

AS Norma

2002 ANNUAL REPORT

AS Norma 2002 Annual Report

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AS Norma
Management Report for the year 2002

General information about AS Norma

The history of AS Norma dates back 100 years: in 1891, Paulus Michelson established a metal workshop that has been operating under the name "Norma" since the year 1931. The production of safety belts for cars was commenced in 1973. Today, AS Norma is a leading supplier of car safety systems to Russian automobile plants, and a supplier of safety belts to several western corporations within the automobile industry. Shares of AS Norma are quoted in the main list of the Tallinn Stock Exchange.

The main fields of activity of AS Norma include the production and sales of safety systems and details of cars, as well as research and development relating to the core activities. Technologies used for main production purposes include metal processing, plastics casting, and galvanising of details. In the year 2002, the Group of AS Norma included AS Norma and its four 100%-owned subsidiaries. 1,046 people worked for the Group in the year 2002, incl. 884 people in AS Norma. AS Norma is located at Laki 14 in Tallinn, the Republic of Estonia.

Financial Highlights

(In millions of kroons, except shares and per share amounts)

	Group			AS Norma (Parent undertaking) *		
	2002	2001	Delta %	2001	2001	Delta %
Net sales	1,013.8	815.9	24.3	992.1	795.1	24.8
Operating profit	186.9	167.1	11.8	160.1	154.8	3.4
Income tax	3.9	2.2		3.6	2.2	
Net profit	193.6	177.6	9.0	193.6	177.6	9.0
Assets	851.6	725.2	17.4	848.1	723.7	17.2
Shareholders' equity	729.2	614.8	18.6	729.2	614.8	18.6
Share capital	132	132		132	132	
Number of employees	1,046	1,048		884	856	
Outstanding shares	13.2	13.2		13.2	13.2	
Earnings per share	14.67	13.46	9.0	14.67	13.46	9.0
Return on equity	0.265	0.289	(8)	0.265	0.289	(8)
Return on assets	0.227	0.245	(7)	0.227	0.245	(7)

*AS Norma consolidated at equity method.

Operations of AS Norma in 2002

1. Revenues from sales

In the year 2002, the net sales of the Group of AS Norma totaled 1,013.8 million kroons, which represents an increase by 24% when compared to the year 2001. Sales generated by the parent undertaking amounted to 992.1 million kroons, i.e. 98% of the turnover of the entire Group. Sales of the parent undertaking grew by 25% during the accounting year. Consolidated sales of subsidiary undertakings totaled 21.7 million kroons. The relative share of exports in the sales of the Group accounted for 98%, and 49% of the exports were to Russia. Revenues from the sales of car safety belts and components thereof accounted for 94% of the total sales of the Norma Group (92% in the year 2001), which demonstrates the continuous focus of Norma on its core activity.

The year 2002 was characterised by a continuing decline in all developed markets, and correspondingly weak sales of vehicles. In Russia, the traditional primary market of Norma, the market of new domestic cars collapsed abruptly in the fourth quarter of the year. The depression continued also in the first quarter of the year 2003. The decision of the Russian Government to increase customs on imported cars older than 7 years to 35% as from the October of 2002 can be regarded as one of the main reasons for the collapse. In order to prepare for the increase in customs, 450 thousand used passenger cars were imported to Russia primarily from Western Europe before October. Since the price of the cars of that age is comparable with the price of new cars manufactured in Russia, the imports had a devastating impact on the demand for the production of local automobile plants. In Russia the production of passenger cars decreased by 16% when compared to the year 2001 (-8.4% in AutoVAZ). Notwithstanding the adverse market situation, Norma managed to maintain sales to Russia almost at the level of the year 2001 (-1.5%). The biggest customers in Russia were AutoVAZ, GAZ, Izhmaz and UAZ.

In the year 2002, the relative share of Norma's sales in the western direction continued to grow, mainly on account of products sold to undertakings in the Autoliv Group. In the annual sum the sales in the western direction equalled the sales in the eastern direction, and thereby the market risks of Norma decreased materially. Sales to Norma undertakings in the Autoliv Group totaled 445.2 million kroons (+92% when compared to the year 2001). Other bigger western customers included Fashing Salzburg, Karosa, Iris Bus, Saab Automobile AB, etc.

2. Business Profitability

	Group			AS Norma (parent undertaking)*		
	2002	2001	Delta %	2002	2001	Delta %
Net sales	1,013.8	815.9	24.3	992.1	795.1	24.8
Cost of goods sold	773.9	580.2	33.4	769.3	577.8	33.2
Administrative and selling expenses	75.6	74.6	1.3	63.4	63.4	0.5
Operating profit	186.9	167.1	11.8	160.1	154.8	3.4
Profit before taxes	197.5	179.9	9.8	197.3	179.8	9.7
Net profit	193.6	177.6	9.0	193.6	177.6	9.0
Sales margin (%)	19.1	21.8	(12.4)	19.5	22.3	(12.6)

