Annual report

Annual report 2005

Annual report 2005

Annual report 2005

Annual report 2005

NORMA

Annual report 2005

TABLE OF CONTENTS

ADDRESS BY THE CHAIRMAN OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD OF AS NORMA

Dear shareholders of AS Norma,

We are glad to greet you with summarising the last year results.

The sales revenue of the group amounted to 62,4 million euros in 2005, which is 1.1% less than in 2004. Of this amount we earned 55,8 million euros from the sale of seat belts. The sale of seat belt components to the Autoliv companies, the sale of stamping dies and injection moulds and engineering of the safety systems were the most important among other products and services.

The gross profit of the group amounted to 10,7 million euros, which accounts for 17.1% of the sales. The gross profit decreased by 6.7%, i.e., 0,8 million euros due to lower sales volumes, decrease in the sale prices on the Eastern market and increase in the raw material prices, particularly that of steel.

Profit per share amounted to 0,4 euros in 2005, which is 20.7% less than in 2004.

Markets

In 2005, we exported 98.5% of our production. 58% went to Sweden and 30% to Russia. The sale to Russia decreased by 12%.

The importance of Russia as target an export countrymarket is still high and thus everything that occurs on that market has an essential impact on the economic results of Norma. The changes that started already during the previous year continued in Russia: the market of new cars increased on account of foreign cars, the sale of Russian cars decreased. Due to major sales difficulties, IZavto announced in the spring that they stopped the production of Fabula and Oda, which brought along a decrease by one-half of the sales to them.

An increasing number of car buyers prefer foreign cars, the increasing purchasing power of people also imposes higher requirements on the production of local passenger car manufacturers, including safety. AutoVAZ that has started the serial production of the modern generation Lada Kalina is the only one that can respond to such customer expectations. The safety system designed by Autoliv and Norma is ready for production.

Quality and investments

Production efficiency improvement and high quality level of products and services are the keywords for everyday activities and for the future. Evidence for this was the recognition of AS Norma as one of the best suppliers 2005 by the main customer AutoVAZ.

Improvement of products and processes quality and ensurance of customer satisfaction are supported by certified Quality Management System to requirements of automotive industry, ISO/TS 16949:2002.

This is the precondition to have business with automotive industry in EU and in Russia.

The quality of our products is ensured by implementation of zero defect policy, application of approval process for new products and manufacturing processes, systematic control of significant product and process parameters and periodical product testing. Problems are solved by using teamwork and appropriate quality methods.

Progress in quality improvement is supported by using APS (Autoliv Production System) with error proofing implementation at production lines, discipline to standards, application of suggestion system, enlarged methodical training and operator's self-responsibility.

Conformity of production to the certified product is tested by AS Norma Testing Centre, which was accredited in 2005 for car safety belts testing by Estonian Accreditation Centre according to the ISO/IEC 17025 (General requirements for the competence of testing and calibration laboratories).

Our products and processes are also covered by our environmental policy and to the ISO 14001 certified Environmental Management System. Business decisions are implemented in an environmental responsible and caring manner relative to our employees and our customers. Our activities are set up to minimize environmental impact through the efficient use of energy and natural recourses, material saving and waste reduction.

In 2005, the group invested 5,9 million euros in new technologies, increasing the production capacity, improving the efficiency of production processes and modernising the working environment. Our high-technology development must help us to remain competitive on the increasingly complicated market.

Future plans

In 2006, we will continue the expansion of component production for the Autoliv group. Our longer-term objective is to bring the component production to a new qualitative and quantitative level.

The designing of auto safety system for AutoVAZ next development project - Lada Priora, started in cooperation with the Autoliv engineers. The system shall be in production in 2008.

We have set the following goals for the coming years:

- the safety systems market leader and the first choice for the Russian car manufacturers;
- preferred component supplier for Autoliv;
- benchmark in customer service;
- cost reduction of materials;
- innovative solutions.

Production efficiency, product quality and profitability are the success factors of our company and we observe these carefully in order to ensure the position of a long-term market leader.

We understand our obligations to our customers, shareholders and employees and we are committed to meeting their expectations.

The Supervisory Board and Management Board of AS Norma would like to thank the shareholders for their confidence and all the employees and partners for fruitful cooperation in 2005.

Jörgen I. Svensson
Chairman of the Supervisory Board

Peep Siimon
Chairman of the Management Board

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

The Russian market, one of the most important for AS Norma saw continued changes in 2005 that had started the year before: the market for new cars grew by 9.5%, mostly 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, while sales of cars of Russian manufacturers dropped by 7% on the other hand. 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. This is in contrast to , 96.5 thousand cars being produced in Izevsk in 2004.

