AS NORMA

ANNUAL REPORT 2005

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Beginning and end of the reporting year:	01.01.2005-31.12.2005

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MANAGEMENT REPORT

Field of activity

The main field of activity of AS Norma (hereinafter also referred to as the "Parent") and its subsidiaries (together hereinafter also referred to as the "Group") are production and sale of car safety seatbelts and their components. The Group also manufactures car components, as well as dies and molds for stamping machines, and renders engineering services related to the design and adaptation of car safety systems and seatbelts.

Developments in the operating environment

Markets

Changes which started in 2004 on the Russian market, one of the most important markets for AS Norma, continued also in 2005: the market for new cars grew by 9.5%, mostly at the expense of foreign cars (incl. locally manufactured); sales of Russian cars decreased.

The market share of foreign cars reached 43%, compared to the 37% the year before. Sales of the cars of Russian manufacturers dropped by 7%. The number of locally manufactured foreign car increased from 107 thousand to 164 thousand (other sources claim 150 thousand) vehicles.

The biggest market player AutoVAZ sold 730 thousand cars in 2005 (i.e. a 2.5% increase), exporting 95 thousand vehicles and manufacturing 190 thousand sets which were assembled in other plants in Russia, Ukraine and Kazakhstan.

IZavto produced 53 thousand cars (sales: 58 thousand), of which locally assembled Lada models made up 37 thousand, KIA Spektra models 3 thousand and IZ (Oda, Fabula) models 13 thousand. In 2004, 96.5 thousand cars were produced in Izevsk.

GM-Autovaz (a joint venture of AutoVAZ and General Motors) sold 52 thousand and GAZ 41 thousand passenger cars.

The figures reveal that AutoVAZ is the only Russian car manufacturer capable of success and development. AutoVAZ sold 18 thousand new brand Kalina models in 2005. The share of Lada models was nearly 50% of all new cars. The market share of other Russian makers (e.g. IZ, Oka, Volga, UAZ), the production number of which amounted to approximately 100 thousand, market share dropped from 14% to 7%. Production of Oda and Fabula models was terminated in the second quarter of 2005, and assembly of Lada-2106 at the end of the year.

The above changes are also reflected in the sales volumes of AS Norma: the amount of retractor seatbelts manufactured for AutoVAZ increased by 10.4%, compared to 2004, while the amount of those produced for GM-Autovaz dropped by 6.4% and IZavto by 54%. No supplies were manufactured for GAZ in 2005. The total amount of retractor seatbelts manufactured for Russian companies decreased by 7%, compared to 2004. With the sales volumes dropping and the competition thus tightening, the pressure on prices was high, especially as regards traditional retractor seatbelts.

At the end of 2005, the Russian state enterprise Rosoboronexport acquired a 51% interest in AutoVAZ. The company's management was replaced to include the representatives of both Rosoboronexport and Vneshtorgbank.

When asked to reflect on the development perspectives of the Russian car industry, the new management board emphasised the importance of increasing the role of the state in order to support vehicle engineering. This means, above all, state subsidising of the development of new car platforms and engines. As regards AutoVAZ, this means the provision of 5 billion US dollars worth of low-cost credit guarantees, as well as transfer of social and public services to the municipal sector in Toliatti, and restructuring of tax liabilities.

As regards legislation, several regulations are being developed including ones to enhance passive safety of vehicles. Mass use of safety systems in Russian vehicles would have a positive effect on AS Norma's competitiveness and turnover on the Russian market.

A 10% increase is forecasted in car sales in Russia for 2006. The estimated market share of new foreign vehicles is 50%. The added options of acquiring a car through lease or credit will be among the major contributors to this growth.

AS Norma participates in the global car market mainly in co-operation with its parent company Autoliv AB.

The biggest end-customer for seatbelt sales is Volvo Car Corporation; smaller deliveries are also made to Saab Automobile, Volvo Group (Volvo Trucks, Volvo Buses) and other makers.

Similarly to 2004, Volvo Car Corporation manufactured 466.7 thousand cars in 2005, with 268 thousand assembled in Belgium. Seatbelts manufactured by AS Norma are delivered to both Belgium and Swedish plants of Volvo.

Raw material

As regards changes in the raw material market, the increase in the price of steel, which started in 2004 and continued all through the first half-year 2005, had the biggest effect on AS Norma's economic activities. In 2005, an average increase in the price of steel used by the company was 23.5%, compared to 2004. A small drop is forecasted in steel price for 2006, although this drop will be significantly smaller than the previous increase. Increase in the price of oil products will raise the company's expenses on plastic materials and synthetic webbing. On the whole, we can assume that the effect of the oil product price increase will be compensated by the drop in the price of steel.

Estonian economic environment

Since AS Norma exports 98% of its products, the main issues of concern are the tax environment and the labour market situation. The tense situation at the labour market in 2005 is described under staff policies of this Management Report.

Seasonal nature of the business

The tradition of low sales period on the Russian car market in January is further enhanced by the establishment of long New Year's holidays in 2005. Swedish car manufacturers are on a collective vacation in July, and in December (between Christmas and New Year).

The turnover of AS Norma, as the supplier, is thus considerably lower during these periods.

Highlights of the financial year

Development projects

In co-operation with Autoliv engineers, the company completed the development of the car safety system for AutoVAZ's new Kalina generation (VAZ 1118). The work was financed by the customer.

The company launched the preparation of the development of the car safety system for AutoVAZ's next development project Lada Priora - the upgrade of the currently-in-production Lada 2110 into 2170, which should be launched into production in 2008.

Production

The company completed the transfer of the assembly lines for retractors and safety seatbelts from Autoliv's Swedish Vargarda plant to AS Norma.

At the end of 2005, the company announced the lay-off of 53 employees in the Parent as a result of the drop in the volume of production for the Russian market, as well as implementation of new technologies and production capacities.

Quality improvement

AS Norma uses the quality management system certified for the special needs of the car industry (ISO/TS 16949) as well as APS (Autoliv Production System) in order to improve the quality of production processes and guarantee customer satisfaction. High quality is ensured through systematic development and implementation of the approval process, control of characteristics and periodic testing of products.

The quality objectives established for 2005 were met as follows
1) the number of products returned by customers (ppm) - 35
2) average on-time-delivery – 99%

The Estonian Accreditation Centre accredited the AS Norma Safety Belt Testing Centre in 2005, confirming that it has competence according to ISO/IEC 17025 to conduct tests in the field of car seatbelts testing.

Investments made in the financial year

In 2005, the Group invested 92.0 million kroons in the implementation of new technologies, expansion of production capacities, enhancement of the efficiency of the production processes and modernisation of the working environment.

The Group's investments in 2005 are divided as follows:

Metal processing equipment	27.3 million kroons
Assembly lines	43.5 million kroons
Tooling	5.1 million kroons
Injection molding machines	2.5 million kroons
Quality testing equipment	3.3 million kroons
Reconstruction and facility repairs	7.9 million kroons
Information technology	1.7 million kroons

Financial highlights of the Group

	2005	2004	Change %
Economic activities			
Revenue (million EEK)	**975.6**	986,3	-1.,1
Gross profit (million EEK)	**167.1**	179.0	-6.6
Gross profit margin[1] (%)	17.1	18.1	-5.5
Operating profit (million EEK)	**93.3**	113.9	-18.1
Operating profit margin[2] (%)	9.6	11.5	-16.5
EBITDA (profit before financial items. taxes; depreciation and amortisation) (million EEK)	**156.1**	171.5	-9.0
Profit before taxes (million EEK)	**104.1**	123.6	-15.8
Pre-tax profit margin[3] (%)	10.7	12.5	-14.4
Net profit (million EEK)	**83.3**	105.0	-20.7
Net profit margin[4] (%)	8.5	10.6	-19.8
Working capital[5] (million EEK)	**366.0**	440.1	-16.8
Return on working capital[6]	**2.7**	2.2	22.7
Return on equity[7] (%)	**9.9**	12.9	-23.3
Return on assets[8] (%)	**8.8**	11.0	-20.0
Average number of employees	**915**	873	4.8
Share and dividend-related figures			
Number of shares	**13.2**	13.2	
Earnings per share[9](EEK)	**6.3**	8.0	
Dividends per share (EEK)	**5.0**	5.0	
Equity per share[10] (EEK)	**64.2**	62.9	2.1
Dividend / net profit (EEK)	**0.79**	0.63	25.4
Price/earnings ratio (P/E)[11]	**16.3**	12.8	27.3

[1] Gross profit margin = gross profit / revenue
[2] Operating profit margin = operating profit / revenue
[3] Pre-tax profit margin = profit before tax / revenue
[4] Net profit margin –net profit / revenue
[5] Working capital = current assets, except for cash and cash equivalents (deposits with maturity up to 3 months; interest fund shares), less current liabilities
[6] Return on working capital – revenue / working capital
[7] ROE –net profit / average owner's equity
[8] ROA – net profit / average assets
[9] Earnings per share – net profit per share in kroons: the company has no contingently issuable common shares; therefore diluted EPS equals to basic EPS
[10] Equity per share – total equity / number of shares (in kroons)
[11] P/E – stock price at the end of the period / EPS

Sales

The revenue of the Group amounted to 975.6 million kroons in 2005. This constitutes a 1.1% decrease, compared to 2004. Seatbelts made up 89.5% (in 2004: 89.4%) of revenue. The most important other products and services included sales of seatbelt components to other Autoliv group companies, sales of dies and molds, and provision of safety system-related engineering services.

In 2005, AS Norma exported 98.5% (in 2004: 98.7%) of its products - 58% (in 2004: 57%) to Sweden and 30% (in 2004:33%) to Russia. Russian sales dropped by 12%. The share of the Ukrainian market increased - 52% more seatbelts were sold to ZAZ in 2005 than in 2004. The role of Germany as an export partner increased as well (+32%), mostly at the expense of Autoliv seatbelt components. The sales of Volvo bus seatbelts to Finland, which started in 2004, really took off in 2005.

Sales to various sub-units of the parent company Autoliv increased by 2.3%, compared to 2004, amounting to 593.4 million kroons. The relatively modest increase in turnover is due to the fact that, since seatbelt manufacturing has been terminated in Autoliv Sweden, the Volvo and Saab seatbelt components manufactured in AS Norma are no longer sold, but used locally instead (growth in 2005: 4% of the sales). Seatbelt sales made up 91% (in 2004: 90%) of the sales to Autoliv, and sales of seatbelt components the remaining 9% (in 2004:10%). Seatbelt sales increased by 9.5% to 2.37 million units.

Other major western customers included Khimaira (Volvo buses), Karosa, Iris Bus-IVECO, Intersafe and Van-Hool, who mostly require seatbelts for buses and trucks. Sales in the sector grew by 43%, compared to 2004.

