time is 24 hours in Germany and 2 to 3 days in the neighbouring countries. Launching the second

weekly departure in the near future is under consideration right now.

Air Freight

We achieved the best result in the export field by participating in large scale project shipments securing the satisfaction of our customers. The sales persons of ACE air freight department have a choice of 34 airlines all departing from Tallinn at their disposal. If these prove to be unsuitable, we can usually find a solution via Helsinki, Stockholm, Amsterdam, Frankfurt or Luxemburg. These are the major European airports we perform air freight advance delivery to by road. In addition we operate special shipments that have made ACE renowned, like live animals, valuables and perishables.

ACE can perform urgent deliveries to meet the demands of its customers. Our strong partners with numerous representative offices in more than 120 countries enable us to offer personal and professional logistics solutions all over the world.

Sea Freight

In sea freight we specialise mainly on LCL or small shipments and groupage cargo, although we also perform FCL or full container load transport. In import direction ACE operated weekly departures from Far-East and North-America, we can also offer transportation from more exotic regions. In addition to port-to-port transport we offer door-to-door full service package in cooperation with ACE customs clearance. The „side-loader” option has gained popularity with the container being unloaded in the customer's territory.

High level of customer service and counseling has contributed to the increase of trust towards us and created a firm foundation for further cooperation. Looking ahead regular LCL traffic from Far-East direct to Tallinn is under discussion.

Customs Clearance and Intrastat

The proceeds of ACE Customs Clearance exceeded the budget goals in 2006 and the number of cleared declarations raised as well. Intrastat service remained



on the same level without any significant changes. Due to its favourable location at the Cargo Handling Centre of Tallinn Airport the customs clearance services of ACE have attracted wider interest.

Warehousing

We offer ordinary warehousing and customs terminal services, focusing on smaller items and the development of value-added activities. ACE performs complete handling for the retailer with pick and pack, packaging, labelling and pricing services. Great variety of commodities can be found in ACE warehouses from stationary and electronic components to beauty products. At the same time we offer domestic distribution and take care of EDI data exchange, thus making the purchase of warehousing services even more convenient for the customer.

Customer service and quality

The outcome of the customer satisfaction survey we carried out in late spring was beyond our expectations. We have set new goals for the new year, that are slightly higher from previous year. Customer satisfaction matters to us and one of the means to secure it is the quality management certificate ISO 9001:2000 we successfully renewed during the regular external audit.

An important role in achieving the good results is certainly played by our cooperation partners, who make continuous efforts together with us resulting in higher level of customer service as well as the profitability of regular routes.

I would use this opportunity to express gratitude to our customers and partners for the pleasant cooperation and the outstanding personnel of ACE for the good results in 2006.



Maanus Mätlik
Managing Director





Managing Director's Report of ACE Logistics Latvia

The year 2006 was successful for the operations of ACE Logistics Latvia. The budgeted targets were fulfilled and the financial results were the best in the company's history: turnover increased 137% and net income 155%. The target for the total number of shipments was surpassed and amounted 115%. The outcome was achieved without any change in rates, it is solely based on efficient planning of our local capacity. As the last year in Latvian economy demonstrated very high inflation, we are concentrated on finding the most effective ways to arrange our services.

This result allows us to face new challenges with confidence and gives us a clear vision of necessary improvements for future growth. The main task for the near future will be to create effective structure for the company, where every single staff member can set appropriate personal targets and the joint good performance of the team will secure continuous progress of the company's operations.

In the year 2006 the main business activities were:

- ▶ Road freight (mostly door-to-door services including customs clearance when necessary);

- ▶ Air freight;
- ▶ Sea freight;
- ▶ Custom clearance and local deliveries or pick up.

Road Freight

For years road haulage has ranked the highest among our services. The year 2006 was no exception and we experienced significant growth in this field. The main factors of our success include good partners, creative employees and positive competition among the sister companies.

Import from and export to Germany remained our main traffic flows along with import traffic from Netherland and Italy. At the same time I must confess how grateful we are to our customers, who push us every year to start new regular routes and look for new destinations. In connection with that, the volume of direct load services has also increased, although it is not our core business

Looking ahead we can promise to plan and open new regular routes already in 2007 to better serve



the needs of our customers.

Air Freight

Last year brought positive change in our long experience in air transport. We managed to double our export air freight volumes. Such outcome follows from the same factors as in case of road freight. It is very important to find the best solutions for our customers in short time and this can be done only with the help of good partners and diligent employees.