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

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

The above changes are naturally 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 Togliatti, and the 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 clearly 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, the 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 in 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 5.9 million euros 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 as follows:

Metal processing equipment	1.7 million euros
Assembly lines	2.8 million euros
Tooling	0.3 million euros
Injection molding machines	0.2 million euros
Quality testing equipment	0.2 million euros
Reconstruction and facility repairs	0.5 million euros
Information technology	0.1 million euros

Financial highlights of the Group

Economic activities	2005	2004	Change %
Revenue (million EUR)	**62.4**	63.0	-1.1
Gross profit (million EUR)	**10.7**	11.4	-6.6
Gross profit margin[1] (%)	17.1	18.1	-5.5
Operating profit (million EUR)	**6.0**	7.3	-18.1
Operating profit margin[2] (%)	9.6	11.5	-16.5
EBITDA (profit before financial items. taxes; depreciation and amortisation added) (million EUR)	**10.0**	11.0	-9.0
Profit before taxes (million EUR)	**6.7**	7.9	-15.8
Pre-tax profit margin[3] (%)	10.7	12.5	-14.4
Net profit (million EUR)	**5.3**	6.7	-20.7
Net profit margin[4] (%)	8.5	10.6	-19.8
Working capital[5] (million EUR)	**23.4**	28.1	-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	2005	2004	Change %
Number of shares (millions)	**13.2**	13.2	
Earnings per share[9] (EUR)	**0.4**	0.5	
Dividends per share (EUR)	**0.3**	0.3	
Equity per share[10] (EUR)	**4.1**	4.0	2.1
Dividend / net profit	**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 euros: 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 euros)

[11] P/E – stock price at the end of the period / EPS

Sales

The revenue of the Group amounted to 62.4 million euros 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 37.9 million euros. 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 1.4 million euros to 35.3 million euros, making up 56.7% (in 2004: 58.3%) of revenue. Steel price movements 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., 0.3 million euros) in the financial year, compared to 2004, amounting to 4.3 million euros, 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 9.7 million euros in 2005, having grown by 5.2% (i.e. 0.5 million euros), compared to the previous period. Total wages and salaries amounted to 7.3 (in 2004: 6.9) million euros, social tax to 2.4 (in 2004: 2.3) million euros and unemployment insurance to 0.04 (in 2004: 0.03) million euros.

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 0.4 million euros in 2005, amounting to 2.5 million euros or 4% (in 2004: 3.2%) of revenue. Similarly to 2004 (0.9 million euros), the biggest expenses were incurred in 2005 (1.0 million euros) 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

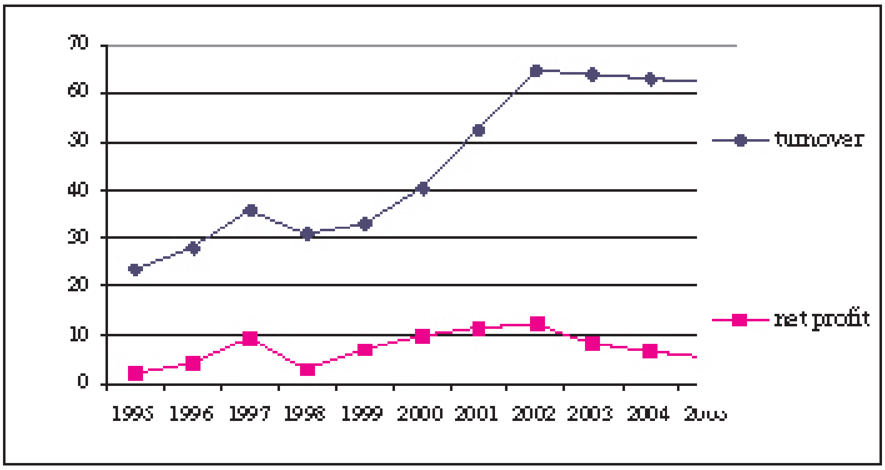
The Group's gross profit for 2005 was 10.7 million euros in 2005 (in 2004: 11.4 million euros) - i.e. 17.1% (in 2004: 18.1%) of revenue. The 6.6% (i.e., 0.7-million-euro) drop in gross profit was due to drop in sales volumes and in the sales price in the eastern market, as well as an increase in the raw material prices.

Operating profit decreased by 1.3 million euros to 6.0 million euros, 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 0.1-million-euro 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 1.2 million euros) to 6.7 million euros or 10.7% (in 2004: 12.5%) of revenue. Financial income increased by 11.6% - (i.e,. by 0.1 million euros).

The net profit for 2005 amounted to 5.3 (in 2004: 6.7) million euros. Income tax payable on dividends increased by 0.1 million euros. 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 sales prices.

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



Cash flows and capital appropriation

The Group's cash flow from operating activities amounted to 13.1 (in 2004: 9.9) million euros. The 3.2-million-euros 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 2.9 million euros, while the balance of financial investments decreased. Total cash flow from investments amounted to -3.5 (in 2004: -11.6) million euros.

As at the end of 2005, cash and liquid securities made up 47.0% (in 2004: 42.8%) of total assets. As of 31 December 2005, the company's working capital (short-term investments, receivables, prepayments, inventories less current liabilities) amounted to 23.4 (in 2004: 28.1) million euros, and the working capital appropriated for main activities (receivables, prepayments, inventories less current liabilities) to 6.6 (in 2004: 9.7) million euros.

AS Norma kept a traditionally conservative profile in 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, due to the 1.9-million-euros increase in PPE by 1.7 million euros 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 1.1 million euros, amounting to 54.2 (in 2004: 53.1) million euros 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 44.9 (in 2004: 43.8) million euros.

Stock market and dividends

AS Norma has issued 13.2 million common shares. The share has a nominal value of 0.64 euros or 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.