Expenses

Expenses on raw material decreased by 22 million kroons to 552.9 million kroons, making up 56.7% (in 2004: 58.3%) of revenue. Steel price increased expenses on raw materials. At the same time, local manufacturing of the most important components of seatbelts - retractors - reduced expenses on the components procured for local assembly of seatbelts for Autoliv. Retractor assembly increased by 113.7% in 2005, compared to last year.

Depreciation and amortisation costs increased by 8.8% (i.e. 5.1 million kroons) in the financial year, compared to 2004. amounting to 62.8 million kroons, or 6.4% (in 2004: 5.8%) of the turnover. Depreciation of production machinery increased, both in seatbelt assembly and component manufacturing.

Personnel expenses amounted to 152.4 million kroons in 2005, having grown by 5.2% (i.e. 7.5 million kroons), compared to the previous period. Total wages and salaries amounted to 114.4 (in 2004: 108.6) million kroons, social tax to 37.4 (in 2004: 35.8) million kroons and unemployment insurance to 0.6 (in 2004: 0.5) million kroons.

Personnel expenses made up 15.6% of revenue in 2005 (in 2004: 14.7%). The biggest increase in personnel expenses (6.6%) could be seen in production units. This was, above all, due to the maximizing of the Autoliv seatbelt retractor assembly capacity.

The company employed a monthly average of 915 people - 42 employees more than in the previous year. The average number of employees involved in Autoliv seatbelt assembly grew by 67, amounting to 219.

Research and development costs increased by 6.9 million kroons in 2005, amounting to 38.9 million kroons or 4% (in 2004: 3.2%) of revenue. Similarly to 2004 (14.2 million kroons), the biggest expenses were incurred in 2005 (15.5 million kroons) on the sales of Kalina safety system development - related engineering services sold to AutoVAZ. With the launch of the engineering work designed to support the assembly of seatbelts for Autoliv, testing costs and the related personnel expenses showed significant increase.

Profit and profitability

The Group's gross profit for 2005 was 167.1 million kroons in 2005 (in 2004: 179.0 million kroons) - i.e. 17.1% (in 2004: 18.1%) of revenue. The 6.6% (i.e. 11.9-million-kroon) drop in gross profit was due to drop in sales volumes and in the sales price at the eastern market, as well as increase in the raw material price.

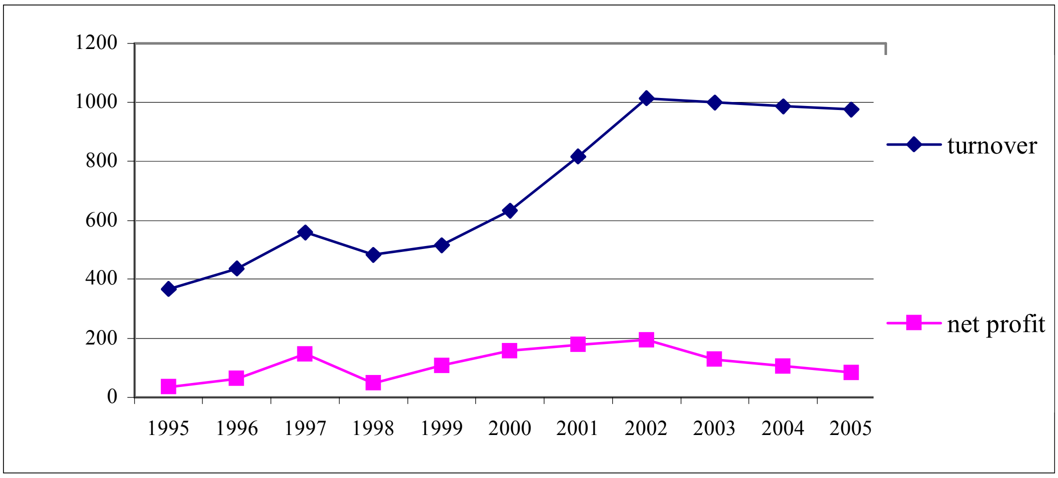
Operating profit decreased by 20.6 million kroons to 93.3 million kroons, making up 9.6% (in 2004: 11.5%) of revenue. In addition to product development costs, an increase could also be seen in other expenses, as a 2.1-million-kroon provision was set up to cover the compensations payable to the employees to be laid off in February 2006.

Profit before taxes dropped by 15.8% (i.e. by 19.5 million kroons) to 104.1 million kroons or 10.7% (in 2004: 12.5%) of revenue. Financial income increased by 11.6% - i.e. by 1.1 million kroons.

The net profit for 2005 amounted to 83.3 (in 2004: 105.0) million kroons. Income tax payable on dividends increased by 2.3 million kroons. Net profit has decreased by 20.7%, compared to 2004.

The decrease in profit margin is conditioned by changes in the product structure and drop in the sales prices.

The Group's revenue and profit dynamics: 1995-2005 (in millions of kroons)



Cash flows and capital appropriation

The Group's cash flow from operating activities amounted to 205.6 (in 2004: 154.5) million kroons. The 51.1-million-kroons growth was, above all, due to the changes in current assets and current liabilities. The company's investments in property, plant and equipment, and intangible assets exceeded the volume of 2004 by 44.8 million kroons, while the balance of financial investments decreased. Total cash flow from investments amounted to -54.5 (in 2004: -181.5) million kroons.

As at the end of 2005, cash and liquid securities made up 47.0% (in 2004: 42.8%) of the balance of assets. As of 31 December 2005, the company's working capital (short-term investments, receivables, prepayments, inventories less current liabilities) amounted to 366.0 (in 2004: 440.1) million kroons, and the working capital appropriated for main activities (receivables, prepayments, inventories less current liabilities) to 103.2 (in 2004: 151.56 million kroons.

AS Norma kept a traditionally conservative profile upon managing liquidity and making financial investments in 2005. In addition to the EEK and EUR deposits of different terms of maturity in Estonian banks, and the money and interest fund shares, the company also deposited short-term resources in Autoliv AB Treasury, which allowed making short-term deposits to earn an interest higher that that currently offered on the market.

Non-current assets made up 31.5% of the assets, having grown, at the expense of the 30-million-kroons increase in PPE by 26.5 million kroons in the year.

The Group has no long-term liabilities. Investments and operating activities are financed from equity.

The owner's equity of the Group increased by 17.3 million kroons, amounting to 847.8 (in 2004: 830.5) million kroons by the end of the financial year. Owner's equity made up 89.5% (in 2004: 87.4%) of the balance sheet. At the end of the year, available equity amounted to 702.6 (in 2004: 685.3) million kroons.

Stock market and dividends

AS Norma has issued 13.2 million common shares. The share has a nominal value of 10 kroons, and grants its owner one vote at the general shareholders' meeting. The number of the shares, and their nominal value has not changed ever since the shares were first listed in 1997.

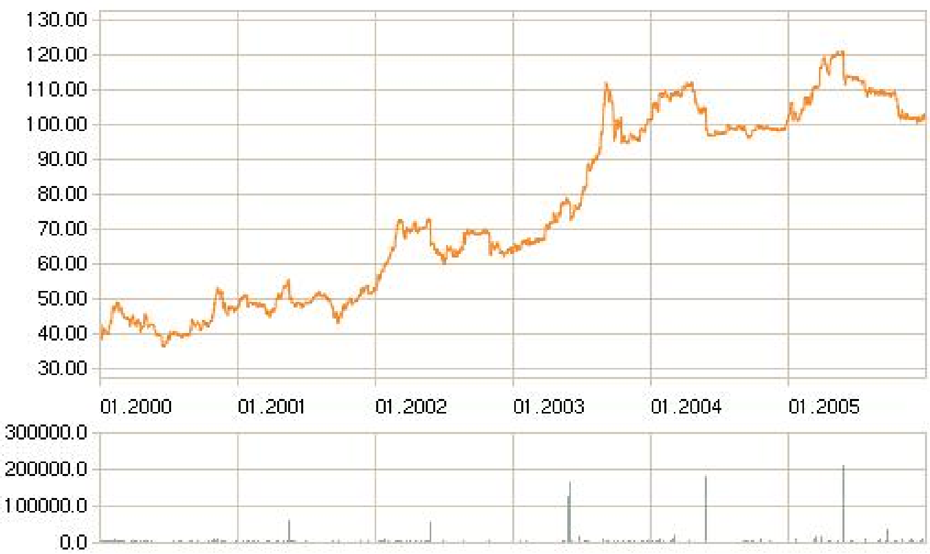
66.0 million kroons (i.e. 5 kroons per share) was paid to shareholders in dividends in 2005, similarly to the previous two years. The Management Board of AS Norma currently sees no need for changing the amount to be paid out as dividends. Both diluted EPS and basic EPS was 6.3 (in 2004: 8.0) kroons, and owner's equity per share was 64.2 (in 2004: 62.9) kroons. The P/E ratio increased from 12.8 to 16.3 in 2005.

The shares of AS Norma were listed on the main list of the Tallinn Stock Exchange under the code NRM1T in 1997. The shares are also traded at the Frankfurt and Berlin stock exchanges.

Stock statistics for 2002-2005 (in kroons, unless otherwise noted)

	2002	**2003**	**2004**	**2005**
Opening price	52,90	63,21	101,70	102,48
All time high	73,38	112,50	112,03	121,73
All time low	52,50	63,21	95,44	99,36
Current price	63,21	101,70	102,48	102,64
Change %	19,5	60,9	0,8	0,2
Shares traded (in thousands)	4558,5	8853,8	4765,2	4718,0
Turnover (in millions of kroons)	303,8	691,4	492,6	534,7
Market value (in millions of kroons)	834,4	1342,5	1352,8	1354,9

Stock price movement (in EEK) and transaction volume in the Tallinn Stock Exchange from 1 January 2000 onwards.



List of AS Norma shareholders holding over 5% of the shares (as of 31.12.2005):

Autoliv AB	51.0%
Skandinaviska Enskilda Banken AB customers	8.8%
ING LUXEMBOURG S.A.	7.4%

As of 31.12.2005, the members of the Supervisory Board of AS Norma, and people close to them, held no shares in AS Norma. Member of the Management Board Garri Krieger (owner of 205 shares) is the only person among the members of the Management Board of AS Norma, and persons close to them, who holds any shares in AS Norma. No stock options have been issued to the members of the Supervisory Board and Management Board of the company.

Financial risks

Currency risks

AS Norma is exposed to currency risks related, above all, to product export and material import as well as the assets of the subsidiary located in Russia.

The euro is the predominant sales currency of AS Norma. The Group expenses are denominated in Estonian kroons, euros, Swedish kronors and Russian roubles. The euro is the underlying currency for the principal purchase and sales contracts. Risks related to other currencies have been hedged either by harmonising incoming or outgoing cash flows, or tying contractual payments to the euro exchange rate.