* AS Norma consolidated at equity method

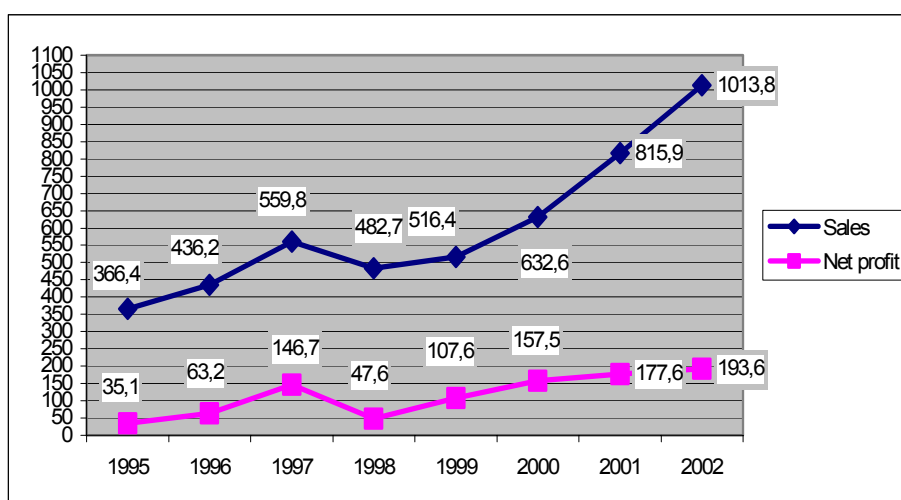
The net profit of the Group amounted to 193.6 million kroons in the year 2002. When compared to the year 2001, net profit grew by 9%. Profit before taxes increased by 10% to 197.5 million kroons. The Group's sales margin decreased by 12%: from 21.8 percent to 19.1 percent. In 2002, sales increased by 24%, whereas the cost of goods sold grew by 33%, R&D expenses increased by 20%, general administrative expenses increased by 3%, and marketing expenses decreased by 15%. Hence, the gross profit of the company grew by 1.8%, administrative and selling increased by 1.3%. Of the Group's operating profit of 186.9 million kroons, 19.7 million kroons represented income from sales of buildings and real properties.

As to the Group's income-expenditure structure, the relative share of the cost of goods sold continued to grow (from 71% of net sales in 2001 to 76% in 2002) due to an increase in the costs of materials by 43%. The relative share of the cost of materials increased, because bought-in components, not raw materials, are used in the production of safety belts for Autoliv. Sales to undertakings in the Autoliv Group amounted to 445 million kroons in the year 2002, and accounted for 44% of net sales (an increase by 92% when compared to the year 2001).

98% of the Group's net sales, i.e. 992.1 million kroons originated from the parent undertaking and represented an increase by 25% when compared to the previous period. The parent undertaking's gross profit grew by 2.5% and operating profit grew by 3.4%, amounting to 222.8 and 160.1 million kroons, respectively. Of the financial income of the parent undertaking (38.7 million kroons), 26.9 millions accounted for income from subsidiary undertakings pursuant to the equity method. Of the latter sum, 19.7 million kroons represented income from the sales of buildings and real properties reported as operating profit in the Income Statement.

In the year 2002, the Group's staff costs amounted to 159.7 million kroons, an increase by 9% when compared to the previous period, of which the new unemployment insurance accounted for 0.4%. The relative share of staff costs in net sales decreased to 16% in 2002, whereas in the year 2001 the comparable figure was 18%. The number of employees in the Group was 1,046 in the year 2002, i.e. 2 employees less than in the previous year. However, the number of employees in the parent undertaking grew by 28, totaling 884.

Dynamics in the Group's sales and profit in the years 1995-2002 (million kroons)



3. Liquidity management and use of capital

The owners' equity of the Group grew by 114.4 million kroons, i.e. 19%, amounting to 729.2 million kroons at the end of the accounting year. The relative share of owners' equity in the Balance Sheet accounted for 86% (85% at the end of the year 2001). Available owners' equity amounted to 584.0 million kroons at the end of the year.

Although assets increased by 17% to 851.6 million kroons, the relative share of cash and marketable securities accounts for 40% of the assets. As of 31 December 2002, net operating capital amounted to 152 million kroons and fixed assets were worth 234 million kroons. The Group does not need external financing.

As to liquidity management and financial investments, AS Norma continued to be conservative in 2002, as well. In addition to deposits of Estonian kroons and euros in Estonian banks during various periods, and besides shares in money and interest funds, the company acquired short-term fixed-interest bonds of Western European banks and, to some extent, similar bonds of the City of Tartu. Short-term deposits of funds were also placed with the Autoliv Finance International, which enabled the company to make placements in euros for short-term periods at an interest rate higher than that of euro deposits offered in the market.

For the purpose of more flexible intra-group management of financial resources and reduction of the need for borrowed capital, a group account is used, which enables subsidiary undertakings to use the Group's funds within the limit assigned to them by AS Norma.

4. Assets

At the end of the accounting period, the Group's assets amounted to 851.6 million kroons, i.e. 126 million kroons more than at the end of the year 2001. Of that increase, 111 million kroons represented an increase in current assets. The latter totaled 617.3 million kroons at the end of the period in question.

At the end of the period, accounts receivable amounted to 163.2 million kroons, incl. 86.6 million kroons receivable from undertakings in the Autoliv Group. On the other hand, AS Norma owed 62.5 million kroons to the undertakings of the same group. Although overall accounts receivable increased by 10 million kroons during the year, accounts receivable from customers outside the Autoliv Group decreased from 110 million kroons to 77 million kroons. To cover doubtful accounts a reserve to the amount of 10.2 million kroons was formed, whereof accounts receivable from Russian customers account for 77%. The reserve decreased by 3.0 million kroons during the financial year.

At the end of the accounting period, the Group's inventories amounted to 91.6 million kroons, i.e. 8.4 million kroons more than at the beginning of the period, accounting for 11% of the assets. Materials (components) accounted for 63%, work in progress for 15%, and finished goods accounted for 16% of the inventories.

5. Key events

- The second stage of transition of production from Autoliv was completed by the installation of 4 assembly lines and their being put into operation.
- A registered immovable at Laki 14A in Tallinn, which was not needed for production activities, along with a 7-story office building, were sold.
- The merger of AS Norma and its 100%-owned subsidiary AS Norma Maja was completed.
- A Norwegian enterprise Det Norske Veritas issued the certificate substantiating the compliance of the environmental management system of AS Norma with the requirements of the ISO 14001 standard.

6. Subsidiary undertakings

In the year 2002, the Group of AS Norma included 4 subsidiary undertakings (AS Tööriistavabrik, Norma-Osvar ZAO, Eksamo Automaatika AS and AS Norma Maja).

The fields of activity of AS Tööriistavabrik included the design, production and repairs of dies and plastic injection moulds. AS Tööriistavabrik is a strategic link in the production chain of AS Norma. The sales of AS Tööriistavabrik for the year 2002 amounted to 31.5 million kroons, and net profit totaled 0.5 million kroons. Sales beyond the Group amounted to 8.0 million kroons.