4.2 million euros (i.e. 0.32 euros 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 0.4 (in 2004: 0.5) euros, and owner's equity per share was 4.1 (in 2004: 4.0) euros. 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 euros, unless otherwise noted)	2002	2003	2004	2005
Opening price	3.38	4.04	6.50	6.55
All time high	4.69	7.19	7.16	7.78
All time low	3.36	4.04	6.10	6.35
Current price	4.04	6.50	6.55	6.56
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 euros)	19.4	44.2	31.5	34.2
Market value (in millions of euros)	53.3	85.8	86.5	86.6

Stock price movement (in EEK; 1 EUR = 15.6466 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 deposits with 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 the 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 61.0 (in 2004: 61.6), net profit to 5.2 (in 2004: 6.7), and owner's equity to 53.7 (in 2004: 52.7) million euros.

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 2.1 (in 2004: 2.2) million euros, net profit to 0.1 (in 2004: 0.01) million euros and owner's equity to 1.3 (in 2004: 1.2) million euros. Sales to external customers amounted to 1.0 (in 2004: 1.0) million euros, sales to Parent 1.0 (in 2004: 1.2) million euros and purchase of services from the Parent to 0.2 (in 2004: 0.2) million euros.

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 1.0 (in 2004: 2.5) million euros, loss to 0.02 (in 2004: 0.03) million euros and owner's equity to 0.06 (in 2004: 0.08) million euros. Sales to external customers amounted to 1.0 (in 2004: 2.5) million euros 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 534 thousand euros 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 207 thousand euros.

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 the involvement, via making proposals, conducting workshops and facilitating teamwork, not only of specialists and managers but also of line and machine operators.

In addition to standard in-house and out- side 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 in the Estonian tight 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 to 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 during their manufacturing, use and utilisation, while at the same time not making concessions with respect to quality and safety;
- to use natural resources and materials in a sustainable way;
- to minimise the discharge of wastes and pollutants into the environment;
- to prevent accidental pollution of the environment;
- to develop employee 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 pretensioner, front air bags, and their electronic co-ordination unit.

The company also continues implementation of 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 15 to 39:

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 Carlsson

Member of the Management Board

Tallinn, February 14, 2006

Consolidated Balance Sheet

in thousands of euros

Assets	31.12.2005	31.12.2004	Note no
Current assets			
Cash in hand and deposits	11 698	7 555	1
Short-term financial investments	16 801	18 440	2
Receivables	7 146	11 111	3
Prepaid expenses	98	705	4
Inventories	5 738	5 545	5
Total current assets	41 481	43 356	
Non-current assets			
Long-term financial investments	700	700	6
Long-term receivables	29	72	7
Property, plant and equipment	17 334	15 421	8
Intangible assets	1 031	1 209	9
Total non-current assets	19 094	17 402	
Total assets	60 575	60 758	

Liabilities and equity			
Liabilities			
Current liabilities			
Payables	6 040	6 790	11
Deferred income	215	888	11
Provisions	134	0	12
Total current liabilities	6 389	7 678	
Total liabilities	6 389	7 678	
Equity			
Share capital (par value)	8 436	8 436	13
Statutory reserve	844	844	
Retained earnings	44 906	43 800	
Total equity	54 186	53 080	
Total liabilities and equity	60 575	60 758	

The accounting principles presented on pages 20 to 26 and the notes to the consolidated financial statements presented on pages 27 to 39 form an integral part of the consolidated financial statements.

Consolidated Income Statement

in thousands of euros

	2005	2004	Note no
Revenue	62 351	63 036	14
Cost of sales	-51 671	-51 593	15
Gross profit	**10 680**	11 443	
Marketing and distribution costs	-859	-815	16
Research and development expenses	-2 485	-2 041	17
General administrative expenses	-1 394	-1 410	18
Other operating income	298	241	19
Other operating expenses	-275	-136	20
Operating profit	**5 965**	7 282	14
Financial items	691	619	21
Profit before taxes	**6 656**	7 901	
Income tax expense	-1 332	-1 191	22
Net profit	**5 324**	6 710	
Basic and diluted earnings per share (in euros)	0,40	0,51	13

The accounting principles presented on pages 20 to 26 and the notes to the consolidated financial statements presented on pages 27 to 39 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity
in thousands of euros

	Share capital (par value)	Statutory Reserve	Retained earnings	Total equity
31.12.2003	**8 436**	**844**	**41 308**	**50 588**
Dividends	-	-	-4 218	-4 218
Net profit for the financial year	-	-	6 710	6 710
31.12.2004	**8 436**	**844**	**43 800**	**53 080**
31.12.2004	**8 436**	**844**	**43 800**	**53 080**
Dividends	-	-	-4 218	-4 218
Net profit for the financial year	-	-	5 324	5 324
31.12.2005	**8 436**	**844**	**44 906**	**54 186**

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.

The accounting principles presented on pages 20 to 26 and the notes to the consolidated financial statements presented on pages 27 to 39 form an integral part of the consolidated financial statements.