The company has a long position in the euro, to which the Estonian kroon exchange rate has been tied, and in the Russian rouble. The effect of the Russian rouble exchange rate fluctuations on the company's financial results is currently deemed insignificant by the management. Short position in the Swedish kronor consists of current liabilities. The effect of the related exchange rate fluctuations is also deemed immaterial.

Interest risks

Since AS Norma does not use debt financing, assessment of the interest risk is only important when it comes to investing activities. Deposits have a fixed interest rate, Hansabank Interest Fund units are recorded at market value—i.e. bond interest rate fluctuations at the market have an effect on the value of the company's investment. The effect of the potential interest change is insignificant, considering the amount of the investment.

Financial market credit risk

The company hedges the credit risks arising from its investing activities by making investments only in the financial instruments of reliable banks, and the deposits of the Autoliv AB Treasury. Autoliv's short-term credit rating is A2 according to Standard & Poor's and P2 according to Moody's.

Consolidation group structure

In 2005, AS Norma Group included AS Norma and two subsidiaries fully owned by AS Norma.

The Parent is involved in the manufacturing and sales of car safety seatbelts and their components, as well as provision of engineering services related to the development and adaptation of car safety systems and seatbelt components.

In 2005, the parent company's turnover amounted to 955.0 (in 2004: 964.3), net profit to 80.8 (in 2004: 104.2), and owner's equity to 839.5 (in 2004: 824.7) million kroons.

The subsidiary AS Tööriistavabrik is involved in tool (i.e. dies and plastic molds) design, manufacturing and repair. AS Tööriistavabrik is the strategic link in AS Norma's production chain. In 2005, the company's revenue amounted to 32.8 (in 2004: 34.8), net profit to 1.9 (in 2004: 0.16) and owner's equity to 20.6 (in 2004: 18.7) million kroons. Sales to external customers amounted to 16.1 (in 2004: 15.8), sales to Parent 16.0 (in 2004: 18.8) and purchase of services from the Parent to 3.0 (in 2004: 2.9) million kroons.

The Russian-based subsidiary Norma-Osvar ZAO is involved in the sale and storage of AS Norma's products, organisation of the related customs procedures and, if necessary, representation of AS Norma in Russia. In 2005, the revenue of Norma-Osvar ZAO amounted to 16.1 (in 2004: 38.9), loss to 0.3 (in 2004: 0.4) and owner's equity to 0.9 (in 2004: 1.2) million kroons. Sales to external customers amounted to 16.1 (in 2004: 38.9) million kroons in 2005. The goods to be sold by the subsidiary are supplied by the Parent.

Management structure

The highest management authority of AS Norma, as the legal person, is the general shareholders' meeting, which appoints the members of the Supervisory Board. The Supervisory Board of AS Norma has 6 members, with 3 representatives of the majority shareholder Autoliv AB: Jörgen Svensson, Vice President Legal Affairs (Chairman of the Supervisory Board), Rolf Henke, Senior Vice President SB Division, Europe, and Leif Berntsson, Senior Vice President AB Division, Europe. The three independent members of the Supervisory Board representing the public include Attorney-at-Law Aare Tark from Law Office Tark & Co, Toomas Tamsar, Chairman of the Management Board of Balti Juhtimiskonverentsi OÜ and Raivo Erik, Chairman of the Management Board of OÜ Someri Trade.

The Management Board appointed by the Supervisory Board of AS Norma has 6 members: Managing Director Peep Siimon (Chairman of the Management Board), Sales Director Ivar Aas, Director of SB Division Stig Carlsson, Financial Director Ülle Jõgi, Quality Director Garri Krieger and Purchase Director Kaido Salurand. In the first half of 2005, the Management Board of AS Norma also included Development Director Peeter Tibbo.

In 2005, a total of 8 348 thousand kroons was paid in remuneration to the members of the Supervisory Board and Management Board of AS Norma. No stock options or other benefits were awarded to the members of the Supervisory Board and Management Board. Pursuant to the management board member contract, compensation in the amount of the remuneration for 0-12 months is payable for termination of the employment relation with a member of the Management Board, depending on the termination conditions. The maximum possible compensation payable under the management board member contracts is 3 238 thousand kroons.

Staff policy

The central principle of AS Norma's staff policy is involvement of the entire staff in the development of the work process and the work environment. Implementation of the Autoliv Production System enables to involve, via making proposals, conducting workshops and facilitating teamwork, not only specialists and managers but also line and machine operators.

In addition to standard in-house and out-house training, staff development also included professional, quality, management and language training in other Autoliv companies, especially in Sweden. 11 specialists spent a total of 182 working days training abroad; 45 assembly line operators were subjected to a total of 1 130 days of training; 1 specialist (materials planner) worked 3 months in Belgium, under the staff rotation scheme.

Involvement of new specialists (especially engineers) has become an increasingly difficult task at the Estonian tense labour market. In 2005, employment contracts were concluded with 17 specialists, 11 of them being engineers.

In September, AS Norma concluded a co-operation agreement with the Tallinn University of Technology, with the parties specifying their mutual activities in preparing students to become engineers who would hold a qualification which would ensure the company's sustainability and development.

Occupational safety and health

The company's objective with respect to occupational safety and health is to involve all employees in the preservation and improvement of the healthy and environment-friendly work environment.

Management of occupational risks - i.e. management of occupational safety and health - forms a part of the AS Norma quality and environmental management system. Long-term pursuit of occupational health-related activities has helped to prevent and reduce work-related illnesses, as well as to preserve and advance employees' health and capacity to work.

The work environment auditing system was brought into line with the Autoliv Production System requirements in 2005. In addition to traditional, recognised risk factors in the work environment, the company also handles problems related to changes in the nature of the work, conditioned by the quick growth of the company, as well as new work-related risks. Investments in new processes and technologies include solutions for improving environmental protection and occupational health and safety. Assembly line and assembly point ergonomics is one of the areas continually improved by the company.

The Labour Inspectorate has given good grades to the AS Norma's occupational safety and environment-related activities as well as the company's safety culture, pointing out staff involvement and health promotion plans.

Environmental impact

In order to improve production-related environmental impact management, AS Norma certified its environmental management system to meet the ISO 14001 requirements already in 2002. In order to adhere to the Integrated Pollution Prevention and Control Act of the Republic of Estonia, AS Norma acquired the integrated environmental permit in 2003. The company uses the measures stipulated therein for managing hazardous chemicals, waste generation and treatment, and the quality of ambient air and water discharged into the sewerage network.

The activities pursued by the Group aim at enhancing the efficiency of the use of materials and natural resources, as well as reducing the environmental impact, and continually improving the products and processes.

The main guidelines set forth in the company's environmental policies and environment-related objectives:

- upon pursuing business activities, to be considerate towards the environment, and the staff, customers and society;
- to adhere to the laws of the Republic of Estonia, and the customer's requirements applicable to AS Norma's activities;
- to manufacture products in such a way as to minimise the environmental impact upon their manufacturing, use and utilisation, while not making concessions with respect to quality and safety;
- to use natural resources and materials in a sustainable way;
- to minimise the discharge of waste and pollutants into to environment;
- to prevent accidental pollution of the environment;
- to develop the employee's environmental awareness and motivate them to implement the environmental policy on a daily basis.

Developments and major investments planned for the future

Developments

In 2006, the company will continue developing the production of components for the car safety seatbelts manufactured in Autoliv Group (by launching new technologies and equipment, and the production of new components). The company's long-term objective is to modernise the manufacturing process, which has so far produced components for seatbelts to be sold to Russia, and bring it to a new qualitative and quantitative level.

In 2006, the company plans to launch serial production of car safety systems for the models of AutoVAZ's Kalina (VAZ 1118) generation. The system includes pyrotechnical retractor belts with pre-spanner, front air bags, and their electronic co-ordination unit.

The company also plans to implement APS (Autoliv Production System – improved organisation of production) for enhancing efficiency, cutting costs and, above all, guaranteeing a stable quality of products.

Major investments planned for the future

The company will start modifying the assembly lines in connection with the preparation for the manufacturing of the new Volvo platform.

The company will continue implementing metal processing equipment and technologies in order to expand component production.

Major research and development projects

The most important development project involves the safety system for Priora (VAZ 2170), the car to be developed on the basis of the AutoVAZ VAZ 2110 platform, in co-operation with Autoliv engineers. The project will be financed by the customer.

As regards research projects, we should mention the standardisation plan initiated in co-operation with the experts of Tallinn University of Technology and Autoliv for steel used in Autoliv and AS Norma.

According to the Management Board of AS Norma, there are no known events that have not been disclosed in the financial statements but may have a material effect on the company's financial results.

Peep Siimon

Chairman of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS

Management Representation to the Consolidated Financial Statements

The Management Board confirms the completeness and correctness of the consolidated financial statements 2005 of AS Norma and its subsidiaries as presented on the pages 14 to 40:

1) the accounting principles used in preparing the consolidated financial statements are in compliance with International Financial Reporting Standards as adopted by EU;
2) the consolidated financial statements give a true and fair view of the financial position of the Group and the results of its operations and cash flows;
3) the Parent and other companies of the Group are able to continue as a going concern.

Peep Siimon

Chairman of the Management Board

Ivar Aas

Member of the Management Board

Ülle Jõgi

Member of the Management Board

Garri Krieger

Member of the Management Board

Kaido Salurand

Member of the Management Board

Stig Carlson

Member of the Management Board

Tallinn, February 14, 2006

For identification purposes only
ERNST & YOUNG
15.02.2006 KK

Consolidated Balance Sheet
in thousands of Estonian kroons

Assets	**31.12.2005**	31.12.2004	Note no
Current assets			
Cash in hand and deposits	**183 029**	118 208	1
Short-term financial investments	**262 873**	288 524	2
Receivables	**111 803**	173 843	3
Prepaid expenses	**1 539**	11 024	4
Inventories	**89 782**	86 758	5
Total current assets	**649 026**	678 357	
Non-current assets			
Long-term financial investments	**10 953**	10 955	6
Long-term receivables	**455**	1 133	7
Property, plant and equipment	**271 220**	241 287	8
Intangible assets	**16 134**	18 920	9
Total non-current assets	**298 762**	272 295	
Total assets	**947 788**	950 652	

Liabilities and equity			
Liabilities			
Current liabilities			
Payables	**94 499**	106 232	11
Deferred income	**3 375**	13 899	11
Provisions	**2 094**	0	12
Total current liabilities	**99 968**	120 131	
Total liabilities	**99 968**	120 131	
Equity			
Share capital (par value)	**132 000**	132 000	13
Statutory reserve	**13 200**	13 200	
Retained earnings	**702 620**	685 321	
Total equity	**847 820**	830 521	
Total liabilities and equity	**947 788**	950 652	

The accounting principles presented on pages 19 to 26 and the notes to the consolidated financial statements presented on pages 27 to 40 form an integral part of the consolidated financial statements.