We are pleased that every year brings new airlines to the Latvian air freight market. At the same time we have the choice to use several European airports as hubs, using our local services for local distribution or pick-up. The local market tends to sell products ex-works and here we can take advantage of the good partners' network to offer flexible services.

Sea Freight

The year 2006 was still a trial period for sea freight. The results were better than last year,

but unfortunately we did not fulfil our budgeted targets. However I am confident today that we have all instruments in our hands to achieve high growth in 2007. As in the previous year we evaluated the market and prepared ourselves for improving this service field. Our main focus will be on LCL services as well as FCL from Far East and America. Once again, the key to success lies in the good cooperation with our partners, which allows us to offer better rates.

I would like to thank our partners all over the world, our loyal customers and my committed colleagues – together we can be successful and face new challenges.



Daina Zvirgzde
Managing Director



Managing Director's Report of ACE Logistics Lithuania

The company celebrated its 10th anniversary in 2006. During the 10-year period the company has been through various phases. Today we are glad to report the stable growth and solid background of our company.

ACE Logistics developed as rapidly as the economy of Lithuania in general. The budget plan was successfully fulfilled and other figures indicate also positive development. Turnover increased 48% and gross profit multiplied three times. Whereas operational costs increased 22%, which shows high efficiency of the operations. (All numbers are in comparison with 2005).

ACE Logistics is a member of the national forwarders' association Lineka and is among the first 10 exclusively forwarding companies in the country. Traditionally air freight forwarding has been one of the key businesses of ACE Logistics. We are proud to say that today ACE Logistics is ranked among the top five air freight forwarders, even when we take into account the multinational companies.

ACE Logistics UAB business activities include:

- ▶ Air freight forwarding,
- ▶ Road freight forwarding,
- ▶ Sea freight forwarding,
- ▶ Customs clearance.

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

Air freight

Air freight forwarding involves import and export routes. Export volumes and the number of export shipments increased 39%. This figure reveals intensive progress even in comparison with air freight export growth of 18% during the previous year. ACE Logistics became an important player on the air freight export market. It was achieved by the high motivation and ambitions of the dedicated sales team.

Import volumes developed more steadily due to our traditionally strong market position. The number of import shipments increased by 10%.

Our success is based on the professional staff and the worldwide partners' network. According to its strategy, ACE Logistics remains an independent agent and maintains long-term business relations with selected partners. Our partners and agents are market leaders in regions like Far East, USA and Europe.

Thanks to the reliable partners, ACE Logistics could announce six different service packages from Far East to Lithuania. The most popular ones have been aceEconomy and aceMultimodal. These combinations via Frankfurt airport are well appreciated by customers due to the optimal service level and cost ratio. Scheduled truck routes from Frankfurt to Vilnius are in most cases much more effective in comparison with small passenger flights to Vilnius.

The number of shipments arranged by direct flights is still twice the amount of number of shipments arranged by combined method, but the increase of shipments using aceEconomy package reached 200%.

Export shipments via European hubs in Frankfurt and Amsterdam are operated weekly in combination with our export road trailers.



Road freight

Road freight development reflected the general trends of air freight. The biggest leap was in export, where the number of shipments doubled in the last year. Regular truck departure started to operate on weekly bases. Groupage shipments were delivered to the hub in Dortmund for further distribution in Germany and the rest of Europe.

We also improved the import traffic, launching five regular weekly departures from Germany to Vilnius.

Unfortunately the increase ratio remained lower than can be seen in the reports of our colleagues in Latvia and Estonia, yet the growth of the number of import shipments by 39% and net profit by 31% can be considered a satisfactory outcome.

Sea freight

Sea freight is one of the most rapidly growing segments of our company. The gratifying year of 2005 was succeeded by equally successful 2006: net profit grew 61% and the number of shipments 79%.

However, sea freight export decreased due to the termination of unprofitable export of raw materials.

From the results it is evident that ACE Logistics UAB is capable of providing competitive services in co-operation with the multinational partners' network. In specific cases we also collaborate with regional and local forwarding agents.

A very important part of sea transport is made up by LCL (less container loads). LCL volumes doubled during 2006, which meant regular departures from the main seaports in China, Taiwan and the rest of Asia.