Consolidated Cash Flow Statement

in thousands of euros

Cash flows from operating activities	2005	2004	Note no
Operating profit	5 965	7 282	
Adjustments of operating profit			
Gain from disposals of property, plant and equipment	-5	-46	19
Depreciation and amortisation	4 010	3 685	8,9
Impairment loss of property, plant and equipment	67	35	8
Changes in assets related to operating activities, incl.:			
Short-term receivables and prepaid expenses, except loans and interests	4 554	1 359	3,4,7
Inventories	-193	827	5
Long-term receivables, except loans	32	-4	7
Changes in liabilities, incl.:			
Payables	-750	-3 629	11
Deferred income	-673	372	11
Provision	134	0	12
Interests paid	0	-1	
Income tax paid	0	-8	22
Total cash flows from operating activities	13 141	9 872	
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment	71	77	
Acquisition of property, plant and equipment and intangible assets	-5 878	-3 017	8,9
Loans granted	-6	-4	7
Loan repayments received	19	3	7
Acquisition of short-term financial investments	-12 650	-19 474	
Proceeds from disposals of short-term financial investments	14 290	10 163	
Interest received	669	655	
Total cash flows from investing activities:	-3 485	-11 597	
Cash flows from financing activities			
Payment of income tax on dividends	-1 332	-1 183	22
Dividends paid	-4 218	-4 218	13
Total cash flows from financing activities:	-5 550	-5 401	
Net cash flows	4 106	-7 126	
Changes in cash and cash equivalents			
Balance at the beginning of the year	7 555	14 706	
Increase/decrease of cash and cash equivalents	4 106	-7 126	
Foreign exchange effect	37	-25	21
Cash and cash equivalents at the end of the year, incl.:	11 698	7 555	
Cash in hand and deposits with maturity up to 3 months	*6 976*	*2 365*	*1*
Shares of interest fund	*4 722*	*5 190*	*1*

The accounting principles presented on pages 20 to 26 and the notes to the consolidated financial statements presented on pages 27 to 39 form an integral part of the consolidated financial statements.

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 euros (EUR).

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 37 to 39). 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 324 thousand EUR, 51 thousand EUR and 424 thousand EUR, respectively, and receivables from subsidiaries increased by 49 thousand EUR.

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 18 026 thousand EUR, 6 419 thousand EUR and 11 607 thousand EUR, 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; other currencies are considered as foreign currencies. The current financial statements have been prepared in euros according to the requirements of the Tallinn Stock Exchange Rules. Because the Estonian kroon is bound to euro with fixed exchange rate 1 euro = 15.6466 kroons, no foreign exchange differences result from the translation.

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.

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 2 556 euros or 40 000 kroons (except IT equipment, for which 959 euros or 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.

Group as a lessee
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.

Group as a lessor
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 euros (if not stated otherwise)

1. Cash and cash equivalents	**31.12.2005**	31.12.2004
Cash in hand and current deposits in banks	**80**	141
Short-term time deposits with maturity up to 3 months	**6 896**	2 224
Interest fund shares of Hansapank	**4 722**	5 190
	11 698	7 555

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 1 012 (2004: 1 457) thousand EUR; 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 5 884 (2004: 767) thousand EUR.

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	**16 668**	18 026
Bonds	**133**	414
	16 801	18 440

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 4 627 (2004: 5 183) thousand EUR; 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 12 041 (2004: 12 843) thousand EUR.

The bonds issued by a Russia commercial bank in the amount of 133 (2004: 159) thousand euros 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 255 (2005: 0) thousand euros 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	**3 957**	4 755
Receivables from companies of Autoliv Group (see Note 24)	**3 065**	6 196
Allowance for doubtful receivables	**-169**	-316
Other short-term receivables	**34**	16
VAT refundable	**183**	369
Accrued interest income	**76**	91
	7 146	11 111

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

	2005	2004
Allowance as of January 1	**-316**	-597
Reversal of allowance (see Note 18)	**144**	281
Write off of allowance from balance sheet	**3**	0
Allowance as of December 31	**-169**	-316

4. Prepaid expenses	**31.12.2005**	31.12.2004
Prepaid expenses of next year	**82**	676
Prepaid taxes	**16**	29
	98	705

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 620 (2005: 0) thousand euros. 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	**3 128**	3 304
Work in progress	**1 471**	1 068
Finished goods	**1 134**	1 170
Prepayments for goods	**5**	3
	5 738	5 545

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	**147**	29
Work in progress	**20**	3
Finished goods	**114**	5
	281	37

Materials, unfinished products and finished products unsuitable for production and resale have been written off in the amount of 10 (2004: 26) thousand euros.
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 26 (2004: 0) thousand euros.

6. Long-term financial investments (over 1 year)	**31.12.2005**	31.12.2004
Bonds held-to-maturity – at amortised cost	700	700
	700	700

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.

7. Long-term receivables (over 1 year)	**31.12.2005**	31.12.2004
Loans granted	**29**	40
Other long-term receivables	**0**	32
	29	72

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. short-term portion	long-term portion	Interest rate (%)
Purchase and improvements of real estate	8	3	5	0	7	1	1	0	13
Student loans	42	7	35	4	12	34	7	27	0
Others	0	0	0	2	0	2	0	2	0
	50	**10**	**40**	**6**	**19**	**37**	**8**	**29**	

AS Norma has granted loans to employees of the Group according to the Group's lending policies. Loans ar 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	**4 436**	**10 967**	**189**	**371**	**15 963**
Additions	375	1 947	33	647	3 002
Disposals	0	-31	-1	0	-32
Reclassifications	0	368	3	-371	0
Impairment loss	0	-35	0	0	-35
Depreciation charge	-291	-3 129	-57	0	-3 477
Net book value as of 31.12.2004	**4 520**	**10 087**	**167**	**647**	**15 421**
Additions	358	4 423	60	1 033	5 874
Disposals	-21	-42	-3	0	-66
Reclassifications	0	647	0	-647	0
Impairment loss	0	-67	0	0	-67
Depreciation charge	-296	-3 467	-65	0	-3 828
Net book value as of 31.12.2005	**4 561**	**11 581**	**159**	**1 033**	**17 334**
As of 31.12.2004					
Acquisition cost	5 862	26 143	378	647	**33 030**
Accumulated depreciation and impairment losses	-1 342	-16 056	-211	0	**-17 609**
As of 31.12.2005					
Acquisition cost	6 165	29 116	429	1 033	**36 743**
Accumulated depreciation and impairment losses	-1 604	-17 535	-270	0	**-19 409**

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	67	Technological changes	Value in use
Tooling	2004	35	Technological changes	Value in use

Depreciation charge has been recognised as follows: 3 698 (2004: 3 340) thousand euros as cost of sales, 4 (2004: 4) thousand euros as marketing and distribution expenses, 27 (29) thousand euros as research and development expenses and 99 (2004: 104) thousand euros 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 8 408 (2004: 7 114) thousand euros.