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Consolidated Income Statement

in thousands of Estonian kroons

	2005	2004	Note no
Revenue	**975 575**	986 297	14
Cost of sales	**-808 470**	-807 248	15
Gross profit	**167 105**	179 049	
Marketing and distribution costs	**-13 440**	-12 755	16
Research and development expenses	**-38 875**	-31 931	17
General administrative expenses	**-21 817**	-22 059	18
Other operating income	**4 657**	3 769	19
Other operating expenses	**-4 306**	-2 136	20
Operating profit	**93 324**	113 937	14
Financial items	**10 817**	9 691	21
Profit before taxes	**104 141**	123 628	
Income tax expense	**-20 842**	-18 640	22
Net profit	**83 299**	104 988	
Basic and diluted earnings per share (in kroons)	**6.31**	7.95	13

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Consolidated Statement of Changes in Equity

in thousands of Estonian kroons

	Share capital (par value)	Statutory Reserve	Retained earnings	Total equity
31.12.2003	**132 000**	**13 200**	**646 333**	**791 533**
Dividends	-	-	-66 000	-66 000
Net profit for the financial year	-	-	104 988	104 988
31.12.2004	**132 000**	**13 200**	**685 321**	**830 521**
31.12.2004	**132 000**	**13 200**	**685 321**	**830 521**
Dividends	-	-	-66 000	-66 000
Net profit for the financial year	-	-	83 299	83 299
31.12.2005	**132 000**	**13 200**	**702 620**	**847 820**

Pursuant to the Commercial Code the statutory reserve amounts to 10% of the share capital.
The statutory reserve can be used for covering the loss or increasing the share capital. The Statutory reserve cannot be paid out as dividends.

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Consolidated Cash Flow Statement

in thousands of Estonian kroons

Cash flows from operating activities	**2005**	2004	Note no
Operating profit	**93 324**	113 937	
Adjustments of operating profit			
Gain from disposals of property, plant and equipment	**-83**	-710	19
Depreciation and amortisation	**62 740**	57 641	8,9
Impairment loss of property, plant and equipment	**1 046**	550	8
Changes in assets related to operating activities, incl.:			
Short-term receivables and prepaid expenses, except loans and interests	**71 264**	21 261	3,4,7
Inventories	**-3 024**	12 942	5
Long-term receivables, except loans	**500**	-61	7
Changes in liabilities, incl.:			
Payables	**-11 733**	-56 781	11
Deferred income	**-10 524**	5 822	11
Provision	**2 094**	0	12
Interests paid	**0**	-7	
Income tax paid	**0**	-129	22
Total cash flows from operating activities	**205 604**	154 465	
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment	**1 120**	1 208	
Acquisition of property, plant and equipment and intangible assets	**-91 970**	-47 200	8,9
Loans granted	**-88**	-62	7
Loan repayments received	**296**	48	7
Acquisition of short-term financial investments	**-197 930**	-304 709	
Proceeds from disposals of short-term financial investments	**223 583**	159 013	
Interest received	**10 474**	10 241	
Total cash flows from investing activities:	**-54 515**	-181 461	
Cash flows from financing activities			
Payment of income tax on dividends	**-20 842**	-18 511	22
Dividends paid	**-66 000**	-66 000	13
Total cash flows from financing activities:	**-86 842**	-84 511	
Net cash flows	**64 247**	-111 507	
Changes in cash and cash equivalents			
Balance at the beginning of the year	**118 208**	230 104	
Increase/decrease of cash and cash equivalents	**64 247**	-111 507	
Foreign exchange effect	**574**	-389	21
Cash and cash equivalents at the end of the year, incl.:	**183 029**	118 208	
Cash in hand and deposits with maturity up to 3 months	***109 145***	*37 002*	*1*
Shares of interest fund	***73 884***	*81 206*	*1*

The accounting principles presented on pages 19 to 26 and the notes to the consolidated financial statements presented on pages 27 to 40 form an integral part of the consolidated financial statements.

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Corporate Information

The main operations of AS Norma (hereinafter referred also to as “Parent”) and its subsidiaries (hereinafter together referred also to as “Group”) are the production and sale of safety systems and details for automobiles and the development of projects relating to the main operations. The technologies used for the main operations are metalworking, moulding of plastic items, galvanic covering of details and assembling of products.

In 2005, the Norma Group consists of AS Norma and two wholly-owned subsidiaries.

Name of subsidiaries	Ownership	Location
AS Tööriistavabrik	100%	Estonia
Norma-Osvar ZAO	100%	Russia

AS Norma’s ownership in equity of ite subsidiaries equals to ownership in voting shares.

At the end of 2005, the Group employed 935 people, including 859 employees at AS Norma (2004: 874 and 795, respectively).

AS Norma is a limited company incorporated and domiciled in Estonia, Tallinn, Laki str. 14. The shares of AS Norma are listed in the main list of Tallinn Stock Exchange; additionally the GDRs of AS Norma are quoted on the Frankfurt and Berlin Stock Exchanges. The parent company and the ultimate parent of AS Norma are Autoliv AB and Autoliv Inc., respectively.

Accounting Policies and Estimates

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by EU and on a historical cost basis, except as disclosed in the accounting policies below (e.g., certain financial assets, which are measured at fair value). The current financial statements have been prepared in thousands of Estonian kroons (EEK).

According to the Estonian Business Code, the annual report, including the financial statements, prepared by the Management Board and approved by the Supervisory Board is authorized by the Shareholders’ General meeting. The shareholders hold the power not to approve the annual report and the right to request a new annual report to be prepared.

From January 1, 2005, several new and revised IFRS standards became effective. In the preparation of the current financial statements, the Group has adopted the following new / revised standards:

- IAS 1 Presentation of Financial Statements;
- IAS 2 Inventories;
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- IAS 10 Events after the Balance Sheet Date;
- IAS 16 Property, Plant and Equipment;
- IAS 17 Leases;
- IAS 21 The Effect of Changes in Foreign Exchange Rates
- IAS 24 Related Party Disclosures;
- IAS 27 Consolidated and Separate Financial Statements;
- IAS 32 Financial Instruments: Disclosure and Presentation;
- IAS 33 Earnings per Share;
- IAS 36 Impairment of Assets;
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement;
- IFRS 3 Business Combinations;
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Adoption of revised and new standards specified above does not have any effect on the equity of the Group as of January 1, 2004, but new requirements of IAS 27 (revised) on subsidiaries recognition in non-consolidated financial statements have an effect on the financial statements of the Parent (the balance sheet, income statement, cash flow statement and statement of changes in equity of the Parent are presented in Notes 27 to 30). In the previous year non-consolidated financial statements of the Parent, the investments into subsidiaries were accounted for under equity method, but in the current financial statements, the cost method is applied for the recognition of investments into subsidiaries. As a result of that, the retained earnings of the Parent as of January 1, 2004, net profit for the year 2004 and investments into subsidiaries as of December 31, 2004 decreased by 5 062 thousand EEK, 798 thousand EEK and 6 627 thousand EEK, respectively, and receivables from subsidiaries increased by 767 thousand EEK.

In the current financial statement, the amount of cash and cash equivalents at the beginning and end of 2004 has been restated. Previously, all short-term deposits were considered to be cash equivalents, but starting of 2005 only short-term deposits with maturity up to 3 months are considered to be cash equivalents. As a result of this change the cash and cash equivalents of the Group and the Parent as of 31.12.2004 and 31.12.2003 and net cash flows (cash flows from investing activities) for 2004 decreased by 282 041 thousand EEK, 100 440 thousand EEK and 181 601 thousand EEK, respectively.

In accordance with the revised and new standards the presentation, if applicable. has been changed as well (the presentation of comparative data has been also restated).

The new and revised standards and interpretations, which have been adopted by EU before the balance sheet date, but are not effective yet (i.e. the Amendments to IAS 19 "Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures"; IFRIC 4 "Determining whether an Arrangement contains a Lease"; IFRS 6 "Exploration for and Evaluation of Mineral Resources"; IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"), do not have any effect on the accounting principles applied by the Group.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of AS Norma and its subsidiaries consolidated line-by-line.

Subsidiaries are companies, in which the Group has an interest of more than 50% of the voting rights or otherwise has power to govern the financial and operating decisions of these companies. Subsidiaries are consolidated from the acquisition date (date on which control is transferred to the Group) and cease to be consolidated from the disposal date (date on which control is transferred out of the Group).

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent, using consistent accounting policies, in all material respects. All inter-group transactions, balances and unrealised profits and losses on transactions between Group's companies have been eliminated in the consolidated financial statements. Unrealised losses are not eliminated, if these losses represent impairment of assets sold.

Foreign Currency Translation

The functional currency of the Parent is Estonian kroon, which is also the presentation currency of the current financial statements; other currencies are considered as foreign currencies.

Foreign currency transactions are recorded on the basis of the foreign currency exchange rates of the Bank of Estonia officially valid on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences from assets and liabilities related to operating activities are recognised in the income statement as operating items and differences from assets and liabilities related to investing and financing activities are recognised as financial items.

The functional currency of the foreign subsidiary is euro. All transactions and balances of the foreign subsidiary are translated into Estonian kroons using foreign currency rates of the Bank of Estonia. As

Estonian kroons is pegged with euro with fixed rate (1 euro = 15.6466 EEK), the foreign exchange differences, which should be recorded directly in equity, do not arise.

Cash and Cash Equivalents

Cash and cash equivalents in the cash flow statement are short-term (up to 3 months maturity) highly liquid investments that are readily convertible to known amount of cash and which are subject to insignificant risk of changes in value, including cash in hand and at bank, short-term time deposits with maturity up to 3 months and other marketable highly liquid investments (e.g., interest fund shares).

Financial Assets

All financial assets are initially recognised at cost, being the fair value of the consideration given. The cost of financial assets includes also acquisition charges associated directly with the investment (e.g., fees paid to agents and advisers, non-refundable taxes and other similar expenditures), except in the case of investments at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset (e.g. conclude an agreement). Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

For the subsequent recognition, financial assets are classified as follows:

- financial assets at fair value through profit or loss (incl. shares and other securities held for trading; bonds, which are not being held to maturity, and other securities and derivatives with positive value),
- held-to-maturity investments (incl. bonds fixed maturity, which are being held to maturity),
- loans and receivables (incl. loans granted, trade receivables and other receivables),
- available-for-sale financial assets (incl. all those financial assets that are not classified in any of the three preceding categories; in reporting and comparative period the Group did not have any such investments).