The primary field of activity of AS Norma Maja is the management of the Group's real properties. In the year 2002, the sales of the company amounted to 39.6 million kroons and net profit totaled 9.6 million kroons. Sales beyond the Group amounted to 8.7 million kroons. AS Norma Maja merged with the parent undertaking at the end of the year 2002.

Eksamo Automaatika AS provides the production equipment maintenance and repair services to the parent undertaking, and performs automation operations for both AS Norma and other companies. In the year 2002, the sales of the company equalled 15.0 million kroons and profit amounted to 110 thousand kroons. Sales beyond the Group amounted to 3.0 million kroons.

The sales of Norma-Osvar ZAO, a subsidiary located in Russia, amounted to 37.0 million kroons and profit equalled 0.4 million kroons in the year 2002. Sales beyond the Group amounted to 2.0 million kroons.

7. Investments

In order to secure the production capacity and ensure the efficiency of manufacturing processes, the Group invested a total of 53.4 million kroons in 2002. Of the said sum, 49.7 million kroons were invested in the acquisition of machinery and equipment.

Substantial real investments of the Group were as follows in the year 2002:

■ Metal work presses	18.0 million kroons
■ Assembly lines	14.4 million kroons
■ Information technology	5.5 million kroons
■ Thermoplastics automation	5.2 million kroons
■ Construction works	3.7 million kroons

8. Equity market and stock performance

AS Norma has issued 13.2 million ordinary shares, which give one vote per share. For the operating performance of the year 2001 dividends to the amount of 79.2 million kroons, i.e. 6 kroons per share were paid.

The shares of AS Norma are quoted in the main list of the Tallinn Stock Exchange. In addition, the shares of AS Norma are traded at the stock exchanges of Frankfurt, Berlin and Munich.

The shareholders of AS Norma with a holding more than 3%, as of 31 December 2002:

Autoliv AB	51.0%
Nordea Bank Finland PLC Clients Account Trading	8.4%
Skandinaviska Eskilda Banken AB Clients	7.8%
Clearstream Banking Luxembourg S.A. Clients	5.4%

By the end of the accounting period (31 December 2002), the closing price per share of AS Norma amounted to 63.21 kroons at the Tallinn Stock Exchange.

	2002	Group 2001	Delta %
Earnings per share	14.67	13.46	9.0
P/E (price-earnings ratio) (Stock exchange closing price at 31 December 2002: 63.21 kroons; 52.90 kroons in 2001)	4.6	5.0	(8.0)
Net book value per share	55.2	46.6	18.5

Consolidated balance sheet

(Thousands of kroons)

Assets	12/31/02	12/31/01	Notes
Current assets			
Cash and bank accounts	214 228	59 449	1
Available-for-sale investments	80 996	79 920	2
Held-to-maturity investments	47 624	43 532	3
Accounts receivable	163 209	153 291	4
Allowance for doubtful receivables	-10 164	-13 136	4
Other receivables and prepayments	6 522	81 951	5
Prepaid taxes	23 313	18 034	6
Inventories	91 551	83 132	7
Total current assets	617 279	506 173	
Non-current assets			
Held-to-maturity investments	9 600	1 060	8
Property, plant and equipment	223 030	209 790	9
Investment property	0	6 251	10
Intangible assets	1 711	1 887	11
Total non-current assets	234 341	218 988	
Total assets	851 620	725 161	
Liabilities and shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	117 801	106 477	13
Taxes payable	4 619	3 908	14
Total current liabilities	122 420	110 385	
Total liabilities	122 420	110 385	
Owners' equity			
Share capital (par value)	132 000	132 000	15
Retained earnings and reserves	403 576	305 137	16
Net profit	193 624	177 638	
Total owners' equity	729 200	614 776	
Total liabilities and owners' equity	851 620	725 161	

Parent company (AS NORMA) balance sheet

(Thousands of kroons)

Assets	12/31/02	12/31/01
Current assets		
Cash and bank accounts	213 047	57 647
Available-for-sale investments	80 996	79 920
Held-to-maturity investments	47 624	43 532
Accounts receivable	166 329	179 026
Allowance for doubtful receivables	-10 164	-12 791
Other receivables and prepayments	4 587	81 789
Prepaid taxes	22 307	17 485
Inventories	81 811	77 357
Total current assets	606 537	523 965
Non-current assets		
Held-to-maturity investments	9 600	1 060
Investments in subsidiaries	21 741	75 574
Property, plant and equipment	209 261	121 996
Intangible assets	955	1 120
Total non-current assets	241 557	199 750
Total assets	848 094	723 715
Liabilities and shareholders' equity		
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	115 562	106 950
Taxes payable	3 332	1 989
Total current liabilities	118 894	108 939
Total liabilities	118 894	108 939
Owners' equity		
Share capital (par value)	132 000	132 000
Retained earnings and reserves	403 576	305 137
Net profit	193 624	177 638
Total owners' equity	729 200	614 776
Total liabilities and owners' equity	848 094	723 715

AS Norma 2002 figures include the figures of the merged subsidiary, AS Norma Maja.