As of 31.12.2005 additional investments needed for the completing unfinished projects (incl. uninstalled equipment) amount to 32 thousand euros.

9. Intangible assets

	Product and technology licences	Software licences	TOTAL
Net book value as of 31.12.2003	**1 289**	**113**	**1 402**
Additions	0	15	**15**
Amortisation charge	-144	-64	**-208**
Net book value as of 31.12.2004	**1 145**	**64**	**1 209**
Additions	0	4	**4**
Amortisation charge	-143	-39	**-182**
Net book value as of 31.12.2005	**1 002**	**29**	**1 031**
As of 31.12.2004			
Acquisition cost	1 432	530	**1 962**
Accumulated amortisation and impairment losses	-287	-466	**-753**
As of 31.12.2005			
Acquisition cost	1 432	505	**1 937**
Accumulated amortisation and impairment losses	-430	-476	**-906**

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 1 432 thousand euros 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: 152 (2004: 164) thousand euros as research and development expenses, 20 (2004: 23) thousand euros as cost of sales and 10 (2004: 21) thousand euros 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	**32**	41
Future lease payments of non-cancellable operating leases as of the end of the year:	**65**	46
Incl. payable within 1 year	**31**	23
payable after 1 year, but not more than 5 years	**34**	23

The Group is also leasing land under operating lease terms (leasing period 2003 - 2005) with annual rental payments of 2 thousand euros, and buildings (leasing period 2003 - 2006) with annual rental payments of 43 thousand euros.

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	**54**	54
Office rooms	**2**	2

11. Payables and deferred income	**31.12.2005**	31.12.2004
Payables to suppliers	**3 478**	2 848
Payables to employees	**1 269**	1 205
Accrued expenses	**3**	1
Payables to the parent company of the Group (see Note 24)	**787**	2 323
Taxes payable, incl.	**503**	413
Social taxes	257	320
Personal income tax and income tax from fringe benefits	228	74
Other taxes	18	19
Total payables	**6 040**	**6 790**
Deferred income	**215**	**888**

At the end of 2004 the amount of deferred income includes I.D.P.S.a.r.l prepayment received for 826 thousand euros 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 134 thousand euros has been recognised.

13. Share capital	**31.12.2005**	31.12.2004
Share capital par value (0.64 euros or 10 kroons per share)	**8 436**	8 436

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 4.2 million euros or 0.32 euros per share. The Management Board proposes also 4.2 million euros paid out for 2005.

The Parent can increase its share capital up to 33 745 thousand euros 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	**5 324**	6 710
Average number of shares (in thousands)	**13 200**	13 200
Earnings per share in euros	**0,40**	0,51

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	55 828	7 551		63 379	56 323	7 929		64 252
Incl. revenue form other segments		-1 028		-1 028		-1 216		-1 216
Revenue from third parties	**55 828**	**6 523**		**62 351**	56 323	6 713		63 036
Segment expenses	**-47 818**	**-5 700**	**-2 868**	**-56 386**	-45 788	-5 426	-4 540	-55 754
Segment results	**8 010**	**823**	**-2 868**	**5 965**	10 535	1 287	-4 540	7 282
Total assets	**20 737**	**3 550**	**36 288**	**60 575**	23 328	3 291	34 139	60 758
Financial assets (excl. receivables)	0	0	29 198	29 198	0	0	26 695	26 695
Receivables	6 386	467	421	7 274	10 648	657	583	11 888
Inventories	5 054	684	0	5 738	4 861	684	0	5 545
Property, plant and equipment	9 297	2 399	6 669	18 365	7 819	1 950	6 861	16 630
Segment liabilities	**5 418**	**646**	**325**	**6 389**	6 306	747	625	7 678
Investments in non-current assets	**3 651**	**1 652**	**575**	**5 878**	1 556	839	622	3 017
Depreciation and amortisation	**2 862**	**641**	**507**	**4 010**	2 893	553	239	3 685
Impairment loss of non-current assets	**50**	**17**	**0**	**67**	10	25	0	35

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	**35 957**	35 722
Russia	**18 577**	21 115
Germany	**2 119**	1 608
France	**1 626**	1 553
Estonia	**954**	824
Ukraine	**854**	563
Finland	**538**	58
Czech Republic	**508**	405
Italy	**390**	203
Poland	**266**	209
Belgium	**240**	199
Spain	**82**	103
Great Britain	**60**	164
USA	**37**	192
Netherlands	**25**	66
Denmark	**5**	7
Other countries	**113**	45
Total:	**62 351**	63 036