Financial assets at fair value through profit and loss is measured in its fair value on each balance sheet date. Fair value of listed securities is based on listed market price (closing prices) and the official exchange rates of the Bank of Estonia. Unlisted securities are accounted for in their fair value on the basis of the available information on the value of the investment. Gains or losses from changes in fair value of investments held for trading are recognised under “Financial items” in income statement. Interests and dividends from investments held for trading are also recognised under “Financial items” in income statement.

Held-to-maturity investments, loans and receivables are carried at amortised cost using the effective interest method. Amortised cost is calculated by taking into account a discount or a premium on acquisition and transaction costs, over the period to maturity.

When the recoverable amount of investments carried at amortised cost is lower than its carrying amount, the asset is considered impaired and is written down to its recoverable amount (for doubtful accounts receivable the contra assets account is used for allowances and uncollectible receivables are written off from balance sheet). The recoverable amount of investments carried at amortised cost is measured as the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate. The impairment of receivables is assessed on an individual basis, based on the current credit information available. The amount of the impairment loss from receivables related to operating activities is recognised under operating expenses (“General administrative expenses”) and from investments related to investing activities under financial items in income statement.

Collection of receivables that have been previously expensed as impaired assets are recognised as an adjustment of allowance in balance sheet and reduction of expenses in income statement.

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Interests from investments held to maturity, loans and receivables are recognised under "Financial items" in income statement.

The derecognition of a financial asset takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

Subsidiaries in the Non-consolidated Financial Statements of the Parent

In the Parent's non-consolidated financial statements investments in its subsidiaries are carried at cost. It means that investments in subsidiaries are initially recognised at cost, being the fair value of the consideration given. After initial recognition the cost is adjusted by any losses arise from impairment in value.

The Group assesses at each reporting date whether there is an indication that an investment may be impaired and if any such indication exists, the Group makes an estimate of the asset's recoverable amount (higher of the value in use and fair value less costs to sell). Impairment losses are recognised under "Financial items" in the income statement. A previously recognised impairment loss is reversed, if there has been a change in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognised. Such reversal is recognised as financial income in income statement when incurred.

Dividends receivable/received from subsidiaries are recognised as financial income, when the Parent's right to receive the payment is established, except a part of dividends paid out on account of the retained earnings created by the subsidiary before the acquisition of the subsidiary. Such dividends are recognised as a reduction of investments.

Inventories

Finished products and work-in-progress are recorded at production cost, consisting of the direct and indirect production costs on normal operating capacity. Raw materials and goods for resale located in warehouses or production field are recorded at acquisition cost, consisting of the purchase price, direct transportation costs related to the purchase, non-refundable taxes and other purchase related expenditures.

Inventories are valued at the lower of cost and net realisable value. Inventories are accounted for by using the weighed average acquisition cost method. The amount of write-down of inventories to their net realisable value is recorded as expenses of the reporting period, under "Cost of sales" of the income statement.

Property, Plant and Equipment

Assets with a useful life of over 1 year and an acquisition cost of over 40 000 kroons (except IT equipment, for which 15 000 kroons of limit is used) are considered to be property, plant and equipment. Initially, property, plant and equipment are recognised at cost, consisting of the purchase price and expenditures directly related to the acquisition.

Subsequent to initial recognition an item of property, plant and equipment is carried in the balance sheet at its cost, less accumulated depreciation and any accumulated impairment losses. When the recoverable amount of property, plant and equipment is lower than its carrying amount, the asset is considered impaired and is written down to its recoverable amount, which is the higher of the value in use and fair value less costs to sell. The Group assesses at each reporting date whether there is an indication that an asset may be impaired and if any such indication exists, the Group makes an estimate of the asset's recoverable amount. Impairment losses are recognised under "Other operating expenses" in the income statement.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed, if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Such reversal is recognised as a reduction of expenses in income statement when incurred.

Subsequent expenditure relating to an item of property, plant and equipment that has already been recognised (e.g. replacements of part of some items) are added to the carrying amount of the assets, if the recognition criteria are met, i.e. (a) it is probable that future economic benefits associated with the item will flow to the Group, and (b) the cost of the item can be measured reliably. The replaced items are derecognised. All other expenditures are recognised as an expense in the period in which it is incurred.

The calculation of depreciation is started, when the assets are ready for the expected usage determined by the management and finished upon the reclassification to non-current assets held for resale or disposal of the assets. If the item of property, plant and equipment is fully depreciated, the cost and accumulated depreciation of such item are recorded in balance sheet until the item is in use.

The depreciable amount of an asset (i.e., cost of an asset less its residual value) is expensed over the expected useful life of an asset. The cost of land is not depreciated. Depreciation is calculated on a straight-line basis (except for tooling) over the estimated useful life of the asset as follows:

- Buildings 8 - 20 years
- Machinery and equipment 4 - 11 years
- IT equipment 3 - 7 years
- Other items 5 - 7 years

The sum-of-the-unit method is used for deprecation of tooling.

If an asset consists of separable components with different useful lives, each such component are accounted for and depreciated separately in the book-keeping of the Group

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year-end. Changes in residual values, useful lives and methods are treated as a change in estimates.

Non-current assets held for sale are valued at the lower of net carrying amount and fair value less costs to sell. Non-current assets are not depreciated.

Intangible Assets

Initially, intangible assets are recognised at cost, consisting of the purchase price and expenditures directly related to the acquisition. Subsequent measurement depends on whether an intangible asset has a finite or indefinite life. Intangible assets with finite lives are stated at cost less accumulated amortisation and any accumulated impairment in losses. Such intangible assets are amortised over the useful economic life on a straight-line basis as follows:

- Licences 3-10 years.

When the recoverable amount of intangible assets with finite lives is lower than its carrying amount, the asset is considered impaired and is written down to its recoverable amount, which is the higher of the value in use and fair value less costs to sell. The Group assesses at each reporting date whether there is an indication that an asset may be impaired and if any such indication exists, the Group makes an estimate of the asset's recoverable amount. Impairment losses are recognised under "Other operating expenses" in the income statement.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed, if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Such reversal is recognised as a reduction of expenses in income statement when incurred.

Intangible assets with indefinite useful lives (incl. goodwill) are tested for impairment annually. Such intangibles are not amortised. In the reporting period and comparative period the Group did not have any intangible assets with indefinite useful lives.

Development expenses are expenditures incurred as a result of the application of research findings to a plan or design for new products and services. Development expenditure is capitalised only when the Group can demonstrate the technical feasibility of completing the intangible asset, the availability of resources to complete the project, how the asset will generate future economic benefits and the ability to measure reliably the expenditure during the development.

Expenditures related to the establishing a new entity, research costs and training expenses are not capitalised.

Financial Liabilities

Borrowings are recognised initially at cost, being the fair value of proceeds received. In subsequent periods, borrowings are stated at amortised cost using the effective interest method. Transaction costs are taken into consideration upon calculating the effective interest rate, and charged to expenses over the term of the financial liability. Borrowing costs (incl. interest expenses) related to the financial liability are recognised as an expense when incurred.

Borrowings are derecognised when the obligation under the liability is discharged or cancelled or expired.

Provisions and Contingent Liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made, but the date of the settlement and the final amount of it are not certain. Value of provisions is based on the assessment and experiences of the Group's management, and opinion of independent experts, if necessary.

Promises, guarantees and other commitments that in certain circumstances may become liabilities, but in the opinion of the Group's management an outflow to settle these liabilities is not probable, are disclosed in the notes to the consolidated financial statements as contingent liabilities.

Income tax

Estonian companies of the Group:
According to the Estonian Income Tax Law the company's net profit is not subject to income tax; thus there are no temporary differences between the tax bases and carrying values of assets and liabilities that may cause the deferred income tax. Instead of taxing net profit, all dividends paid by the company are subject to income tax with the rate of 23/77 (the rate of 24/76 was effective for dividends paid out in 2005; the tax rate will decrease also in future - every year by one point until 20/80 of net dividends paid out after 1 January 2009). Income tax from the payment of dividends is recorded as income tax expense at the moment of declaring the dividends, regardless of the actual payment date or the period for which the dividends are paid out.

The potential tax liability related to the distribution of the Group's retained earnings as dividends is not recorded in the balance sheet. The amount of potential tax liability related to the distribution of dividends is disclosed in Note 22.

Russian companies of the Group:
In accordance with the local income tax acts, the company's net profit adjusted by temporary and permanent differences determined in income tax acts is subject to income tax in Russia (the tax rate is 24%).

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognised only when it is probable that profit will be available against which the deferred tax assets can be utilised.

Tax to be paid is reported under current liabilities and deferred tax under non-current assets or liabilities.

Related Parties

Entities and individuals are considered to be related parties if one of the parties can exercise control over the other party or has significant influence over economic decisions made by the other party. The following entities and individuals are considered as related parties of the Group, which itself belongs to the Autoliv Group:
a) the parent and the ultimate parent of AS Norma;
b) other companies of the Autoliv Group;
c) key management personnel of the Group and the parent of the Group; and
d) the close relatives of and the entities controlled by the parties specified above.

Revenue Recognition

Sales of goods are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the revenue and the cost of the transactions can reliably be measured. Revenue is recognised at the fair value of the received/receivable income. If the credit terms are longer than usual terms in the business of the Group, the revenue is determined based on the present value of proceeds.

Revenue from the sales of services is recorded upon rendering of the service. Income from services mediated is recognised as net of related expenses in the income statement.

Finance and Operating Leases

Lease transactions, where all material risks and benefits from ownership of an asset are transferred to the lessee, are treated as finance leases. All other lease transactions are treated as operating leases.

<u>Group as a lessee</u>
Finance leases are capitalized at the inception of the lease at the fair value of the leased assets or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Capitalised leased assets are depreciated similar to acquired assets over the shorter of the estimated useful life of the asset or the lease term.

Operating lease payments are recognised as operating expenses on a straight-line basis over the lease term.

<u>Group as a lessor</u>
When assets are leased out under a finance lease, the amount equals to the net investment in the lease is recognised as a receivable (the aggregate of the present value of the lease payments receivable by the lessor under a finance lease and any unguaranteed residual value at the end of lease period). Lease payments are apportioned between the finance income and reduction of the lease receivable so as to achieve a constant rate of interest on the remaining balance of the receivable.

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. These assets are depreciated over their expected useful lives on a basis consistent with similar items of property, plant and equipment. Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

Segment Reporting

The primary segments of the Group are operational segments and the secondary segments are geographical segments.

Across Group's product lines main product line is car safety belts. Other product lines (car security system components, automobile details, metalwork, real estate activities) separately account for less than 10% from revenue and total assets of the Group and therefore are not disclosed as separate reportable segments.