Personnel and IT Solutions

ACE Logistics employed 17 persons in the end of 2006. The number of employees increased by 20% (while the total number of shipments increased by 34% and turnover by 48%).

We arranged several in-service and out-of-office training sessions for our staff in order to improve the sales and customer service skills.

The annual summer convention for all the companies of ACE Group as well as the representatives of

our partners took place in Lithuania last year with great success.

The success and the positive results of the company rely fully on the combined efforts of the staff, customers and partners. I would like to express my gratitude to our committed employees, loyal customers and reliable partners for it.



Managing Director
Ignas Puluikis





Managing Director's Report of Cargo Handling Ltd

Cargo Handling Ltd is a company, which offers mainly air freight handling services in ordinary warehouse, customs terminal and bonded warehouse. Our customers include airlines, courier services, forwarding agents and international trading companies.

The year 2006 was the thirteenth year of full operation for Cargo Handling Ltd. Significant changes took place in the service range of the company during this year: we waived basic warehousing of commodities as well as handling road freight and focused entirely on air freight handling.

Cargo Handling Ltd fulfilled the targets set for 2006. Sales revenue dropped 16,5% proceeding from the termination of the above-mentioned services. However, when we compare the remaining services in 2006 with the same services in the previous year, the sales revenue increased 5%. Net profit was 18% higher than the budgeted target.

Air Freight Handling

In 2006 the number of air shipments experienced similar increase, though at a more modest rate than road freight. We handled almost 14700 import shipments and 5100 export shipments with the total weight respectively 2235 and 755 tons. In comparison with 2005 the export volume was 4% and import

volume 3% higher. Termination of the handling of road freight and part of ordinary warehouse commodities enabled us to channel all the freed resources to servicing air freight. The service became more customer-friendly with more efficient response.

We continue ramp handling the cargo of charter flights on Tallinn Airport. The number of handled aircrafts had doubled over the last year. Regardless of the high monthly fluctuation of the number of flights and the variable landing times we managed to secure appropriate loading teams and operate with adequate flexibility and profitability.

Warehousing Services

In January 2006 we handled all the ordinary warehousing services over to ACE Logistics Estonia Ltd. This meant giving up the warehouse premises and customs terminal space. As a result the customers of ordinary warehouse can purchase all logistics services (international transport, customs clearance, warehousing and distribution) from one company, i.e. ACE Logistics Estonia Ltd. Customer service became certainly more flexible and diversified.

Road Freight Handling

The share of road cargo handled in the terminal increased significantly in 2006 especially on the account of the shipments of ACE Logistics Estonia

Ltd. Consequently we came to the mutual understanding that it would be easier for ACE to schedule unloading and arrange distribution; besides the operational system of ACE is closely linked to their major foreign partners. Thus in October 2006 ACE started handling its own road freight on our warehouse space of approximately 700 m².

The goals of 2007 are to maintain and secure our market position in the existing market. It infers smooth cooperation with our partners as well as the improvement of our services and customer service. At the same time we continue constant IT development in order to simplify and speed up the entire service for our customers and partners.

I appreciate the contribution of all the employees, long-term partners and customers to our positive results. I hope that keeping the same pace helps us to fulfill the targets of 2007 just as successfully.



Viljar Lehtmets
Managing Director



Managing Director's Report of AirProxy

The year 2006 was the tenth year of operation for the Estonian office of AirProxy. Looking back to our 10 years of work we can admit that the company has developed in the right direction, being a cooperative partner to our principals (airlines) and customers. We are pleased to recognise that with two of our principals, SAS Cargo and Lufthansa Cargo, we have been collaborating for 10 years already. The Latvian office of AirProxy finished its second year of operations and fast growth continued as suitable to a young business. The aggregate turnover of AirProxy Group increased 31% in comparison with 2005 and the net profit grew 30%.

The main objective of AirProxy Group in 2006 was powerful progress towards the long-term goal to be present in all three Baltic countries. Today we may declare that our position on the Latvian market was strengthened, however the time for entering Lithuanian market was not yet right. We considered the extension of the representation rights of our current principals to all the Baltic countries to be essential for the benefit of the airlines and ourselves. It enables us to further tighten and facilitate the cooperation. We accomplished this task. The most significant event of AirProxy Group in 2006 was the enlargement of Lufthansa Cargo agreement to Latvian market as of May 1, 2006. The foundation of this achievement was built by the devoted

joint effort of the staff of Estonian office over a 10-year period as well as the willingness of the Latvian staff to raise the sales revenue of Lufthansa from Riga Airport. The results confirm that AirProxy was well received by Latvian agents as the new GSA of Luftansa Cargo. The targets set based on goods volumes and the increase of airline profitability were achieved and even exceeded.

