AB Snaigė

Consolidated annual accounts for 2005

Contents

Parent company details

AB Snaigė

Telephone	+ 370 315 56206
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Company code	249664610
Registered office:	Pramonės g. 6, Alytus, Lithuania LT-62001

Supervisory Council

Dominykas Kašys (Chairman)
Martynas Česnavičius
Jamie Richard
Algis Pakalnis
Saulius Butkus

Board of Directors

Giedrius Barysas (Chairman)
Nerijus Dagilis
Titas Sereika
Albinas Valašinas
Mindaugas Šeštokas

Management

Mindaugas Šeštokas (Managing Director)
Albinas Valašinas (Technical Director)
Giedrius Mikulskas (Personnel Director)
Arūnas Lingė (Finance Director)
Andrius Bartkevičius (Logistics Director)
Rūta Petrauskaitė (Marketing Director)
Gediminas Čeika (Sales Director)
Sergei Butenko (Marketing Director for Eastern countries until March 2006)

Auditors

KPMG Baltics, UAB

Bankers

AB bankas Hansabankas
AB SEB Vilniaus Bankas
Beierische Hypo- und Vereinsbank AG Vilnius branch
AB bankas Nord/LB Lietuva

Management's statement on the accounts

The Board of Directors and the Management have today discussed and authorized for issue the consolidated annual accounts and the annual report and have signed the consolidated annual accounts and report on behalf of the Company.

The consolidated accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. We consider that the accounting policies used are appropriate and that the consolidated annual accounts thus give a true and fair view.

We recommend the consolidated accounts to be approved at the Annual General Meeting.

Vilnius, 31 March 2006

Management:

Mindaugas Šeštokas
Managing Director

Board of Directors:

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Giedrius Barysas (Chairman)	Nerijus Dagilis
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Titas Sereika	Albinas Valašinas

Mindaugas Šeštokas	

Report of the auditor to the shareholders of AB Snaigė

We have audited the accompanying consolidated balance sheet of AB Snaigė group ("the Group") as at 31 December 2005 and the related statements of income, statement of changes in equity and cash flows for the year then ended.

These consolidated financial statements are the responsibility of the 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 the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

(i) The Group capitalizes expenditure related to replacement parts and major overhauls on its property, plant and equipment without derecognizing the carrying amount of replaced parts and previous overhaul, which does not comply with IAS 16. As at 31 December 2005, the carrying amount of such expenditure recognized in property plant and equipment amounts to Litas 13,345 thousand, of which Litas 7,811 thousand is capitalized on buildings and Litas 5,534 thousand is capitalized on equipment. No information is available to identify the value of the replaced parts and prior overhaul that had to be derecognized.

(ii) The Group has overdue receivables in the amount of Litas 18,410 thousand from Russian customers. The Group has set aside an impairment loss of Litas 2,000 thousand for the overdue receivables. In our opinion, additional impairment loss of Litas 9,400 thousand should be recognized for the mentioned receivables in the consolidated accounts.

(iii) We did not observe the physical inventories located in Pskov warehouses amounting to Litas 5,031 thousand as at 31 December 2005. We were unable to apply alternative audit procedures to satisfy ourselves as to the existence of the inventory.

(iv) Management has not tested goodwill of Techprominvest for impairment. As at 31 December 2005, the carrying amount of goodwill is of Litas 2,472 thousand. We have not been provided by sufficient information to assess potential impairment, if any.

In our opinion therefore, except for the effects of the matters referred to in paragraph (i), (iii) and (iv), if any, and except for the effect of the matter referred to in paragraph (ii), the consolidated financial statements give a true and fair view of the financial position of AB Snaige group as at 31 December 2005, and of the results of its operations and its cash flows for the year then ended in conformity with International Financial Reporting Standards as adopted by the European Union.

Report on AB Snaige activities is presented separately from the consolidated financial statements. This is a requirement of Lithuanian legislation. We have read the report on the Company's activities for the year 2005 with the objective of considering whether it is consistent with the audited financial statements. Upon completion of the review, we have issued a separate review report, dated 31 March 2006, on the report on the Company's activities in which we state that there were no apparent or material inconsistencies with the financial statements that came to our attention.