Expenses are allocated in proportion to product line's share from revenue. Assets (excl. cash, securities and loans granted), liabilities and investments are allocated according to the share of the segment. Depreciation, amortisation and impairment losses are allocated according to the portion of non-current assets to the segment. All expenses, assets and liabilities, which are not directly related to any segments, but are more related to administrative, investing and financing activities of the Group as a whole, are presented as unallocated expenses, assets and liabilities in the segment reporting.

Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, the management has made the decision that bonds acquired are going to be held up to maturity. According to this decision bonds acquired are carried at amortised cost, not at fair value

Notes to the Consolidated Financial Statements

In thousands of Estonian kroons (if not stated otherwise)

		31.12.2005	31.12.2004
1.	**Cash and cash equivalents**	**31.12.2005**	31.12.2004
	Cash in hand and current deposits in banks	**1 252**	2 203
	Short-term time deposits with maturity up to 3 months	**107 893**	34 799
	Interest fund shares of Hansapank	**73 884**	81 206
		183 029	118 208

As of the end of 2005 the Group has deposits with maturity up to 3 months in the following amounts:

a) short-term deposits in commercial banks with interest rates of 1.9-4.0% (2004: 1.95-2.40%) in the amounts of 15 824 (2004: 22 799) thousand EEK; and
b) short-term deposits in the treasury of Autoliv with interest rate 2.75-2.79% (2004: 2.5-2.5%) in the amount of 92 069 (2004: 12 000) thousand EEK.

The shares are valued at their fair value through profit and loss.

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

2.	**Short-term financial investments**	**31.12.2005**	31.12.2004
	Short-term time deposits with maturity more than 3 months	**260 803**	282 041
	Bonds	**2 070**	6 483
		262 873	288 524

As of the end of 2005 the Group has deposits with maturity more than 3 months in the following amounts:

a) short-term deposits in commercial banks with interest rates of 2.5-3.05% (2004: 2.42-2.7%) in the amounts of 72 397 (2004: 81 092) thousand EEK; and
b) short-term deposits in the treasury of Autoliv with interest rate 2.5-3% (2004: 2.5-2.7%) in the amount of 188 406 (2004: 200 949) thousand EEK.

The bonds issued by a Russia commercial bank in the amount of 2 070 (2004: 2 483) thousand kroons have been presented under bonds classified as investments held-to-maturity and amortised based on acquisition cost and effective interest rate. These bonds were redeemed on January 23, 2006 (2004: January 24, 2005). As of the end of 2004 the amount of bonds includes also kroons based bonds issued by Union Bank (Ühispank) in the amount of 4 000 (2005: 0) thousand kroons and effective interest rate of 5.15%. These bonds were redeemed in 2005.

3.	**Receivables**	**31.12.2005**	31.12.2004
	Trade receivable from non-related parties	**61 906**	74 390
	Receivables from companies of Autoliv Group (see Note 24)	**47 960**	96 952
	Allowance for doubtful receivables	**-2 646**	-4 947
	Other short-term receivables	**529**	249
	VAT refundable	**2 862**	5 777
	Accrued interest income	**1 192**	1 422
		111 803	173 843

As of 31.12.2005 36.9% (2004: 56.6%) of doubtful receivables were related to Russian customers.

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	2005	2004
Allowance as of January 1	**-4 947**	-9 340
Reversal of allowance (see Note 18)	**2 251**	4 393
Write off of allowance from balance sheet	**50**	0
Allowance as of December 31	**-2 646**	-4 947

4. Prepaid expenses	**31.12.2005**	31.12.2004
Prepaid expenses of next year	**1 280**	10 579
Prepaid taxes	**259**	445
	1 539	11 024

As of 31.12.2004, the amount of prepaid expenses consists mostly of prepayment to Autoliv Sverige AB regarding VAZ 1118 safety system development projects in the total amount of 9 707 (2005: 0) thousand kroons. As of 31.12.2004 as well as 31.12.2005 the amount of prepaid expenses includes also prepayments for software licences, prepaid insurance, media/press subscriptions and other similar expenses.

5. Inventories	**31.12.2005**	31.12.2004
Raw materials	**48 940**	51 698
Work in progress	**23 023**	16 711
Finished goods	**17 745**	18 309
Prepayments for goods	**74**	40
	89 782	86 758

In connection with the drop of the realisable value of finished products below acquisition cost, inventories have been written down as follows:

	2005	2004
Raw materials	**2 302**	445
Work in progress	**307**	51
Finished goods	**1 788**	76
	4 397	572

Materials, unfinished products and finished products unsuitable for production and resale have been written off in the amount of 162 (2004: 401) thousand kroons.
Allowances previously recognised regarding inventories were not reversed in reporting period as well as comparative period.

As of 31.12.2005, the Group has inventories held by third parties in the amount of 413 (2004: 0) thousand kroons.

6. Long-term financial investments (over 1 year)	**31.12.2005**	31.12.2004
Bonds held-to-maturity – at amortised cost	**10 953**	10 953
Other investments – at cost	**0**	2
	10 953	10 955

For cash flow management purpose, the Group has acquired long-term bonds of Sampo Bank in the total amount of 700 thousand euros and with interest rate of 3M EURIBOR+0.90%. The maturity date of these bonds are 2012.

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7.	Long-term receivables (over 1 year)	31.12.2005	31.12.2004
	Loans granted	455	633
	Other long-term receivables	**0**	500
		455	1 133

Loans granted consist of loans granted to employees of AS Norma:

Purpose	Balance as of 31.12.04	Incl. short-term portion	Incl. long-term portion	Granted in 2005	Repaid in 2005	Balance as of 31.12.05	Incl.		Interest rate (%)
							short-term portion	long-term portion	
Purchase and improvements of real estate	123	38	85	0	115	8	8	0	13
Student loans	664	116	548	61	181	544	116	428	0
Others	0	0	0	27	0	27	0	27	0
	787	**154**	**633**	**88**	**296**	**579**	**124**	**455**	

AS Norma has granted loans to employees of the Group according to the Group's lending policies. Loans are guaranteed with two surety agreements or real estate.
Student loans have not been discounted, as in the opinion of the management it has no significant effect of the results of the Group.

8. Property, plant and equipment

	Land and buildings	Machinery and equipment	Other items	Unfinished projects and prepayments	TOTAL
Net book value as of 31.12.2003	**69 405**	**171 598**	**2 951**	**5 808**	**249 762**
Additions	5 868	30 471	511	10 116	**46 966**
Disposals	-3	-488	-8	0	**-499**
Reclassifications	0	5 754	54	-5 808	**0**
Impairment loss	0	-550	0	0	**-550**
Depreciation charge	-4 549	-48 954	-889	0	**-54 392**
Net book value as of 31.12.2004	**70 721**	**157 831**	**2 619**	**10 116**	**241 287**
Additions	5 606	69 207	933	16 157	**91 903**
Disposals	-325	-663	-49	0	**-1 037**
Reclassifications	0	10 116	0	-10 116	**0**
Impairment loss	0	-1 046	0	0	**-1 046**
Depreciation charge	-4 625	-54 251	-1 011	0	**-59 887**
Net book value as of 31.12.2005	**71 377**	**181 194**	**2 492**	**16 157**	**271 220**
As of 31.12.2004					
Acquisition cost	91 715	409 047	5 917	10 116	**516 795**
Accumulated depreciation and impairment losses	-20 994	-251 216	-3 298	0	**-275 508**
As of 31.12.2005					
Acquisition cost	96 469	455 557	6 715	16 157	**574 898**
Accumulated depreciation and impairment losses	-25 092	-274 363	-4 223	0	**-303 678**

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The following impairment losses have been recorded in the reporting periods:

Items	Year	Amount of allowance	Reason for impairment	Method used for determined recoverable amount
Tooling	2005	1 046	Technological changes	Value in use
Tooling	2004	550	Technological changes	Value in use

Depreciation charge has been recognised as follows: 57 861 (2004: 52 253) thousand kroons as cost of sales, 57 (2004: 67) thousand kroons as marketing and distribution expenses, 427 (444) thousand kroons as research and development expenses and 1 542 (2004: 1 628) thousand kroons as general administrative expenses (see also Notes 15-18).

As of 31.12.2005, acquisition cost of fully depreciated property, plant and equipment amounts to 131 564 (2004: 111 309) thousand kroons.

As of 31.12.2005 additional investments needed for the completing unfinished projects (incl. uninstalled equipment) amount to 503 thousand kroons.

9. Intangible assets

	Product and technology licences	**Software licences**	**TOTAL**
Net book value as of 31.12.2003	**20 162**	**1 773**	**21 935**
Additions	0	234	**234**
Amortisation charge	-2 240	-1 009	**-3 249**
Net book value as of 31.12.2004	**17 922**	**998**	**18 920**
Additions	0	67	**67**
Amortisation charge	-2 240	-613	**-2 853**
Net book value as of 31.12.2005	**15 682**	**452**	**16 134**
As of 31.12.2004			
Acquisition cost	22 402	8 287	**30 689**
Accumulated amortisation and impairment losses	-4 480	-7 289	**-11 769**
As of 31.12.2005			
Acquisition cost	22 402	7 900	**30 302**
Accumulated amortisation and impairment losses	-6 720	-7 448	**-14 168**

In 2003 the Group entered into 10-years licensing agreement with Autoliv Development AB in order to acquire rights to sell products developed and / or in possession by Autoliv, and rights to use Autoliv's technology in manufacturing. The licence was recorded as an intangible asset in the amount of 22 402 thousand kroons with useful life of 10 years and as of 31.12.2005 the remaining useful life of this licence is 7 years.

Amortisation charge has been recognised as follows: 2 384 (2004: 2 556) thousand kroons as research and development expenses, 307 (2004: 360) thousand kroons as cost of sales and 162 (2004: 333) thousand kroons as general administrative expenses (see also Notes 15-18).

10. Operating leases

The Group has concluded the operating lease contracts to rent cars.

	2005	2004
Lease payments for the financial year	**500**	642
Future lease payments of non-cancellable operating leases as of the end of the year:	**1 024**	725
Incl. payable within 1 year	**496**	369
payable after 1 year, but not more than 5 years	**528**	356

The Group is also leasing land under operating lease terms (leasing period 2003 - 2005) with annual rental payments of 25 thousand kroons, and buildings (leasing period 2003 - 2006) with annual rental payments of 676 thousand kroons.

The Group has leased out production and office rooms under operating lease terms and earned income from these leases as follows:

	2005	2004
Production rooms	**847**	845
Office rooms	**29**	29
Parking spaces	**5**	5

11. Payables and deferred income

Payables and deferred income	**31.12.2005**	31.12.2004
Payables to suppliers	**54 420**	44 562
Payables to employees	**19 860**	18 847
Accrued expenses	**45**	5
Payables to the parent company of the Group (see Note 24)	**12 308**	36 354
Taxes payable, incl.	**7 866**	6 464
Social taxes	4 023	5 012
Personal income tax and income tax from fringe benefits	3 561	1 152
Other taxes	282	300
Total payables	**94 499**	106 232
Deferred income	**3 375**	13 899

At the end of 2004 the amount of deferred income includes I.D.P.S.a.r.l prepayment received for 12 926 thousand kroons of VAZ 1118 safety system development projects.