Consolidated income statement

(Thousands of kroons)

	2002	2001	Notes
Net sales	1 013 765	815 920	17
Cost of goods sold	773 911	580 205	18
Gross profit	239 854	235 715	
Marketing expenses	20 005	23 601	19
Administrative and general expenses	32 976	32 116	21
Research and Development expenses	22 592	18 871	20
Bad debts written-down	-2 648	-1 839	22
Other income	23 539	7 048	23
Other expenses	3 581	2 910	24
Operating profit	186 887	167 103	
Financial income	12 130	13 122	25
Financial expenses	1 535	355	26
Profit before taxes	197 482	179 870	
Tax	3 858	2 232	27
Net profit	193 624	177 638	
Earnings per share in kroons	14,67	13,46	15

Parent company (AS NORMA) income statement

(Thousands of kroons)

	2002	2001
Net sales	992 090	795 120
Cost of goods sold	769 285	577 751
Gross profit	222 804	217 369
Marketing expenses	19 602	23 310
Administrative and general expenses	21 494	21 175
Research and Development expenses	22 592	18 871
Bad debt written-down	-2 653	-1 960
Other income	1 478	1 257
Other expenses	3 147	2 441
Operating profit	160 099	154 788
Financial income	38 693	25 665
Financial expenses	1 533	616
Profit before taxes	197 259	179 837
Tax	3 635	2 199
Net profit	193 624	177 638
Earnings per share in euros	14,67	13,46

Changes in Owners' Equity

(Thousands of kroons)

	Share capital	Statutory reserve	Retained earnings	Profit for the financial year	Total owners' equity
12/31/2000	132 000	13 200	200 488	157 449	503 137
Net retained earnings of 2000	-	-	157 449	-157 449	0
Dividends	-	-	-66 000	-	-66 000
Net profit for the financial year	-	-	-	177 638	177 638
12/31/2001	132 000	13 200	291 938	177 638	614 776
12/31/2001	132 000	13 200	291 938	177 638	614 776
Net retained earnings of 2001	-	-	177 638	-177 638	0
Dividends	-	-	-79 200	-	-79 200
Net profit for the financial year	-	-	-	193 624	193 624
12/31/2002	132 000	13 200	390 376	193 624	729 200

According to the requirements of the Estonian Commercial Code the minimum statutory reserve is 10% from share capital.

The statutory reserve can be used to cover the losses of past periods or to increase the share capital. No disbursements are to be made to share holders from the statutory reserve.

More detailed information about owners' equity and about changes in it is disclosed in Notes 15 and 16.

Consolidated cash flows

(Thousands of kroons)

	2002	2001	Notes
Operating activities			
Operating profit	186 887	167 102	
Profit/loss from sale of property, plant and equipment	-23 329	-1 258	23
Income from subsidiaries	0	1 094	
Depreciation	40 354	33 820	9,10,11
Property, plant and equipment write-off	173	286	9
Property, plant and equipment write-down	0	29	9
Increase (-), decrease (+) in current assets	48 474	-72 594	
Increase (+), decrease (-) in current liabilities	12 035	45 406	
Interest received and other financial income	12 413	10 486	
Interest and other financial expenses paid	-74	0	
Income taxes paid	-223	-33	27
	276 710	184 338	
Investing activities			
Property, plant and equipment sold	29 422	2 032	9
Property, plant and equipment acquired	-53 514	-87 211	9,10
Loans issued	-152	-199	8
Subsidiaries sold	0	5 000	
Financial investments acquired	-8 703	0	8
Loan repayments received	480	557	8
	-32 467	-79 821	
Financing activities			
Income tax on dividends	-3 635	-2 199	27
Dividends paid	-79 200	-66 000	16
	-82 835	-68 199	
Net cash flow	161 408	36 318	
Movement in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year:	182 901	146 937	
Net cash flow	161 408	36 318	
Foreign exchange gain, loss(-)	-1 461	-354	26
Cash and cash equivalents at the end of the year:	342 848	182 901	
<i>incl. cash and bank accounts</i>	214 228	59 449	1
<i>available-for-sale investments</i>	80 996	79 920	2
<i>held-to-maturity investments</i>	47 624	43 532	3

Presentation of the current set of financial statements

This set of financial statements has been translated from the Estonian original and converted from Estonian kroons, which is the measurement currency of AS Norma, into euros for the convenience of the users. Because Estonian kroon is bound to euro with fixed exchange rate 1 euro = 15.64664 Estonian kroons, no currency translation differences arise from the converting of financial statements.

Accounting policies

Accounting principles

AS Norma's consolidated financial statements are prepared in accordance with International Accounting Standards (IAS) and under the historical cost convention except in circumstances disclosed in the accounting policies below, e.g. financial instruments are shown at fair value.

Principles of consolidation

The consolidated financial statements are prepared bearing in mind the reader's desire to view related enterprises as a common economic unit, in which the financial statements of each company in the group are consolidated in compliance with the International Accounting Standards.

The consolidated financial statements disclose only the transactions with counterparties outside the group.

The consolidated financial statements include the accounts of AS Norma and its subsidiaries (i.e. the companies in which AS Norma has the control over the operations). All inter-company accounts and transactions are eliminated.

Foreign currencies

All foreign currency transactions by AS Norma and the group are recorded in Estonian kroons based on the exchange rate of the Bank of Estonia officially valid at the date of transaction.

Income statements of subsidiaries located outside of Estonia are translated into Estonian kroons based on average Bank of Estonia exchange rates for the year; assets and liabilities in foreign currencies are translated according to the Bank of Estonia exchange rate valid on December 31.

Cash and cash equivalents

In the cash flow statement, cash and cash equivalents are comprised of cash in hand, deposits held on call at banks, and other marketable securities (shares of funds and bonds).

Financial investments

Financial investments are classified into two categories: available-for-sale and held-to maturity.

The held-to-maturity investments (incl. loans issued by the company and bonds) are carried at amortised cost using the effective yield method. Available-for-sale investments are carried at fair value. In case the market value cannot be reliably estimated, the investments are recorded at cost. Unrealised gains and losses are included in the income statement. Financial investments are recorded at the date of the transaction.

Accounts receivable

Accounts receivable recorded in the balance sheet are inventoried at the year end, and a provision has been made to cover doubtful receivables. The provision is recorded in the balance sheet as provision for doubtful receivables and receivables charged to expenses in the income statement as bad debt written-off. Bad debts are written off and accounted for as off balance sheet items.

Inventories

Raw materials both in warehouses and in production and merchandise purchased are recorded in the balance sheet according to the lower of acquisition cost or net realisable value. Finished goods and work in process are recorded at production cost (this consists of direct and indirect production costs). The cost of materials, semi-manufactured parts and finished goods is calculated using the weighted average cost method.