Vilnius, 31 March 2006
KPMG Baltics, UAB

Leif Rene Hansen Danish State Authorised Public Accountant	Domantas Dabulis Certified Auditor

Consolidated profit and loss account

Litas	Note	2005	2004
Revenue	4	368,878,299	293,367,358
Cost of sales	4	-300,042,722	-229,890,847
Gross profit		68,835,577	63,476,511
Distribution expenses	5	-26,448,374	-13,119,142
Administrative expenses	6	-22,704,058	-23,636,279
Other operating income	8	3,249,983	3,764,806
Other operating costs	8	-2,431,333	-3,394,479
Operating profit		20,501,795	27,091,417
Financial income	9	89,145,602	42,063,359
Financial expenses	9	-90,439,631	-50,735,694
Profit before tax		19,207,766	18,419,082
Corporate income tax	10	-4,167,800	-4,492,411
Profit for the year		15,039,966	13,926,671
Attributable to:			
Equity holders of the parent		13,722,364	15,158,255
Minority interest		1,317,602	-1,231,584
Profit for the year		15,039,966	13,926,671
Earnings per share	19	0.59	0.66

The notes set out in pages 12 to 43 form an integral part of these financial statements.

Consolidated balance sheet

Litas	Note	2005	2004
ASSETS			
Non-current assets			
Property, plant and equipment	13	105,471,719	105,832,666
Intangible assets	14	7,369,338	6,514,392
Deferred tax asset	11	917,542	0
Total non-current assets		113,758,599	112,347,058
Current assets			
Inventories	15	60,760,584	53,875,924
Trade receivable		61,732,754	50,104,414
Corporate income tax receivable	12	1,389,691	0
Other receivables	16	3,457,062	11,917,839
Cash and cash equivalents	17	5,185,782	5,408,564
Total current assets		132,525,873	121,306,741
TOTAL ASSETS		246,284,472	233,653,799

The notes set out in pages 12 to 43 form an integral part of these financial statements.

Balance sheet

Litas	Note	2005	2004
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	18	23,070,405	23,070,405
Share premium	18	3,643,750	3,643,750
Own shares		0	0
Legal reserve	18	2,337,913	2,337,913
Other reserves, distributable	18	26,588,000	26,588,000
Translation reserve		-1,288,563	-786,371
Retained earnings		48,922,761	35,291,013
Total equity attributable to the equity holders of the parent		103,274,266	90,144,710
Minority interest		23,994	0
Total equity		103,298,260	90,144,710
Non-current liabilities			
Warranty provision	20	1,624,780	897,415
Deferred tax liability	11	0	319,860
Deferred grants	21	5,108,932	6,368,524
Interest bearing loans and borrowings	22	46,293,607	67,557,850
Total non-current liabilities		53,027,319	75,143,649
Current liabilities			
Interest bearing loans and borrowings	22	24,188,308	18,276,133
Trade creditors		45,983,031	37,751,247
Advances received		303,946	119,675
Warranty provision	20	2,497,815	963,000
Corporate income tax payable	12	0	29,989
Fair value of derivative financial instruments	24	4,120,268	0
Other creditors	23	12,865,525	11,225,396
Total current liabilities		89,958,893	68,365,440
Total liabilities		142,986,212	143,509,089
TOTAL EQUITY AND LIABILITIES		246,284,472	233,653,799

The notes set out in pages 12 to 43 form an integral part of these financial statements.

Statement of changes in shareholders' equity

Litas	Share capital	Share premium	Treasury shares	Legal reserve	Other reserves	Translation reserve	Retained earnings	Total	Minority interest	Total equity
Capital and reserves at 1 January 2004	23,070,405	3,643,750	-200,340	2,337,913	12,134,926	108,633	38,812,359	79,907,646	0	79,907,646
Allocation of reserves					14,453,074		-14,453,074	0		0
Dividend for 2003							-3,074,054	-3,074,054		-3,074,054
Disposal of own shares			200,340				79,111	279,451		279,451
Total recognised income and expense for 2004						-895,004	15,158,255	14,263,251	-1,231,584	13,031,667
Negative minority attributed to retained earnings of the parent							-1,231,584	-1,231,584	1,231,584	0
Capital and reserves at 31 December 2004	23,070,405	3,643,750	0	2,337,913	26,588,000	-786,371	35,291,013	90,144,710	0	90,144,710
Dividend for 2004							-1,384,224	-1,384,224		-1,384,224
Total recognised income and expense for 2005						-502,192	13,722,364	13,220,172	1,317,602	14,537,774
Minority profits allocated to cover previous losses absorbed by parent							1,293,608	1,293,608	-1,293,608	0
Capital and reserves at 31 December 2005	23,070,405	3,643,750	0	2,337,913	26,588,000	-1,288,563	48,922,761	103,274,266	23,994	103,298,260

The notes set out in pages 12 to 43 form an integral part of these financial statements.