The year 2006 was rewarding for AirProxy Estonia, as the financial goals were fulfilled and surpassed. I would like to highlight the fact that regardless of the high labour turnover trend, we managed to keep our team. The agreement partners remained also the same as in 2005. Our partners are, chronologically: Lufthansa Cargo, SAS Cargo, Lithuanian Airlines, Czech Airlines, Air Baltic, Copterline and Singapore Airlines Cargo. In spite of the tightened competition due to the increased number of carriers we succeeded in magnifying the goods' volumes carried by our airlines and we preserved our market share. In our partnership with the airlines we invariably consider the mutual economic benefit of our actions as the key to long-term cooperation. The collaboration with agents was gratifying and we are glad to state that our loyal customers think still very highly of the services of our carriers. The sales of the allotment service we introduced in cooperation with Lufthansa Cargo was well appreciated on the



market and the agents were satisfied with the addition to the service package.

The year 2006 was a year of challenges and changes for the Latvian company of AirProxy. The targets were set high regarding the increase of both, turnover and profitability. The turnover multiplied 2,5 times in comparison with 2005. As mentioned above the Latvian company started representing Lufthansa in May. It was a crucial step as it allowed the team to demonstrate its competence in offering GSA services. A sales manager joined the team in May and as a result of his outstanding work the market share of Lufthansa in Riga grew from 5% to 17%. AirProxy SIA represented two principals in 2006 – Czech Airlines Cargo and Lufthansa Cargo. The service package was expanded significantly and we can declare with full confidence that AirProxy is well accepted by forwarding agents and a professional partner on the Latvian market.

AirProxy has been the Estonian member of the international consortium of general sales agents, EGSAC (European General Sales Agency Cargo), since 2004. The membership has given us the opportunity to learn from the long experience of our European colleagues and it increases our chances in signing new agreements with airlines in all three Baltic countries. The objective in 2006 was to be recognised as a EGSAC member in the Baltics and the objective was achieved.

Major changes can be foreseen for 2007 in our field of activities resulting in the change of environment. Launch of CASS (Simplified Billing and Settlement of Accounts) on the Baltic market has been scheduled to May 2007, which will have a severe influ-

ence on our transactions with the agents and the airlines. Based on the experience of our European colleagues, CASS will put pressure on the entire field and bring the margin down. We have managed to respond swiftly to changes during our 10 years of operations and this experience gives us courage to face the challenges of 2007.

The main goal of AirProxy Group for 2007 is to extend the representation rights of our current principals to all the Baltic countries for the benefit of the airlines and ourselves, as it enables us to make the cooperation more efficient. The experience with Lufthansa Cargo demonstrates the positive results of such cooperation. We are persistent in following the high principles that have guided us so far and will secure the satisfaction of the airlines as well as agents with our performance. We consider it important to offer the agents solutions that meet their demands, based on our possibilities. The possibilities will be widened by supplementing new carriers, we expect to launch collaboration with at least 2 new airlines. There should be no destination in the world a shipment cannot be delivered to via AirProxy.

The target of our team is to improve on the professional as well as personal level, to enjoy the job and oneself.

In conclusion I would like to give credit to my diligent and courageous colleagues, who are always ready to give their best and who are well appreciated and highly recognised cooperation partners in the field. In 2006 we wrote down the principle we follow in our work: "The music which we create in the progress of expressing high respect towards each other, listening to each other carefully and trying hard to find the harmony, should be as enjoyable for us as for our customers." Let us follow this in 2007 as well.

Many thanks to my colleagues and let the team make right decisions in 2007!