Property, plant and equipment

Assets with an acquisition cost of over 20 thousand kroons and a useful life of more than one year are considered as property, plant and equipment. Property, plant and equipment are recorded at acquisition cost less accumulated depreciation. The value of property, plant and equipment is reduced to the recoverable amount (the higher of net realisable value or value in use), if recoverable amount is lower than net book amount. Improvements are capitalised if the value of a specific asset is qualitatively increased to a higher level or if it can be proved that income related to such expenses will arise in future accounting periods.

Depreciation is calculated using the straight-line depreciation method, based on estimated useful life as follows:

Buildings	18-26 years
Machinery and equipment	7 years
Motor vehicles	6 years
Other assets	3-5 years

Intangible assets

Amortisation of intangible assets is calculated using the straight-line method, based on estimated useful life as follows:

Development costs	5 years
Purchased licenses	5 years

Investment property

Investment property is defined as buildings held for rental yields. Investment property is recorded at cost less accumulated depreciation. Depreciation is accounted for according to the straight-line method, based on the useful life of each item (18 to 26 years).

Income tax

Until December 31, 2002 (according to the income tax law that took effect on January 1, 2000), only dividends paid by the company to resident natural persons and non-residents were subject to income tax (26/74 of net dividend paid). Since January 1, 2003 due to the changes in the legislation, all dividends paid by the company are taxed. Tax rate is 26/74 of net dividend paid.

The company's potential tax liability related to the distribution of its retained earnings as dividends is not recorded in the balance sheet. The maximum possible tax liability which would become payable if retained earnings would be fully paid out as dividends and all shareholders belonged to the taxable category is disclosed in Note 27.

Income tax on dividends will be recorded as an expense in the period dividends are declared.

Earnings per share

Basic earnings per share is calculated by dividing the net profit by the weighted average number of ordinary shares. The company has no potential ordinary shares and therefore the basic earnings per share and diluted earnings per share are equal.

Vacation pay reserve

The cost of the vacation pay reserve is recorded at the time the liability arises, that is, when the employee is entitled to claim vacation pay. Earned vacation pay is recorded in the income statement as an expense and in the balance sheet as a current liability.

Provisions and potential liabilities

Provisions are recognised when a company has a present legal or contractual obligation as a result of past events. It is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made, but the date of the settlement and the final amount of it are not certain. Valuation of the provision is done based on the opinion and experience of management or the opinion of independent experts, if necessary.

Warranties, guarantees and other potential liabilities, which may occur under certain conditions, are disclosed in Notes to the Consolidated Financial Statements as Potential Liabilities.

Sales

Sales are recognised upon delivery of products and the transfer of all related risks of ownership to the customer and when the revenue and the costs of the transactions can reliably be defined. Invoices prepared in foreign currencies are translated into Estonian kroons according to the Bank of Estonia exchange rate valid at the invoice date.

Product development expenses

Product development expenses are generally recorded in the income statement under administrative and general expenses. If income related to expenses incurred will arise in future reporting periods, such expenses are capitalised in the balance sheet under intangible assets.

Accounting for leases

In the case of an operating lease, the asset leased out remains in the lessor's accounts and the lessor continues depreciating the asset in accordance with its useful life. Lease revenue is recorded in accordance with the accrual principle. Payments made under operating lease are charged to the income statement in the related period.

Notes to the consolidated financial statements 2002

In thousands of kroons, unless otherwise stated

1. Cash and bank accounts	12/31/02	12/31/01
Cash and bank accounts	1 759	1 917
Short-term deposits	212 469	57 532
	214 228	59 449

At the end of the year the company had deposited 3949.1 thousand kroons (value in th. euros 252.4) and 235.8 thousand euros overnight. 6860.0 thousand euros and 22000.0 thousand kroons (TEUR 1406) were deposited as short-term bank deposits (under a 4-months term) at 2,75%-3,1% p.a. and 75494.4 thousand kroons (TEUR 4825) at 3,0-4,2% under a 12-months term.

In order to increase the flexibility of cash management and to reduce interest expenses and need for borrowing, a group pool account is used. This allows all companies in the group to use the group's funds within pre-set limits established by AS Norma.

2. Available-for-sale investments	12/31/02	12/31/01
Interest fund shares of Hansabank	80 896	63 120
Money Market Funds shares	100	16 800
	80 996	79 920

The shares are noted in 31.12.2002 market value.

3. Held-to-maturity investments	12/31/02	12/31/01
Bonds	47 624	43 532
	47 624	43 532

Short-term held-to-maturity investments include bonds of Hansabank, Ühisbank and the town of Tartu, with maturity between 1 to 11 months and with an interest rate of 3.2-3.95 %, and LB Baden-W bonds at the interest rate of 3.84%. These investments are depreciated according to purchase value and effective interest rate, accumulated interest is included in Note 5.

4. Accounts receivables	12/31/02	12/31/01
Trade receivables	76 647	109 948
Parent company group receivables (see Note 29)	86 562	43 343
Allowance for doubtful receivables	-10 164	-13 136
	153 045	140 155

As of December 31, 2002, 76.8% of doubtful receivables were related to Russian customers. More information on reserve for doubtful accounts is shown in Note 22.

5. Other receivables and prepayment	12/31/02	12/31/01
Other receivables, incl.	4 443	79 327
short-term loans	170	78 568
advances to employees (see Notes 8 and 29)	29	29
prepayments for services	4 244	730
Accrued interest	1 259	1 542
Prepaid expenses	821	1 082
	6 522	81 951

The most significant prepayments concerning expenses for future periods as of Dec.31, 2002 are: insurance premiums 472 (2001: 757) thousand kroons, subscription to newspapers 112 (2001: 122) thousand kroons and heating oil 103 (2001: 103) thousand kroons.