12. Short-term provisions

Decrease in production output and increase in effectiveness of production resulted by new technology have caused the situation, where AS Norma requests from Labour Inspectorate a permission to terminate employment agreements with 53 employees during the period of 01.02.2006 -28.02.2006.
To covering the expenses arisen from this redundancy, the restructuring provision in the amount of 2 094 thousand kroons has been recognised.

13. Share capital	31.12.2005	31.12.2004
Share capital par value (10 kroons per share)	**132 000**	132 000

AS Norma has issued 13.2 million common shares with one vote per share. All shares are fully paid. Dividends paid out for 2004 were 66.0 million kroons or 5 kroons per share. The Management Board proposes also 66.0 million kroons paid out for 2005.

The Parent can increase its share capital up to 528 000 thousand kroons as maximum, without changing its Articles of Association.

Shareholders of AS Norma with participation over 5%, as of 31.12.2005:

Autoliv Ab	51.0%
Skandinaviska Enskilda Banken Ab kliendid	8.8%
ING LUXEMBOURG S.A.	7.4%

Earnings per share	**2005**	2004
Net profit for the financial year	**83 299**	104 988
Average number of shares (in thousands)	**13 200**	13 200
Earnings per share in kroons	**6.31**	7.95

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

14. Segment information
Primary reporting format – by product lines

	Safety belts 2005	**Other products 2005**	**Unallocated 2005**	**Total 2005**	Safety belts 2004	Other products 2004	Unallocated 2004	Total 2004
Segment revenue	873 519	118 143		991 662	881 271	124 052		1 005 323
Incl. revenue form other segments		-16 087		-16 087		-19 026		-19 026
Revenue from third parties	**873 519**	**102 056**		**975 575**	881 271	105 026		986 297
Segment expenses	**-748 186**	**-89 186**	**-44 879**	**-882 251**	-716 435	-84 894	-71 031	-872 360
Segment results	**125 333**	**12 870**	**-44 879**	**93 324**	164 836	20 132	-71 031	113 937
Total assets	**324 457**	**55 546**	**567 785**	**947 788**	365 002	51 492	534 158	950 652
Financial assets (excl. receivables)	0	0	456 855	456 855	0	0	417 687	417 687
Receivables and prepaid expenses	99 912	7 307	6 578	113 797	166 609	10 270	9 121	186 000
Inventories	79 086	10 696	0	89 782	76 052	10 706	0	86 758
Property, plant and equipment	145 459	37 543	104 352	287 354	122 341	30 516	107 350	260 207
Segment liabilities	**84 778**	**10 106**	**5 085**	**99 969**	98 659	11 691	9 781	120 131
Investments in non-current assets	**57 123**	**25 855**	**8 992**	**91 970**	24 350	13 116	9 734	47 200
Depreciation and amortisation	**44 777**	**10 032**	**7 931**	**62 740**	45 259	8 642	3 740	57 641
Impairment loss of non-current assets	**775**	**271**	**0**	**1 046**	154	396	0	550

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The primary segments of the Group are operational segments and the secondary segments are geographical segments.
Across Group's product lines main product line is car safety belts. Other product lines (car security system components, automobile details, metalwork, real estate activities) separately account for less than 10% from revenue and total assets of the Group and therefore are not disclosed as separate reportable segments.
Segment revenue is revenue reported in the Group's income statement that is directly attributable to a segment and the relevant portion of the Group's revenue that can be allocated on reasonable basis to a segment, whether from sales to external customers or from transactions with other segments of the Group.
Segment expenses is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments of the same entity.
Segment expense does not include general administrative expenses and other expenses that arise at the Group level and related to the Group as a whole. Expenses incurred at the Group level are allocated on a reasonable basis to the segment, if these expenses relate to the segment's operating activities and they can be directly attributed or allocated to the segment.
Segment result is segment revenue less segment expenses.
Segment assets are those operating assets that are employed by a segment in the its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.
Segment assets include current assets, property, plant and equipment and intangible assets related to the operating activities. If a particular item of deprecation or amortization is included in segment expense, the related asset is also included in segment assets. Segment assets do not include assets used for general Group or head-office purposes or which cannot be allocated directly to the segment. Segment assets include operating assets shared by two or more segments if a reasonable basis for allocation exists.

Secondary reporting format – Revenue by geographical markets

	2005	2004
Sweden	**562 607**	558 920
Russia	**290 663**	330 377
Germany	**33 147**	25 165
France	**25 445**	24 302
Estonia	**14 933**	12 883
Ukraine	**13 369**	8 807
Finland	**8 417**	904
Czech Republic	**7 955**	6 340
Italy	**6 102**	3 179
Poland	**4 156**	3 273
Belgium	**3 761**	3 114
Spain	**1 278**	1 615
Great Britain	**935**	2 565
USA	**576**	3 011
Netherlands	**393**	1 033
Denmark	**80**	115
Other countries	**1 758**	694
Total:	**975 575**	986 297

The Group's (except Norma-Osvar ZAO's) inventories and property, plant and equipments are located in Estonia. Norma-Osvar ZAO's assets in the total amount of 9 039 (2004: 14 793) thousand kroons are located in Russian Federation, incl. property, plant and equipment in the amount of 407 (2004: 477) thousand kroons.
In the opinion of the management the pricing used in transactions between segments does not differ significantly market prices.

15. Cost of sales	2005	2004
Raw materials	**-552 908**	-574 904
Personnel expenses (see Note 23)	**-128 160**	-120 206
Depreciation and amortisation (see Notes 8, 9)	**-58 168**	-52 613
Utilities	**-14 407**	-14 317
Repairs and maintenance	**-6 247**	-8 352
Transportation	**-18 180**	-15 136
Others	**-30 400**	-21 720
	-808 470	-807 248

16. Marketing and distribution expenses	2005	2004
Personnel expenses (see Note 23)	**-2 732**	-3 102
Depreciation and amortisation (see Notes 8, 9)	**-57**	-67
Transportation	**-6 940**	-6 847
Agent fees	**-1 091**	-868
Advertising	**-201**	-238
Business travelling	**-538**	-722
Other purchased services	**-89**	-80
Others	**-1 792**	-831
	-13 440	-12 755

17. Research and development expenses	2005	2004
Personnel expenses (see Note 23)	**-7 225**	-6 814
Expenses related to VAZ 1118 project	**-15 517**	-14 234
Expenses related to testing and research	**-9 479**	-6 759
Depreciation and amortisation (see Notes 8, 9)	**-2 811**	-3 000
Business travelling	**-1 133**	-509
Other purchased services	**-355**	-292
Others	**-2 355**	-323
	-38 875	-31 931

18. General administrative expenses	2005	2004
Personnel expenses (see Note 23)	**-14 243**	-14 743
Depreciation and amortisation (see Notes 8, 9)	**-1 704**	-1 961
Repairs and maintenance	**-431**	-461
Advertising, promotions	**-1 792**	-1 021
Business travelling	**-805**	-447
Telephone and office supplies	**-992**	-990
Other purchased services	**-1 058**	-1 168
Training	**-472**	-648
Bad debt related expenses [1]	**2 245**	2 975
Others	**-2 565**	-3 595
	-21 817	-22 059

[1] in 2005, the amount of bad debt related expenses consists of the reversal of allowance for doubtful receivables in the amount of 2 251 (2004: 4 393) thousand kroons (see Note 3) and the uncollectible receivable directly written off from balance sheet in the amount of 6 (2004:1 418) thousand kroons.

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19. Other operating income	2005	2004
Revenue not related to main production activities	**2 764**	2 851
Gain from disposals of property, plant and equipment	**83**	710
Foreign exchange gain	**1 786**	147
Others	**24**	61
	4 657	3 769

20. Other operating expenses	2005	2004
Membership fees of unions, other associations	**-131**	-117
Sponsorship	**-295**	-580
Expenses not related to main production activities	**-740**	-889
Restructuring provision (see Note 12)	**-2 094**	0
Impairment loss of non-current assets (see Note 8)	**-1 046**	-550
	-4 306	-2 136

21. Financial items	2005	2004
Change in fair value of interest fund shares of Hansapank	**1 648**	2 462
Interest income from deposits	**7 878**	5 051
Interest income from bonds and money market shares	**543**	642
Interest income from loans	**1**	1 819
Foreign exchange gain / loss	**574**	-389
Other items	**173**	106
	10 817	9 691

22. Income tax expense	2005	2004
Income tax on profit	**0**	-129
Income tax on dividends	**-20 842**	-18 511
Total expense	**-20 842**	-18 640

The subsidiary ZAO Norma-Osvar is located and registered In Russian Federation, where net profit is a subject of income tax. As of 31.12.2005 the Russian subsidiary has an tax losses carried forward in the amount of 344 thousand kroons, from which deferred tax asset arises. Considering the business situation, the management do not believe that it is probable that future taxable profit will be available in near future (during 3 years) against which the unused tax losses can be utilised, therefore no deferred tax assets have been recorded.

Maximum potential income tax on net dividends

The Group's retained earnings as of 31.12.2005 were 702 620 (31.12.2004: 685 321) thousand kroons. The maximum possible income tax liability, which would become payable if retained earnings were fully distributed is 161 603 (31.12.2004: 164 477) thousand kroons, thus retained earnings in the amount of 541 017 (31.12.2004: 520 844) thousand kroons can be distributed as net dividends.

The maximum income tax liability has been calculated using the income tax rate applicable for dividends paid out in 2006 and on the assumption that distributable dividends and the related income tax together cannot exceed the amount of retained earnings as of 31.12.2005 and 31.12.2004, respectively.

If the Group pays out dividends in the amount of 66.0 million kroons, as the management Board proposes for 2005 (see Note 13), the income tax liability in the amount of 19.7 million kroons will be arise.

23. Personnel expenses

Personnel expenses	2005	2004
Wages and salaries	**-114 424**	-108 557
Social tax expenses	**-37 351**	-35 823
Unemployment insurance expenses	**-585**	-485
	-152 360	-144 865

24. Transactions with related parties

	2005	2004
Revenue from companies of Autoliv Group	**271 441**	335 321
Purchases from companies of Autoliv Group	**593 393**	579 925

	31.12.2005	31.12.2004
Receivables from companies of Autoliv Group (see Note 3)	**47 960**	96 952
Payables to companies of Autoliv Group (see Note 11)	**12 308**	36 354
Short-term deposits in treasury of Autoliv Group (see Notes 1, 2)	**280 475**	212 950

In 2005, the Group deposited its money in the treasury of Autoliv AB in the amounts of 14 200 (2004: 12 500) thousand euros and 156 540 (2004: 126 800) thousand kroons. Interest income received from these deposits have been recognised as interest income from deposits in Note 21.