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 578 (2004: 945) thousand euros are located in Russian Federation, incl. property, plant and equipment in the amount of 26 (2004: 30) thousand euros.
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	**-35 337**	-36 743
Personnel expenses (see Note 23)	**-8 191**	-7 683
Depreciation and amortisation (see Notes 8, 9)	**-3 718**	-3 363
Utilities	**-921**	-915
Repairs and maintenance	**-399**	-534
Transportation	**-1 162**	-967
Others	**-1 943**	-1 388
	-51 671	-51 593

16. Marketing and distribution expenses

	2005	2004
Personnel expenses (see Note 23)	**-175**	-198
Depreciation and amortisation (see Notes 8, 9)	**-4**	-4
Transportation	**-443**	-438
Agent fees	**-70**	-56
Advertising	**-13**	-15
Business travelling	**-34**	-46
Other purchased services	**-6**	-5
Others	**-114**	-53
	-859	-815

17. Research and development expenses

	2005	2004
Personnel expenses (see Note 23)	**-462**	-435
Expenses related to VAZ 1118 project	**-992**	-910
Expenses related to testing and research	**-606**	-432
Depreciation and amortisation (see Notes 8, 9)	**-179**	-193
Business travelling	**-72**	-32
Other purchased services	**-23**	-19
Others	**-151**	-20
	-2 485	-2 041

18. General administrative expenses	2005	2004
Personnel expenses (see Note 23)	-910	-942
Depreciation and amortisation (see Notes 8, 9)	-109	-125
Repairs and maintenance	-28	-30
Advertising, promotions	-115	-65
Business travelling	-51	-29
Telephone and office supplies	-63	-63
Other purchased services	-68	-75
Training	-30	-41
Bad debt related expenses [1]	144	190
Others	-164	-230
	-1 394	-1 410

[1] in 2005, the amount of bad debt related expenses consists of the reversal of allowance for doubtful receivables in the amount of 144 (2004: 281) thousand euros (see Note 3) and the uncollectible receivable directly written off from balance sheet in the amount of 0 (2004:91) thousand euros.

19. Other operating income	2005	2004
Revenue not related to main production activities	177	182
Gain from disposals of property, plant and equipment	5	46
Foreign exchange gain	114	9
Others	2	4
	298	241

20. Other operating expenses	2005	2004
Membership fees of unions, other associations	-8	-7
Sponsorship	-19	-37
Expenses not related to main production activities	-47	-57
Restructuring provision (see Note 12)	-134	0
Impairment loss of non-current assets (see Note 8)	-67	-35
	-275	-136

21. Financial items	2005	2004
Change in fair value of interest fund shares of Hansapank	105	157
Interest income from deposits	503	323
Interest income from bonds and money market shares	35	41
Interest income from loans	0	116
Foreign exchange gain / loss	37	-25
Other items	11	7
	691	619

22. Income tax expense	2005	2004
Income tax on profit	0	-8
Income tax on dividends	-1 332	-1 183
Total expense	-1 332	-1 191

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 22 thousand euros, 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 44 906 (31.12.2004: 43 800) thousand euros. The maximum possible income tax liability, which would become payable if retained earnings were fully distributed is 10 328 (31.12.2004: 10 512) thousand euros, thus retained earnings in the amount of 34 578 (31.12.2004: 33 288) thousand euros 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 4.2 million euros, as the management Board proposes for 2005 (see Note 13), the income tax liability in the amount of 1.3 million euros will be arise.

23. Personnel expenses

	2005	2004
Wages and salaries	**-7 313**	-6 938
Social tax expenses	**-2 387**	-2 289
Unemployment insurance expenses	**-38**	-31
	-9 738	-9 258

24. Transactions with related parties

	2005	2004
Revenue from companies of Autoliv Group	**17 348**	21 431
Purchases from companies of Autoliv Group	**37 925**	37 064

	31.12.2005	31.12.2004
Receivables from companies of Autoliv Group (see Note 3)	**3 065**	6 196
Payables to companies of Autoliv Group (see Note 11)	**787**	2 323
Short-term deposits in treasury of Autoliv Group (see Notes 1,2)	**17 925**	13 610

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 486 (2004: 410) thousand euros and the Supervisory Board totalling 48 (2004: 48) thousand euros. 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 207 thousand euros.
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 3 670 (2004: 4 052) thousand euros. Allowance for these receivables amounts to 62 (2004: 179) thousand euros at the end of the year, thus net balance of receivables is 3 608 (2004: 3 873) thousand euros.

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 euros

31.12.2005

Financial assets	**EEK**	**SEK**	**USD**	**EUR**	**RUR**	**Others**	**Total**
Cash	5 323	-	96	18 177	48	-	**23 644**
Short- and long-term investments	4 723	-	-	700	132	-	**5 555**
Short- and long-term receivables	180	14	87	6 288	534	72	**7 175**
	10 226	**14**	**183**	**25 165**	**714**	**72**	**36 374**
Financial liabilities	**2 554**	**1 008**	**25**	**2 433**	**3**	**17**	**6 040**

31.12.2004

Financial assets	**EEK**	**SEK**	**USD**	**EUR**	**RUR**	**Others**	**Total**
Cash	11 111	78	129	9 050	23	-	**20 391**
Short- and long-term investments	5 446	-	-	700	158	-	**6 304**
Short- and long-term receivables	376	34	152	10 257	292	72	**11 183**
	16 933	**112**	**281**	**20 007**	**473**	**72**	**37 878**
Financial liabilities	**2 381**	**771**	**0**	**3 635**	**3**	**0**	**6 790**