Helena Roots
Managing Director



ACE Logistics Group Balance Sheet

ASSETS	12/31/2006	12/31/2005
	<i>in EUR, Consolidated</i>	
CURRENT ASSETS		
1 Cash and bank	829 704	340 126
2 Receivables		
Customer receivables	1 404 978	1 159 311
Prepaid/refundable taxes receivables	5 003	11 699
Other receivables	216 246	212 188
Other prepaid expenses	37 361	24 900
Total	1 663 588	1 408 098
TOTAL CURRENT ASSETS	2 493 292	1 748 224
NON-CURRENT ASSETS		
3 Non-current physical assets		
Buildings, land	2 159 084	2 224 777
Plant and equipment	51 923	41 969
Other equipment and fixtures	46 812	50 234
Prepayments for noncurrent physical assets	14 261	15 830
Total	2 272 080	2 332 811
TOTAL NON-CURRENT ASSETS	2 272 080	2 332 811
TOTAL ASSETS	4 765 372	4 081 035

LIABILITIES AND OWNER'S EQUITY	12/31/2006	12/31/2005
CURRENT LIABILITIES		
4 Short-term loans		
Current portion of long-term debt	29 966	76 233
Short-term loans from credit institutions	169 979	166 499
Total	199 945	242 732
5 Liabilities and advances		
Supplier payables	1 891 008	1 336 792
Payables to employees	224 610	173 649
Taxes payables	190 689	166 709
Other payables	110 998	42 259
Advances from customers	7 249	10 501
Total	2 424 554	1 729 909
TOTAL CURRENT LIABILITIES	2 624 499	1 972 642
NON-CURRENT LIABILITIES		
6 Long-term liabilities		
Bank loans	407 660	577 638
TOTAL NON-CURRENT LIABILITIES	407 660	577 638
TOTAL LIABILITIES	3 032 159	2 550 280
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		
7 Share capital	28 121	28 121
8 Statutory legal reserve	2 812	2 812
9 Retained earnings	899 942	1 005 985
10 Net profit (loss) for the financial year	778 635	480 069
11 Unrealised exchange rate differences	5 899	916
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	1 715 409	1 517 904
MINORITY INTEREST	17 804	12 851
TOTAL EQUITY	1 733 213	1 530 755
TOTAL LIABILITIES AND EQUITY	4 765 372	4 081 035

ACE Logistics Group Income Statement

	2006	2005
	<i>in EUR, Consolidated</i>	
REVENUE		
Net sales	12 010 728	9 009 743
Other revenue	21 818	1 790
TOTAL REVENUE	12 032 546	9 011 533
EXPENSES		
Materials and supplies	8 915 376	6 534 854
Other operating expenses	654 603	593 528
Personnel expenses		
wages and salaries	1 013 838	819 981
social security and other costs	336 309	271 281
Depreciation	118 402	116 113
Other expenses	27 764	76 742
TOTAL EXPENSES	11 066 292	8 412 498
OPERATING PROFIT	966 254	599 035
FINANCIAL INCOME		
other interest and similar income	8 829	8 635
TOTAL FINANCIAL INCOME	8 829	8 635
FINANCIAL EXPENSES		
interest expenses	32 966	28 022
PROFIT BEFORE TAXES	942 117	579 648
Provision for taxes	147 805	95 240
NET PROFIT FOR THE FINANCIAL YEAR	794 312	484 408
Equity holders of the parent	778 635	480 069
Minority interest	15 677	4 339

ACE Logistics Group

Cash Flow Statement

	2006	2005
	<i>in EUR, Consolidated</i>	
Operating profit	966 255	599 610
Depreciation of fixed assets	118 402	116 113
Change in current receivables	-250 223	-412 341
Change in current liabilities	670 385	608 399
Interest received	3 562	3 567
Interest paid	-32 914	-28 144
Income tax paid	-129 893	-77 285
CASH FLOW FROM OPERATING ACTIVITIES	1 345 574	809 919
Purchase of fixed assets	-57 671	-460 709
CASH FLOW FROM INVESTING ACTIVITIES	-57 671	-460 709
Repayment of loans	-212 765	-149 473
Amounts received from sales of treasury stock	0	193 972
Amounts paid on purchasing treasury stock	0	-639 117
Loans received	0	708 053
Paid dividends	-590 544	-474 544
CASH FLOW FROM FINANCING ACTIVITIES	-803 309	-361 108
TOTAL CASH FLOW	484 594	-11 898
Cash at the beginning of the period	340 126	346 912
Cash at the end of the period	829 704	340 126
Effect of exchange rate changes	4 983	5 112
CHANGE IN CASH	489 577	-6 786



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

The Board of ACE Logistics Group confirmed the retained earning of the company of previous periods of EUR 899 942 and the audited net profit in 2006 of EUR 778 635. The proposal of the Board to the general meeting of shareholders is to divide the profit of ACE Logistics Group in the following way:

- ▶ The sum of EUR 1 039 460 to leave to the company
- ▶ The sum of EUR 498 510 to share to shareholders as net dividends

ACE Logistics Group

Andres Matkur
Managing Director

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.