6. Prepaid taxes	12/31/02	12/31/01
Prepaid income tax	273	62
Prepaid VAT	23 040	17 972
	23 313	18 034

7. Inventories	12/31/02	12/31/01
Raw materials	57 388	55 858
Work in process	14 083	15 079
Finished goods	15 036	11 006
Goods for resale	4 107	1 147
Prepayments to suppliers	937	42
	91 551	83 132

In 2002, the obsolete and substandard materials are written down in the amount of 817 (in 2001:755) thousand kroons, resulting in the net realisable value of 345 (in 2001: 78) thousand kroons. Materials, unfinished and finished goods unsuitable for production and sale have been written-off in the amount of 820 (in 2001: 326) thousand kroons.

8. Held-to-maturity investments (over 1 year)	12/31/02	12/31/01
Held-to-maturity bonds	8 705	2
Granted loans	895	1 058
	9 600	1 060

For long term cash management 2 year fixed term euro-bonds of Hansabank were acquired in purchase value of 4703 thousand kroons and 3 year fixed term bonds of Ühisbank were also acquired, interest rates 3.84% and 5.15% accordingly.

Granted loans contain long-term loans to employees of AS Norma.

Purpose	Balance as of 12/31/01	Incl. classified as short- term	Issued loans in 2002	Paid back in 2002	Balance as of 12/31/02	Incl. classified as short- term	Incl. classified as long- term	Interest rate in percent
Purchase of real estate	280	134	-	89	191	66	125	13
Student loans	937	67	152	245	844	74	770	0
Other	176	134	-	146	30	30	-	9
	1 393	335	152	480	1 065	170	895	

AS Norma has issued loans to employees in accordance with the internal loan policy. Loans are secured by two guarantee agreements with private persons, real estate or share pledges.

9. Property, plant and equipment	Land and buildings	Machinery and equipment	Other equip- ment	Unfin- ished buildings	Prepay- ments	Total
Acquisition cost as of 12/31/01	80 626	280 291	5 753	4 244	6 432	377 346
Additions	3 220	32 106	2 800	12 113	2 426	52 665
Sale and disposal	-	-11 409	-171	-	-	-11 580
Reclassification	602	10 074	-	-4 244	-6 432	-
Acquisition cost as of 12/31/02	84 448	311 062	8 382	12 113	2 426	418 431
Accumulated depreciation as of	-8 883	-157 173	-1 500	-	-	-167 556

12/31/01						
Depreciation charge	-4 066	-34 205	-979	-	-	-39 250
Depreciation of sold and disposed fixed assets	-	11 288	117	-	-	11 405
Accumulated depreciation as of 12/31/02	-12 949	-180 090	-2 362	-	-	-195 401
Net book amount as of 12/31/01	71 743	123 118	4 253	4 244	6 432	209 790
Net book amount as of 12/31/02	71 499	130 972	6 020	12 113	2 426	223 030

Acquisition cost of fully depreciated fixed assets (0 book value) still in use as of 12/31/01 was 76 419 thousand kroons and as of 12/31/02 76 540 thousand kroons.

10. Investment property	Buildings	Total
Acquisition cost as of 12/31/01	7 362	7 362
Sale	-7 362	- 7 362
Acquisition cost as of 12/31/02	0	0
Accumulated depreciation as of 12/31/01	-1 111	-1 111
Depreciation charge	-79	-79
Sale	1 190	1 190
Accumulated depreciation as of 12/31/02	0	0
Net book amount as of 12/31/01	6 251	6 251
Net book amount as of 12/31/02	0	0

The lease income earned from the real estate in 2002 was 2 324 thousand kroons (2001: 2 406) and the corresponding expense was 215 (2001: 320) thousand kroons.

In accordance with concentrating on the main activities in 2002 real-estate-investments have been sold with a profit gain of 19 715 thousand kroons (see Note 23).

11. Intangible assets	Software licenses	Total
Acquisition cost as of 12/31/01	7 343	7 343
Additions	849	849
Written-off	-819	-819
Acquisition cost as of 12/31/02	7 373	7 373
Accumulated amortisation as of 12/31/01	-5 456	-5 456
Amortisation charge	-1 025	-1 025
Written-off	819	819
Accumulated amortisation as of 12/31/02	-5 662	-5 662
Net book amount as of 12/31/01	1 887	1 887
Net book amount as of 12/31/02	1 711	1 711

12. Operating lease

The company has signed operating lease contracts to rent cars (period 2000-2004). In 2000, total amount of rental payments under these contracts was 705 thousand kroons. In 2001, amount of leasing payments was 598 thousand kroons, in 2002 the amounts payable are 476 thousand kroons, in 2003 413 thousand kroons and in 2004 28 thousand kroons.

13. Accounts payable and accrued expenses	12/31/02	12/31/01
Customer prepayments	1 678	660
Accounts payable	36 870	17 546
Salaries payable	16 694	14 789
Accrued expenses	16	37
Payables to parent company (see Note 29)	62 543	73 445
	117 801	106 477
14. Taxes payable	12/31/02	12/31/01
Social security tax and other	29	34
Unemployment insurance tax	4 269	3 239
VAT payable	321	635
	4 619	3 908
15. Share capital	12/31/02	12/31/01
Share capital par value (10 kroons per share)	132 000	132 000

AS Norma has issued 13.2 million ordinary shares that grant one vote per share. Dividends paid out for 2001 were 6 kroons per share totalling 79.2 million kroons. AS Norma shares are listed in the main list of the Tallinn Stock Exchange and are quoted on the Frankfurt, Berlin and Munich Stock Exchanges.

The maximum allowable share capital of the company is 33 745 thousand euros.

AS Norma shareholders with participation over 3% as of 12/31/02:

Autoliv AB	51.0%
Nordea Bank Finland PLC Clients Account Trading	8.4%
Skandinaviska Eskilda Banken Ab Clients	7.8%
Clearstream Banking Luxembourg S.A. Clients	5.4%

Earnings per share	2002	2001
Net profit	193 624	177 638
Average number of shares (in thousands)	13 200	13 200
Earnings per share (EPS) in euros	14,67	13,46

The company has no potential ordinary shares and therefore the basic earnings per share and the diluted earnings per share are equal.