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 26 (2004: 30) thousand euros 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	23 596	20 367
Short-term investments	4 722	5 446
Receivables	7 446	11 521
Prepaid expenses	56	670
Inventories	5 129	5 071
Total current assets	40 949	43 075
Non-current assets		
Long-term investments	1 474	1 475
Long-term receivables	29	72
Property, plant and equipment	16 381	14 505
Intangible assets	1 018	1 177
Total non-current assets	18 902	17 229
Total assets	59 851	60 304

Liabilities and equity		
Liabilities		
Current liabilities		
Payables	6 005	6 773
Deferred income	61	826
Provisions	134	0
Total current liabilities	6 200	7 599
Total liabilities	6 200	7 599
Equity		
Share capital (par value)	8 436	8 436
Statutory reserve	844	844
Retained earnings	44 371	43 425
Total equity	53 651	52 705
Total liabilities and equity	59 851	60 304

28. Income statement of AS Norma (the Parent)

	2005	2004
Revenue	61 035	61 632
Cost of sales	-50 908	-50 679
Gross profit	10 127	10 953
Marketing and distribution costs	-859	-815
Research and development expenses	-2 485	-2 041
General administrative expenses	-1 166	-1 091
Other operating income	521	360
Other operating expenses	-324	-138
Operating profit	5 814	7 228
Financial items	682	614
Profit before taxes	6 496	7 842
Income tax expense	-1 332	-1 183
Net profit	5 164	6 659

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	**8 436**	**844**	**41 308**	**50 588**
Effect of changes in accounting principles	0	0	-324	-324
31.12.2003 restated	**8 436**	**844**	**40 984**	**50 264**
Dividends	-	-	-4 218	-4 218
Net profit for the financial year	-	-	6 659	6 659
31.12.2004	**8 436**	**844**	**43 425**	**52 705**
31.12.2004	**8 436**	**844**	**43 425**	**52 705**
Dividends	-	-	-4 218	-4 218
Net profit for the financial year	-	-	5 164	5 164
31.12.2005	**8 436**	**844**	**44 371**	**53 651**

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	**5 814**	7 228
Adjustments of operating profit		
Gain from disposals of property, plant and equipment	**-4**	20
Depreciation and amortisation	**3 759**	3 442
Impairment loss of property, plant and equipment	**67**	35
Decrease in assets related to operating activities	**4 648**	2 068
Decrease in liabilities	**-1 399**	-3 223
Interests paid	**0**	-4
Total cash flows from operating activities	**12 885**	9 566
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	**66**	8
Acquisition of property, plant and equipment	**-5 605**	-2 637
Loans granted	**-6**	-4
Loan repayments received	**19**	3
Acquisition of financial investments	**-11 513**	-19 475
Proceeds from disposals of financial investments	**13 126**	10 163
Interest received	**665**	653
Total cash flows from investing activities:	**-3 248**	-11 289
Cash flows from financing activities		
Payment of income tax on dividends	**-1 332**	-1 183
Dividends paid	**-4 218**	-4 218
Total cash flows from financing activities:	**-5 550**	-5 401
Net cash flows	**4 087**	-7 124
Changes in cash and cash equivalents		
Balance at the beginning of the year	**7 531**	14 679
Increase/decrease of cash and cash equivalents	**4 087**	-7 124
Foreign exchange effect	**32**	-24
Cash and cash equivalents at the end of the year, incl.:	**11 650**	7 531
Cash in hand and deposits,	***23 596***	*20 367*
excl. time deposits with maturity more than 3 months	***-16 668***	*-18 026*
Shares of interest fund	***4 722***	*5 190*

AUDITORS' REPORT

ERNST & YOUNG

Ernst & Young Baltic AS
Rävala pst 4
10143 Tallinn
Eesti
Tel. +372 6 114 610
Faks +372 6 114 611
www.ey.com/ee
Tallinn@ee.ey.com

Ernst & Young Baltic AS
Rävala blv 4
10143 Tallinn
Estonia
Tel. +372 6 114 610
Fax +372 6 114 611
www.ey.com/ee
Tallinn@ee.ey.com

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 15 through 39 of the Annual Report 2005. 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

Ivar Aas
Member of Management Board

Ülle Jõgi
Member of Management Board

Garri Krieger
Member of Management Board

Kaido Salurand
Member of Management Board

Stig Carlson
Member of Management Board

Jörgen I. Svensson
Chairman of Supervisory Board

Leif Berntsson
Member of Supervisory Board

Toomas Tamsar
Member of Supervisory Board

Raivo Erik
Member of Supervisory Board

Aare Tark
Member of Supervisory Board

Rolf Henke
Member of Supervisory Board

February 16, 2006

LIST OF SHAREHOLDERS WITH OWNERSHIP 10% OR MORE

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

CORPORATE GOVERNANCE

Estonian Corporate Governance Recommendations

The rules of Estonian Corporate Governance Recommendations (the "Recommendations") took effect as from 1 January 2006 and AS Norma is required to publish a Corporate Governance Recommendations Report (the "Report") the first time in 2007 concerning the financial year 2006. Nevertheless, AS Norma would like to report on the progress made in 2006 upon implementation of the Recommendations until drawing up the Report.