Consolidated statement of cash flows

Litas	2005	2004
Result before tax	19,207,766	18,419,082
Depreciation and amortisation	19,299,508	14,333,056
Amortisation of grants	-1,370,592	-1,389,192
Result of non current assets disposed	-78,916	118,668
Write down of inventories	39,659	24,129
Impairment of trade receivables	2,000,000	218,777
Reversal of impairment of trade receivables	-61,385	0
Unrealised loss on revaluation of currency derivatives	4,120,268	0
Change in warrantee provision	2,262,180	995,546
Currency exchange gains and losses	-502,192	895,004
Interest income	-43,985	-217,465
Interest expense	2,930,538	2,551,771
Net cash inflow from ordinary activities before any change in working capital	47,802,849	34,159,368
Change in trade and other receivables	-5,106,178	-21,959,083
Change in inventories	-6,924,319	-15,711,267
Change in trade creditors and other creditors	10,056,186	7,600,747
Net cash inflow from ordinary activities	45,828,538	4,089,765
Interest received	43,985	217,465
Interest paid	-2,930,538	-2,551,771
Profit tax paid	-6,824,882	-7,450,772
Net cash inflow from operating activities	36,117,103	-5,695,313
Acquisition of property, plant and equipment	-18,204,389	-27,215,393
Capitalisation of intangible fixed assets	-2,194,629	-2,539,230
Proceeds from disposed non current assets	684,425	3,290,679
Net cash outflow from investing activities	-19,714,593	-26,463,944
Carried forward		

Consolidated statement of cash flows

Litas	2005	2004
Brought forward		
Proceeds from sales of own shares		279,450
Dividend paid	-1,384,224	-3,074,054
Subsidies received	111,000	129,600
Proceeds from loans	80,155,741	34,896,241
Payments of loans	-95,202,452	-1,904,299
Leasing obtained	76,337	992,828
Payments of leasing liabilities	-381,694	-393,207
Net cash inflow/(outflow) from financing, net	-16,625,292	30,926,559
Net cash inflow/outflow from operating activities, investing activities and financing	-222,782	-1,232,698
Cash and cash equivalents at 1 January	5,408,564	6,641,262
Cash and cash equivalents at 31 December	5,185,782	5,408,564

The notes set out in pages 12 to 43 form an integral part of these financial statements.

Notes to the accounts

1 Summary of significant accounting policies

The joint stock company AB Snaigė (the Company), which is the parent company of the Snaigė Group, is a public listed company domiciled in Alytus, Lithuania. The Company's shares are traded on the Official List of the National Stock Exchange of Lithuania (NSEL).

The Group's main products are refrigerators and fridges. The main products are consumer and commercial refrigerators.

As at 31 December 2005, the Group employed 2,292 employees (2004: 2,304 employees).

As at 31 December 2005 the major shareholders were as follows:

	Shares	Shareholding
UAB Survesta	5,257,100	22.79%
SSBT AS Custodian for eternity limited	705,000	3.06%
NSEL 30 index fund	276,395	1.20%
Raimundas Gražys	257,655	1.12%
UAB Hermis Capital	173,838	0.75%
Albinas Valašinas	165,149	0.72%
Other shareholders	16,235,268	70.36%
	23,070,405	100.00%

As at 31 December 2005, the Company's Board includes two members from the management and three representatives of UAB Hermis Capital and UAB Survesta (subsidiary of UAB Hermis Capital).

The consolidated financial statements of the Company for the year ended 31 December 2005 comprise the Company and its subsidiaries.

The subsidiary Techprominvest (Kaliningrad, Russia) was acquired by AB Snaige in 2002. As of the acquisition, the Company owns 85% of Techprominvest. The subsidiary is involved in production of refrigerators and fridges sold in Russia.

Snaige Ukraine (Kiev, Ukraine) was established in 2002. As of the acquisition in 2002, the Company owns 99% of Snaige-Ukraine. The subsidiary provides sales and marketing services to AB Snaige in Ukrainian market.