Receivables and payables from /to companies of Autoliv Group is not secured and earn no interests, except deposits, as credit terms of these receivables and payables are normal credit terms.

The executive members of the Management Board received a remuneration totalling 7 604 (2004: 6 419) thousand kroons and the Supervisory Board totalling 744 (2004: 744) thousand kroons. The executive members of the Management Board and Supervisory Board do not have any share options or other benefits. The members of Management Board have a right to termination benefits (as 0-12 months salary). The maximum amount of such termination benefits is 3 238 thousand kroons.
Loans granted to employees of the Group have been disclosed in Note 7.

25. Main risks for 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 regarding the ability of the Group's major customers to pay for goods supplied. Credit is primarily extended only to long-term partners. In order to ensure the payments from its long-term clients, the Group are constantly monitoring and analysing their financial position and liquidity. If necessary, the Group has requested bank guarantees to ensure payments. Prepayment or a letter of credit is required for single transactions or new clients.

An allowance has been recorded to cover doubtful receivables. This allowance encompasses all accounts receivables, which are the object of dispute with the other party, and receivables, which the Management Board has reason to believe are not collectible.

The largest concentration of credit risk is related to our Russian and Ukrainian customers. The accounts receivables balances from the Russian and Ukrainian clients as of 31.12.2005 amounts to 57 431 (2004: 63 406) thousand kroons. Allowance for these receivables amounts to 975 (2004: 2 800) thousand kroons at the end of the year, thus net balance of receivables is 56 456 (2004: 60 603) thousand kroons.

The balances of receivables and deposits reflect the total credit risk exposure.

Currency risk

In 2005, 98.5% (2004: 98.7%) of the Group's revenue was export sales, made mainly in euros. The Group's expenses were primarily in Estonian kroons, euros, Swedish crowns and Russian roubles. Main sales and purchase contracts are denominated in euros. The risks related to other currencies than euro were monitored either by matching the incoming and outgoing cash flows of the same currency, or fixing contractual payments at euro exchange rate.
Short-term investments are diversified between Estonian kroons and euros.

No hedge accounting instruments were used for covering currency risks.

Currency position of the Group
in thousand kroons

	31.12.2005						
Financial assets	**EEK**	**SEK**	**USD**	**EUR**	**RUR**	**Others**	**Total**
Cash	83 296	-	1 498	284 408	745	-	**369 948**
Short- and long-term investments	73 884	-	-	10 953	2 070	-	**86 907**
Short- and long-term receivables	2 811	226	1 365	98 388	8 346	1 123	**112 258**
	159 991	**226**	**2 863**	**393 749**	**11 161**	**1 123**	**569 113**
Financial liabilities	**39 962**	**15 773**	**395**	**38 060**	**47**	**262**	**94 499**

	31.12.2004						
Financial assets	**EEK**	**SEK**	**USD**	**EUR**	**RUR**	**Others**	**Total**
Cash	173 851	1 213	2 019	141 598	362	-	**319 043**
Short- and long-term investments	85 206	-	-	10 955	2 483	-	**98 644**
Short- and long-term receivables	5 886	546	2 384	160 485	4 552	1 123	**174 976**
	264 943	**1 759**	**4 403**	**313 038**	**7 397**	**1 123**	**592 663**
Financial liabilities	**37 247**	**12 062**	**0**	**56 877**	**46**	**0**	**106 232**

Fair value

In the opinion of the Group's management there are no significant differences between the carrying value and the fair value of financial assets and liabilities of the Group, which has been determine using market value for interest fund shares and discounted cash flow method for cash (incl. deposits), bonds, other receivables and payables.

26. Contingent liabilities

The Group stands as a guarantor with 399 (2004: 464) thousand kroons for the usage of staff credit cards.
As in the opinion of the management it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, no provisions have been recorded.

27. Balance sheet of AS Norma (the Parent)

Assets	**31.12.2005**	31.12.2004
Current assets		
Cash in hand and deposits	**369 194**	318 668
Short-term investments	**73 884**	85 206
Receivables	**116 498**	180 271
Prepaid expenses	**882**	10 492
Inventories	**80 247**	79 343
Total current assets	**640 705**	673 980
Non-current assets		
Long-term investments	**23 069**	23 071
Long-term receivables	**455**	1 133
Property, plant and equipment	**256 302**	226 953
Intangible assets	**15 932**	18 411
Total non-current assets	**295 758**	269 568
Total assets	**936 463**	943 548

Liabilities and equity		
Liabilities		
Current liabilities		
Payables	**93 957**	105 961
Deferred income	**950**	12 926
Provisions	**2 094**	0
Total current liabilities	**97 001**	118 887
Total liabilities	**97 001**	118 887
Equity		
Share capital (par value)	**132 000**	132 000
Statutory reserve	**13 200**	13 200
Retained earnings	**694 262**	679 461
Total equity	**839 462**	824 661
Total liabilities and equity	**936 463**	943 548

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28. Income statement of AS Norma (the Parent)

	2005	2004
Revenue	**954 982**	964 325
Cost of sales	**-796 535**	-792 947
Gross profit	**158 447**	171 378
Marketing and distribution costs	**-13 440**	-12 755
Research and development expenses	**-38 875**	-31 931
General administrative expenses	**-18 247**	-17 078
Other operating income	**8 144**	5 633
Other operating expenses	**-5 063**	-2 159
Operating profit	**90 966**	113 088
Financial items	**10 677**	9 613
Profit before taxes	**101 643**	122 701
Income tax expense	**-20 842**	-18 511
Net profit	**80 801**	104 190

29. Statement of changes in equity of AS Norma (the Parent)

	Share capital (par value)	Statutory Reserve	Retained earnings	Total equity
31.12.2003 previously reported	**132 000**	**13 200**	**646 333**	**791 533**
Effect of changes in accounting principles	0	0	-5 062	-5 062
31.12.2003 restated	**132 000**	**13 200**	**641 271**	**786 471**
Dividends	-	-	-66 000	-66 000
Net profit for the financial year	-	-	104 190	104 190
31.12.2004	**132 000**	**13 200**	**679 461**	**824 661**
31.12.2004	**132 000**	**13 200**	**679 461**	**824 661**
Dividends	-	-	-66 000	-66 000
Net profit for the financial year	-	-	80 801	80 801
31.12.2005	**132 000**	**13 200**	**694 262**	**839 462**

Pursuant to the Commercial Code the statutory reserve amounts to 10% of the share capital.
The statutory reserve can be used for covering the loss or increasing the share capital. The Statutory reserve cannot be paid out as dividends.

30. Cash flow statement of AS Norma (the Parent)

Cash flows from operating activities	2005	2004
Operating profit	**90 966**	113 088
Adjustments of operating profit		
Gain from disposals of property, plant and equipment	**-66**	323
Depreciation and amortisation	**58 819**	53 863
Impairment loss of property, plant and equipment	**1 046**	550
Decrease in assets related to operating activities	**72 718**	32 353
Decrease in liabilities	**-21 886**	-50 428
Interests paid	**0**	-70
Total cash flows from operating activities	**201 597**	149 679
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	**1 040**	127
Acquisition of property, plant and equipment	**-87 707**	-41 258
Loans granted	**-88**	-62
Loan repayments received	**296**	48
Acquisition of financial investments	**-180 147**	-304 709
Proceeds from disposals of financial investments	**205 385**	159 013
Interest received	**10 406**	10 211
Total cash flows from investing activities:	**-50 815**	-176 630
Cash flows from financing activities		
Payment of income tax on dividends	**-20 842**	-18 511
Dividends paid	**-66 000**	-66 000
Total cash flows from financing activities:	**-86 842**	-84 511
Net cash flows	**63 940**	-111 462
Changes in cash and cash equivalents		
Balance at the beginning of the year	**117 833**	229 671
Increase/decrease of cash and cash equivalents	**63 940**	-111 462
Foreign exchange effect	**502**	-376
Cash and cash equivalents at the end of the year, incl.:	**182 275**	117 833
Cash in hand and deposits,	***369 194***	*318 668*
excl. time deposits with maturity more than 3 months	***-260 803***	*-282 041*
Shares of interest fund	***73 884***	*81 206*

For identification purposes only
ERNST & YOUNG
15.02.2006 KK

ERNST & YOUNG

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Translation of the Estonian Original

AUDITOR'S REPORT TO THE SHAREHOLDERS OF AS NORMA

We have audited the consolidated financial statements of AS Norma (hereafter "the Company") and its subsidiaries (hereafter "the Group") for the financial year ended December 31, 2005, which are set out on pages 14 through 40 of the Annual Report. These financial statements are the responsibility of the Company's 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2005, and of the results of its operations and cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Tallinn, February 15, 2006

Hanno Lindpere
Ernst & Young Baltic AS

Marju Põldniit
Authorised Auditor

PROFIT ALLOCATION REPORT

Net consolidated profit of AS Norma for 2005 amounts to 83 298 413 EEK (5 323 739 EUR).

The Management proposal, which is agreed with the Supervisory Board, is do transfer 2005 profit to retained earnings.

The Management proposes to pay annual dividends to shareholders in the amount of 50% of the par value of share in the total amount of 66 000 000 kroons or 5 kroons per share or 4 218 169 EUR (0.32 EUR per share).

The General Meeting of the Shareholders will set a fixed date for list of shareholders with dividend rights.

According to the Management Board's proposal, the list of shareholders with dividend rights will be fixed as at 31.05.2006 at 8:00 AM.

SIGNATURE OF MEMBERS OF MANAGEMENT BOARD AND SUPERVISORY BOARD ON ANNUAL REPORT 2005

The Management Board and Supervisory Board confirm the completeness and correctness of the Annual Report 2005 of AS Norma and its subsidiaries:

Peep Siimon Chairman of Management Board	Jörgen I. Svensson Chairman of Supervisory Board
Ivar Aas Member of Management Board	Leif Berntsson Member of Supervisory Board
Ülle Jõgi Member of Management Board	Toomas Tamsar Member of Supervisory Board
Garri Krieger Member of Management Board	Raivo Erik Member of Supervisory Board
Kaido Salurand Member of Management Board	Aare Tark Member of Supervisory Board
Stig Carlson Member of Management Board	Rolf Henke Member of Supervisory Board

February 16, 2006

List of shareholders with ownership 10% or more

No of account	Name	Reg. no	Address	City	Country	Index	Balance	%
99011551452	AUTOLIV AB	556036-1981	BOX 70381	STOCKHOLM	Sweden	SE-10724	6732000	51%