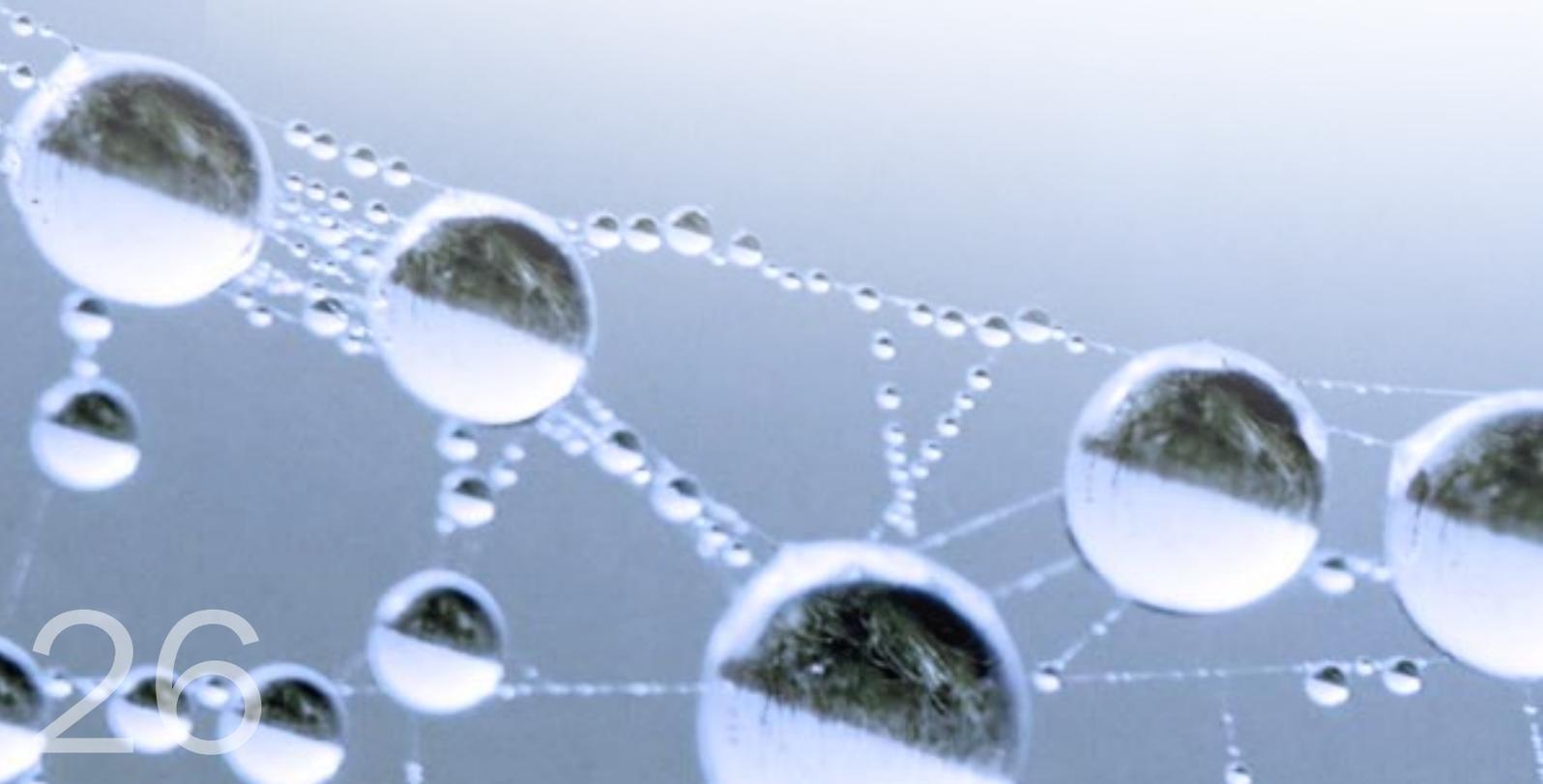
Auditing

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

As of December 31, 2006, the group comprises the following independent companies:



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