On 13 May 2004, Moroz Trade (Moscow, Russia) was established. The Company acquired 100% of shares of Moroz Trade in October 2004. The subsidiary provides sales and marketing services to Techprominvest in Russian market.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), further to the IAS Regulation (EC 1606/2002).

Management has authorized the financial statements for issue on 31 March 2006 and signed the financial statements on behalf of the Company.

Basis of preparation

The consolidated financial statements are presented in Litas. They are prepared on the historical cost basis except for derivative financial instruments, which are stated at their fair value.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

The accounting policies of the Group as set out below have been applied consistently by Group entities and are consistent with those of the preceding year, except as a result of change in accounting policies resulting from amendments to existing IFRSs and the introduction of new IFRSs applicable as of 1 January 2005 which are described in Note 2.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The functional currency of the Group is Litas, except for subsidiaries Techprominvest and Moroz Trade, the functional currency of which is the Russian ruble and except for subsidiary Snaige Ukraine, the functional currency of which is the Ukrainian grivna.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Litas at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Litas at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations are taken to translation reserve. They are released into the income statement upon disposal of the investment.

Financial instruments

Derivative financial instruments

The Group used currency exchange derivatives to hedge its income denominated in US Dollars.

Derivative financial instruments are recognized initially at fair value. As at the date of financial statements, derivative financial instruments are revalued to fair value as at that date, the gain or loss on their subsequent measurement at fair value is recognized immediately in profit or loss. The fair value of forward exchange contracts is their market price at the balance sheet date, being the present value of the quoted forward price.

Other financial instruments

Loans and receivables are non derivative financial assets or determinable payments that are not quoted in an active market. They are included in current assets except for maturities greater than 12 months. Trade receivables are initially recognized at fair value. Loans and other receivables are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less impairment, if any. Short-term receivables are not discounted.

Borrowings are initially recognized at fair value less direct costs related to occurrence of respective loan and other liabilities. Subsequent to initial recognition, liabilities are stated at amortized cost on an effective interest method basis. Trade payables are initially recognized at fair value and are subsequently measured at amortised cost. Short-term liabilities are not discounted.

Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are not accounted for as separate items of property, plant and equipment.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item or major overhaul when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. At recognition of replacing part or major overhaul, carrying amount of parts replaced or previous major overhaul are derecognised. All other costs are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- Buildings and constructions 15 - 63 years
- Plant and machinery 5 - 10 years
- Vehicles and other assets 3 - 8 years

Depreciation methods, residual values and useful lives are reassessed annually.

Intangible assets

Goodwill

Business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill is stated at cost less amortization and accumulated impairment losses. Starting from 1 January 2005 goodwill is not amortised but is tested annually for impairment.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities, including design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Company has sufficient resources and is planning to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads.

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Development costs that have been capitalised are amortised from the commencement of the commercial production of the related product over the period of the expected benefit. The amortization period varies from 1 to 4 years period.

Other intangible assets

Intangible assets, comprising computer software and software licenses that are acquired by the Company are stated at cost less accumulated amortization and impairment. The assets are amortised using the straight-line method over a 1 -3 years' period.

Inventories

Inventories produced and/or held for sale sold in the ordinary course of business are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Other inventories are stated at the lower of cost and fair value less cost to sell.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed. Impairment loss in respect of other assets is reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Provisions

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Warranty of up to 10 years are provided when products are sold. The provision for warranty repairs is made based on the expected cost of repairs and statistical failure rates of production.

Revenue

Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. The revenue recognized is net of discounts provided. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. Rental income is recognised in the income statement on a straight-line basis over the term of the lease.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods also continuing management involvement with the goods.

Government grants

A government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income statement as other operating income on a systematic basis over the useful life of the asset.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, dividend income, foreign exchange gains and losses.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: for initial recognition of goodwill or of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

– IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. As the Group does not participate in any defined benefit plans, Management considered this amendment to IAS 19 and concluded that it is not relevant to the Group.

- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). Management considered this amendment to IAS 39 and concluded that it is not relevant to the Group.

– IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group has not classified any instruments as at fair value through profit and loss.

– IAS 39 and IFRS 4 (Amendment), Financial Warranty Contracts (effective from 1 January 2006). Management considered this amendment to IAS 39 and IFRS 4 and concluded that it is not relevant to the Group.

– IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. Management is currently assessing the impact of IFRS 7 and amendment to IAS 1 on the Group's operations. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

– IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on the Group's operations.

– IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005). The interpretation deals with obligations arising from the European Union Directive regulating the collection, treatment, recovery and environmentally sound disposal of waste equipment. Management is currently assessing the impact of IFRIC 6 on the Company's operations.

2 Change in accounting policies

Adoption of standards effective from 1 January 2005

As of 1 January 2005, the Company adopted the IFRSs below, which are relevant to its operations. The financial statements have been amended as required, in accordance with the relevant requirements.

- IAS 1 (revised 2003 and amended March 2004), *Presentation of Financial Statements*
- IAS 2 (revised 2003), *Inventories*
- IAS 8 (revised 2003), *Accounting Policies, Changes in Accounting Estimates and Errors*
- IAS 10 (revised 2003 and amended March 2004), *Events after the Balance Sheet Date*
- IAS 16 (revised 2003 and amended March 2004), *Property, Plant and Equipment*
- IAS 17 (revised 2003 and amended March 2004), *Leases*
- IAS 24 (revised 2003), *Related Party Disclosures*
- IAS 27 (revised 2003 and amended March 2004), *Consolidated and Separate Financial Statements*
- IAS 28 (revised 2003 and amended March 2004), *Investments in Associates*
- IAS 33 (revised 2003 and amended March 2004), *Earnings per Share*
- IAS 36 (revised 2004), *Impairment of Assets*
- IAS 38 (revised 2004), *Intangible Assets*
- IAS 39 (revised 2004) *Financial Instruments: Recognition and Measurement*
- IFRS 2 (issued 2004), *Share-based Payments*
- IFRS 3 (issued 2004), *Business Combinations*
- IFRS 5 (issued 2004), *Non-current Assets Held for Sale and Discontinued Operations (early adopted 1 January 2004)*

The Company adopted these effective from 1 January 2005. Below we provide the discussion of the impact of the new standards, applicable to the Group.

Goodwill

In accordance with IFRS 3, starting from 1 January 2005 goodwill is not amortised anymore, however, it is tested annually for impairment.

Financial Instruments

In accordance with IAS 39 requirements, the Group has reviewed its financial instruments held at 1 January 2005 and has performed re-designation of these financial instruments into categories as defined by the revised IAS 39. The standard requires retrospective application. All loans, receivables and deposits of the Group were classified as loans and receivables and measured at amortised cost. Current portion of loans and receivables was classified as current assets, based on remaining maturity at the balance sheet date. There was no impact on net income or equity from this re-designation.

3 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment losses on receivables

The Group reviews its receivables to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may includes observable data indicating that there has been an adverse change in the payment status of debtors in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Judgments

The Group has recognized deferred tax assets based on the judgment of management that realization of the related tax benefits through future taxable profits are probable.

4 Segment reporting

The Group's only business segment (basis for primary reporting format) is the manufacturing of refrigerators and specialised equipment. Segment information is presented in respect of the Group's geographical segments (secondary reporting format).

Results for 2005 by geographical segments can be specified as follows:

LTL'000	Western Europe	Eastern Europe	Baltic states	Ukraine	Russia	Lithua-nia	Unallo-cated	Total
Revenue	82,164	45,657	17,703	85,067	103,592	26,213	8,482	368,878
Gross profit	11,021	5,442	2,640	18,900	24,775	4,248	1,810	68,836
Operating expenses					-2,000		-46,334	-48,334
Operating profit	11,021	5,442	2,640	18,900	22,775	4,248	-44,524	20,502
Net financing costs							-1,294	-1,294
Profit before tax	11,021	5,442	2,640	18,900	22,775	4,248	-45,818	19,208
Income tax expense							-4,168	-4,168
Net segment result	11,021	5,442	2,640	18,900	22,775	4,248	-49,986	15,040
Segment assets as to location of customers	11,395	9,196	3,390	11,500	19,963	5,897	184,943	246,284
Segment assets as to location of assets	0	0	0	1,477	104,386	140,421	0	246,284
Total liabilities							142,986	142,986
Cash flows from operating activities	80,408	45,262	16,826	81,454	97,294	25,269	-310,396	36,117
Cash flows from investing activities							-19,715	-19,715
Cash flows from financing activities							-16,625	-16,625
Net cash flow	80,408	45,262	16,826	81,454	97,294	25,269	-346,736	-223
Capital expenditure	0	0	0	103	3,109	9,525	0	12,737

Results for 2004 by geographical segments can be specified as follows:

LTL'000	Western Europe	Eastern Europe	Baltic states	Ukraine	Russia	Lithua-nia	Unallo-cated	Total
Revenue	77,499	48,859	13,685	84,564	30,248	30,650	7,862	293,367
Gross profit	15,017	8,087	2,646	19,399	10,325	6,319	1,684	63,477
Operating expenses							-36,386	-36,386
Operating profit	15,017	8,087	2,646	19,399	10,325	6,319	-34,702	27,091
Net financing costs							-8,672	-8,672
Profit before tax	15,017	8,087	2,646	19,399	10,325	6,319	-43,374	18,419
Income tax expense							-4,492	-4,492
Net segment result	15,017	8,087	2,646	19,399	10,325	6,319	-47,866	13,927
Segment assets by location of customers	9,639	8,801	2,513	7,887	15,665	4,953	184,196	233,654
Segment assets by location of assets	0	0	0	5,599	91,422	136,633	0	233,654
Total liabilities							143,509	143,509
Cash flows from operating activities	76,872	48,563	13,332	81,332	16,971	29,485	-272,250	-5,695
Cash flows from investing activities							-26,464	-26,464
Cash flows from financing activities							30,926	30,926
Net cash flow	76,872	48,563	13,332	81,332	16,971	29,485	-267,788	-1,233
Capital expenditure	0	0	0	6	17,958	8,759	0	26,723

	Litas	2005	2004
5	**Distribution expenses**		
	Transportation	9,226,228	6,758,343
	Warranty service costs	3,568,406	1,043,028
	Advertising	3,312,446	1,688,658
	Commissions for third parties	2,832,647	538,100
	Salaries and social insurance	2,462,818	523,035
	Warehouse rent	1,954,690	323,990
	Insurance	569,173	450,995
	Business trip expenses	368,572	502,793
	Depreciation	157,009	123,413
	Other	1,996,385	1,166,787
		26,448,374	13,119,142

	Litas	2005	2004
6	**Administrative expenses**		
	Salaries and social insurance	8,221,274	8,755,336
	Depreciation	3,777,945	2,963,872
	Impairment of trade receivables	2,000,000	218,777
	Property and road tax expenses	1,637,489	1,927,507
	Communication expenses	767,521	796,455
	Business trips	753,753	285,430
	Charity, Christmas presents, etc.	486,753	735,939
	Bonuses, payments to the Board accrued	473,453	1,385,921
	Utilities	402,139	304,957
	Car exploitation expenses	384,876	453,843
	Insurance	376,732	283,389
	Other	3,422,123	5,524,853
		22,04,058	23,636,279

Impairment of trade receivables recognized in 2005 is related to an overdue receivable from a Russian customer.

Litas		2005	2004
7	**Personnel expenses**		
	Wages and salaries	38,241,238	36,478,177
	Compulsory social security contributions	12,233,816	11,241,879
		50,475,054	47,720,056

Staff costs include wages and salaries and emoluments for the management of Litas 2,875 thousand (2004: Litas 1,758 thousand).

The Group's average number of employees during 2005 was 2,292 (2004: 2,304 employees).

Litas		2005	2004
8	**Other operating income and expenses**		
	Income from transportation	1,716,439	1,588,758
	Revenue of auxiliary departments	841,622	1,792,214
	Gain from disposal of non current assets	78,916	0
	Sales of materials and spare parts	472,031	0
	Others	140,975	383,834
	Other operating income	3,249,983	3,764,806
	Transportation expenses	1,376,448	1,493,750
	Expenses of auxiliary departments	652,743	1,255,439
	Loss from non current assets disposed	0	118,668
	Cost of sales of materials	292,970	0
	Amortisation of goodwill	0	186,583
	Other expenses	109,172	340,039
	Other operating expenses	2,431,333	3,394,479
	Other operating income and expenses, net	818,650	370,327

	Litas	2005	2004
9	**Financing income and expenses**		
	Foreign exchange gain	89,068,126	40,432,668
	Interest on loans issued	43,985	217,465
	Gain from foreign currency derivatives	0	1,387,767
	Other financial income	33,491	25,459
	Financing income	89,145,602	42,063,359
	Foreign exchange loss	77,089,198	46,643,552
	Realized loss from foreign currency derivatives	6,299,627	1,538,923
	Unrealised loss from foreign currency derivatives	4,120,268	0
	Interest on loans	2,930,538	2,551,771
	Other financial expenses	0	1,448
	Financing expenses	90,439,631	50,735,694
	Financial income and expenses, net	-1,294,029	-8,672,335