16. Retained earnings and reserves

	Retained earnings	Statutory reserve	Total
December 31, 2000	200 488	13 200	213 688
Net profit for 2000	157 449	-	157 449
Dividends on ordinary shares	-66 000	-	-66 000
December 31, 2001	291 937	13 200	305 137
Net profit for 2001	177 639	-	177 639
Dividends on ordinary shares	-79 200	-	-79 200
December 31, 2002	390 376	13 200	403 576

Income tax on dividends is disclosed in Note 27.

17. Segment information

by Product lines

	Safety belts 2002	Other products 2002	Total 2002	Safety belts 2001	Other products 2001	Total 2001
Sales	950 241	129 930	1 080 171	752 621	130 881	883 502
Internal sales		(66 406)	(66 406)		(67 582)	(67 582)
Net sales	950 241	63 524	1 013 765	752 621	63 299	815 920
Operating profit	184 661	2 226	186 887	164 928	2 175	167 103
Assets	549 492	95 275	644 767	421 156	102 320	523 476
Unallocated assets			206 853			201 685
Total assets			851 620			725 161
Liabilities	113 024	9 396	122 420	102 128	8 257	110 385
Investments	53 102	334	53 436	86 958	253	87 211
Depreciation charge	35 499	4 855	40 354	28 508	5 312	33 820
Fixed assets' devaluation	0	0	0	29	0	29

The primary segment form contains the business segments of the group while the secondary segment form contains the geographical segment group.

Segments are based on the production lines of the company where the main product group is safety belt and other products (car components, metal products, real estate management) have separately less than 10% of total sales. The consistence of other products in segments has changed due to finishing the activities in real-estate-maintenance.

Costs are in line with the product's share in profit. Assets (except shares, other securities and loans), liabilities and investments are divided by their relation to the segments. Depreciation charge and revaluation are divided by relations with the main product groups.

Sales by geographical market

	Net sales	
	2002	2001
Russia	493 816	502 628
Sweden	452 653	243 161
Estonia	16 636	15 657
Austria	12 071	13 946
France	7 978	12 263
Ukraine	7 464	6 089
Czech Republic	6 649	4 489
Finland	4 413	2 043
Belgium	2 517	4 010
Germany	2 186	478
Denmark	2 000	3 234
Netherlands	1 946	1 245
USA	1 179	1 378
Polish	770	808
Lithuania	612	905
Other countries	875	3 586
Total:	1 013 765	815 920

The inventories and tangible assets of the AS Norma group are located in Estonia, with the exception of a building (Polish module) in the AS Norma balance sheet with a net book value of 53 thousand kroons, which is located in the Russian Federation; and also with an exception of assets of Norma-Osvar Ltd. located in the Russian Federation. Balance sheet value of the assets of Norma-Osvar Ltd. is 15 101 (in 2001: 7 139) thousand kroons, of which the value of fixed assets is 488 (in 2001: 596) thousand kroons.

According to managements estimations the prices between segments transactions are not significantly different from market prices.

18. Cost of goods sold	2002	2001
Raw materials	587 920	410 628
Wages	123 224	114 556
Depreciation	37 215	30 609
Utilities	13 074	12 258
Other	12 478	12 154
	773 911	580 205
19. Marketing expenses	2002	2001
Salaries	5 396	4 407
Depreciation	250	267
Consultations	1 813	5 505
Transport services	8 993	10 245
Other	3 553	3 177
	20 005	23 601
20. Research and Development expenses	2002	2001
Salaries	10 674	9 649
Prototype and pre-serial tooling	6 346	3 831
Depreciation	1 008	969
Advertising, promotion	120	252
Travel	1 194	1 199
Other services	203	167
Training	111	122
Other	2 936	2 682
	22 592	18 871
21. Administrative and general expenses	2002	2001
Salaries	20 385	17 963
Depreciation	1 883	1 975
Repairs	427	417
Advertising, promotion	1 213	1 646
Travel	692	599
Telephone, office supplies	1 033	1 096
Other services	1 658	2 530
Training	966	555
Other	4 719	5 335
	32 976	32 116
22. Allowances for bad debts	2002	2001
Allowances for doubtful receivables made in 2001	-2 889	3 297
Write-off of bad debts	294	308
Received from allowance of previous years	-53	-5 444
	-2 648	-1 839
23. Other operating income	2002	2001
Other sales	210	452
Profit from sales of property, plant and equipment	23 329	1 258
Foreign exchange gain	0	709
Other	0	4 629

In accordance with concentrating on main activities, the office buildings on Laki 14 were sold with a gain of 11 008 thousand kroons and factory buildings on Jahu 12 were sold with a gain of 2 707 thousand kroons in 2002.

24. Other operating expenses	2002	2001
Membership fees of unions, other associations	150	119
Loss from the sale and disposal of fixed assets	173	286
Sponsorship	2 360	2 269
Cost of other sales	96	86
Foreign exchange gain	550	0
Other	252	121
Devaluation of property, plant and equipment	0	29
	3 581	2 910

25. Financial income	2002	2001
Shares in associated companies	0	1 094
Other financial investments	2 283	5 462
Deposit interest received	6 677	6 395
Loan interest	2 864	7
Other	306	164
	12 130	13 122

Due to focusing on the main business activities the subsidiary AS Metaprint's shares were sold with the profit of 1 094 thousand kroons in 2001.

26. Financial expenses	2002	2001
Loan interest paid	1 461	355
Changes in value of financial investments	74	0
	1 535	355

27. Income tax	2002	2001
Income tax on the profit	223	33
Income tax on dividends	3 635	2 199
Total	3 858	2 232

The subsidiary of the group - ZAO Norma-Osvar - is registered and located in the territory of the Russian Federation. Income tax on the profit (223 thousand kroons) has been paid according to the income tax law valid in the jurisdiction.

Maximum possible income tax on dividends

The retained earnings of the company amounted to 584 000 thousand kroons as of 12/31/02. In case of paying retained earnings fully out as dividends, the maximum possible income tax liability would be 134 514 thousand kroons. Accordingly, it would be possible to pay net dividends in the amount of 449 486 thousand kroons.