General Meeting of Shareholders

Exercise of shareholders' rights

The general meeting of shareholders is the highest governing body of AS Norma, competent to consider, among other things, the annual report, distribution of profits, amendments to the articles of association and composition of the supervisory board. A shareholder may attend and vote at a general meeting of shareholders in person or by proxy. Each share entitles the shareholder to one vote.

Calling of general meeting of shareholders and information to be published

The management board will publish in the newspaper Eesti Päevaleht a notice to convene a general meeting of shareholders. The notice will be published at least three weeks or one week prior to the meeting, depending on whether an annual or extraordinary general meeting will be held, respectively. The notice will specify the place where shareholders may examine the annual report, which will be made available at least two weeks prior to the meeting.

Procedure of general meeting of shareholders

At the general meeting of shareholders, resolutions will be passed by the approval of a majority of the votes represented at the meeting, except certain resolutions, such as amending the articles of association, increasing or decreasing the share capital, merger, division, reorganisation or liquidation of AS Norma and removal of the supervisory board's member before the expiry of the term of office, which require approval of a majority of at least 2/3 of the votes represented at the meeting.

Management Board

Duties

The management board is the executive body of AS Norma, competent to represent AS Norma and manage its activities. Chairman of the management board may alone represent AS Norma and other members jointly with another member. To achieve the purposes of AS Norma, the management board analyses the risks connected to the purpose of the activities and financial objectives of AS Norma, oversees the system of control and reporting. The management board must adhere to the lawful orders of the supervisory board.

Composition

The supervisory board will elect and remove the members of the management board and appoint the chairman of the board. Members of the management board will be elected for a term of three years. At least one-half of the management board members must be residents of member states of the European Economic Area or Switzerland. Members of the management board may not simultaneously serve on the supervisory board. At present, the management board has six members. The term of appointment of the present five members expires on 17th of February 2007 and of the present one member expires on 18th of May 2007. Responsibilities of the management board members has been set out in the management agreement concluded with each management board member.

Conflicts of interest

A member of the management board is prohibited, without the consent of the supervisory board, to compete with AS Norma. Until drawing up the Report in 2006 the supervisory board has not been informed of any significant transactions concluded between AS Norma and a member of its management board or persons connected to a management board member.

Supervisory Board

Duties

The supervisory board engages in oversight and longer-term management activities of AS Norma, such as supervising the management board, devising business plans, approving annual budgets and budget of investments. The supervisory board reports to the general meeting of shareholders. Transactions beyond the scope of everyday economic activities of AS Norma, such as acquisition and disposal of holdings in other companies, establishment and liquidation of subsidiaries, transactions with immovables, investments above set limits etc., require the consent of the supervisory board. The supervisory board has formed no committees.

Composition and compensation

The supervisory board presently has six members, elected by the general meeting of shareholders for a term of three years. The term of appointment of the present members expires on 18th of May 2008. According to the articles of association, the majority shareholder may, during the time between shareholders' general meetings, remove and appoint not more than three members of the supervisory board, should such need arise earlier than one month before the next shareholders' general meeting. Members of the supervisory board elect a chairman from among themselves, who will organise the activities of the supervisory board.

According to the decision of the annual general meeting dated on 25th of April 2000, compensation of the supervisory board was decided. No compensation is paid to any supervisory board member upon termination of their appointment.

Conflicts of interest

A member of the supervisory board may not participate in voting in the supervisory board's meeting if approval of the conclusion of a transaction between such member and AS Norma is being decided, or if approval of the conclusion of any transaction through a person connected to such member or through a company where such member has significant holding is being decided. A member of the supervisory board is prohibited, without respective resolution of the general meeting of shareholders, to compete with AS Norma. No conflicts of interest have been reported by the supervisory board members until drawing up the Report in 2006.

Disclosure of Information

AS Norma has opened its website at www.norma.ee and discloses on its website directly or using links to the website of the Tallinn Stock Exchange the following data: articles of association (in Estonian), annual and interim reports, and financial calendar.

Financial Reporting and Audit

Reporting

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 chapter of accounting policies and estimates in consolidated financial statements.

AS Norma shares are on primary list of the Tallinn Stock Exchange. AS Norma is required to make public the quarterly interim preliminary and actual quarterly financial reports and the audited annual report immediately after its approval by the supervisory board.

preliminary Q1	actual Q1	preliminary Q2	actual Q2	preliminary Q3	actual Q3	preliminary Q4	actual Q4
20th of April 2005	18th of May 2005	21st of July 2005	16th of August 2005	19th of October 2005	28th of November 2005	08th of February 2006	27th of Febryary 2006

Audit

Number and names of auditors will be determined by a resolution of the general meeting of shareholders. Based on the resolution, the chairman of the supervisory board will conclude the contract for auditing services with one of the auditors determined. Ernst & Young Baltic AS has been the auditor of AS Norma since 2005 and Suporvisory Board proposes to Shareholder´s General Meeting to approve Ernst & Young Baltic AS also as the auditor in 2006.

Made in Tallinn on 3 April 2006.

Jörgen I.Svensson
Chairman of the Supervisory Board

Peep Siimon
Chairman of the Management Board

AS NORMA

Annual Report 2005

Legal address:	Laki 14 10621 Tallinn Estonia
Business Register No	10043950
Phone:	+372 6 500 442
Fax:	+372 6 563 134
Auditor:	Ernst & Young Baltic AS
Beginning and end of the reporting year:	01.01.2005-31.12.2005

Annual report 2005

Annual report 2005
Annual report 2005
Annual report
Annual report 2005

hinc disain 2006