28. Personnel expenses	2002	2001
Wages and salaries	119 638	110 181
Social security	39 493	36 360
Unemployment insurance	548	34

	159 679	146 575
29. Related parties	Autoliv Group	
	2002	2001
Sales to Norma	367 671	244 631
Purchase from Norma	445 189	231 528
Insurance premium for product liability	924	1 217
	12/31/02	12/31/01
Receivable from Group companies	86 562	43 343
Payable to Group companies	62 543	73 445
Short-term loan to Autoliv Autosicherheitst GmbH	0	78 317
Short-term deposit to Autoliv Finance International	78 310	0

Autoliv AB is a parent company of AS Norma. According to management opinion intra-company trading transactions with Autoliv companies are based on market prices. The short-term loan issued in 2001 to another Autoliv subsidiary earned slightly higher interest than the market rate at that time, as did also the short-term deposit placed at the end of 2002.

Remuneration paid to the Management Board members during the year amounted to 7 030 thousand kroons and to the members of the Supervisory Board amounted to 744 thousand kroons. According to the Management Agreements the compensation payable at the termination of contracts to the member of the Management Board will be from nil to 12 months of salary depending from the terms of the termination.

Loans to employees are disclosed in Note 8.

30. Subsidiaries as at December 31, 2002

Name of company	Participation	Country
AS Eksamo Automaatika	100%	Estonia
AS Tööriistavabrik	100%	Estonia
Norma-Osvar Ltd.	100%	Russia

AS Norma subsidiaries have issued only ordinary shares. There were no transactions with subsidiaries' shares in 2002. The company completed the process of the merger of its 100% subsidiary AS Norma Maja as at December 31, 2002.

Group pool account

On 10/22/99 Hansabank and AS Norma, with its subsidiaries, entered into a contract of group pool account under which AS Norma is defined to be the parent company. Subsidiaries involved as of Dec.31, 2002 were Eksamo Automaatika AS and AS Tööriistavabrik.

31. Primary risks for the AS Norma group

Credit risk

Credit risk reflects the potential loss, which may be caused by a business partner's inability to meet the assumed obligations. This is particularly important in regard to the ability of our major customers to pay for goods supplied. Credit is primarily extended only to our long-term partners. In order to ensure the accrual of payments from our long-term clients, we are constantly monitoring and analysing their financial situation and liquidity. If necessary, we have requested bank guarantees to ensure payment. Prepayment or a letter of credit is required for single transactions or new clients.

A provision has been made to cover doubtful receivables. This reserve encompasses all accounts receivable, which are the object of dispute with the other party, and receivables, which the Management Board has reason to believe are not collectible.

The accounts receivable balance from the Russian clients on 31/12/02 amounted to 65 928 thousand kroons (31/12/01 : 96 869). Write-down at the end of the period amounted to 7 806 thousand kroons (31/12/01 : 10 000); therefore the net balance of receivables as at 31.12.02 amounted to 58 122 thousand kroons (31/12/01 : 86 869).

Currency risk

In 2002, 98.4% of AS Norma Group sales were export sales, made mainly in euro. The Group's expenses were primarily in Estonian kroons, euros, Swedish crowns and Russian roubles. The risks related to other currencies than euro were hedged either by levelling the incoming and outgoing cash flows of the same currency, or fixing contractual payments at euro exchange rate.

Short-term asset investments are made diversified between Estonian kroons and euros.

Currency positions of the group

Thousands of kroons

12/31/2002							
Assets	EEK	SEK	USD	EUR	RUR	Other	Total
Cash	101 613	420	5	111 059	705	426	214 228
Customer receivables	1 719	1 243	387	150 465	7 102	2 293	163 209
Prepayments to suppliers	743	-	56	1 627	-	-	2 426
	104 075	1 663	448	263 151	7 807	2 719	379 863
Liabilities							
Prepayments from customers	247	-	-	1 375	48	8	1 678
Accounts payable	19 066	489	195	78 657	85	921	99 413
	19 313	489	195	80 032	133	929	101 091
12/31/2001							
Financial assets	EEK	SEK	USD	EUR	RUR	Other	Total
Cash	42 033	118	6	16 006	1 286	0	59 449
Customer receivables	1 813	984	2 454	127 011	4 054	16 975	153 291
Prepayments to suppliers	3 634	-	-	78 317	-	-	81 951
Other receivables	22	-	6	-	14	-	42
	47 502	1 102	2 466	221 334	5 354	16 975	294 733
Liabilities							
Prepayments from customers	134	-	-	34	4	488	660
Accounts payable	8 513	4 137	41	73 719	200	4 381	90 991
	8 647	4 137	41	73 753	204	4 869	91 651

32. Fair value

The values of financial assets and liabilities reflected on the balance sheet are approximately their fair values.

33. Off-balance assets and liabilities

AS Norma holds a guarantee contract in the amount of 6 500 thousand kroons for guaranteeing import and interest levies, as well as the state duties.

The company stands as a guarantor with 735 thousand kroons for the usage of staff credit cards.

AS Norma has entered into a contractual agreement with Autoliv Sverige AB to invest into fixed assets in purpose of production in 2003 in the amount of 677 thousand kroons.

34. Post balance sheet events

As sales volumes decreased in first quarter 2003 due to the continuing low in Russian vehicle industry production was stopped in January for 14 and in February for 4 workdays. In February the working day was shortened by 2 hours and 60 labour reduction notes were handed out.

AUDITOR'S REPORT

To the shareholders of AS Norma

We have audited the consolidated financial statements of AS Norma and its subsidiary companies (the Group) presented in Euros for the year ended 31 December 2002 as set out on pages 8 to 25. These financial statements are the responsibility of the Group management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements give a true and fair view of the financial position of the Group as at 31 December 2002 and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.



Urmas Kaarlep
AS PricewaterhouseCoopers



Tiit Raimla
Authorised auditor

26 February 2003