10	**Corporate income tax expenses**		
	Current tax expense		
	Current tax	5,162,246	4,449,551
	Withholding tax paid in foreign countries	242,956	0
		5,405,202	4,449,551
	Deferred tax expense		
	Change in deferred taxation	-1,237,402	42,860
		-1,237,402	42,860
	Total income tax expense	4,167,800	4,492,411

The reconciliation of effective tax rate is as follows:

Litas'000	2005		2004	
Result before tax		19,208		18,419
Income tax using effective tax rate	15.0%	2,881	15.0%	2,763
Non deductible expenses	4.2%	897	1.9%	347
Tax exempt revenues	-2.8%	-598	-1.9%	-349
Effect of increased interest rates for loans for tax purposes	1.5%	315	0	0
Unrecognised deferred tax asset on currency derivatives*	9.3%	1,980	0	0
Unrecognised deferred tax asset on losses carried forward	2.3%	495	3.7%	674
Unrecognised deferred tax asset on temporary deductible differences	2.2%	439	0.3%	48
Effect of previously unrecognised deferred tax asset on losses carried forward	-3.2%	-688	0	0
Effect of previously unrecognised deferred tax asset on temporary deductible differences	-5.2%	-1,112	5.5%	1,007
Effect of increased corporate income tax rate	-2.0%	-427	0	0
Effect of tax rates in foreign jurisdictions	-0.1%	-14	0.0%	2
	21.2%	4,168	24.5%	4,492

*The loss on derivative financial instruments may not be set off against other taxable profits except for profits from derivatives and investments. Due to uncertainty of realization of the specific tax loss from the derivatives, the related deferred tax benefit was not recognized in the financial statements.

11 Deferred tax

Litas'000	2005 Temporary difference	2005 Deferred tax (15-24%)	2004 Temporary difference	2004 Deferred tax (15-24%)
Difference on the tax base and the carrying amount of non current assets	-3,778	-648	-3,756	-563
Difference on the tax base and the carrying amount of non current assets	3,243	779	3,108	466
Difference on the tax base and the carrying amount of inventories	-452	-108	5,110	766
Difference on the tax base and the carrying amount of trade debtors	2,000	480	0	0
Difference on the tax base and the carrying amount of trade debtors	-2,291	-550	0	0
Warranty provision	4,154	894	1,859	321
Other liabilities and accruals	672	138	302	51
Loss on currency derivatives	10,420	1,980	0	0
Tax loss carried forward	5,944	1,427	4,650	1,116
Net book value at 31 December	19,912	4,392	11,273	2,157
Deferred tax asset not recognized on currency derivatives		-1,980		0
Deferred tax asset not recognized on losses carried forward		-792		-1,116
Deferred tax asset not recognized on other temporary differences		-702		-1,361
Deferred tax asset / liability		918		-320

The movement on the deferred tax account is as follows:

Litas	2005	2004
Deferred tax liability at 1 January	-319,860	-277,000
Change in deferred tax	1,237,402	-42,860
Deferred tax asset / liability at 31 December	917,542	-319,860

12 Current tax assets and liabilities

	2005	2004
	Litas	Litas
Liability 1 January	-29,989	-3,031,210
Corporate income tax for the year	-5,405,202	-4,449,551
Income tax paid	6,824,882	7,450,772
Overpayment / liability 31 December	1,389,691	-29,989

The current tax asset of Litas 1,390 thousand represents the amounts of income taxes recoverable in respect of current and prior periods that exceed payments.

13 Property, plant and equipment

Litas	Land and buildings	Machinery and equipment	Vehicles and other assets	Construction in progress	Total
Cost at 1 January 2005	39,309,033	100,805,866	16,014,676	3,250,062	159,379,637
Additions	442,541	8,060,825	1,269,180	2,964,872	12,737,418
Disposals	-6,442	-1,546,262	-1,160,989	-75,535	-2,789,228
Reclassifications	2,328,252	76,382	2,924,275	-5,593,646	-264,737
Translation difference	2,643,548	2,550,772	139,976	132,675	5,466,971
Cost at 31 December 2005	44,716,932	109,947,583	19,187,118	678,428	174,530,061
Depreciation at 1 January	1,648,447	43,505,276	8,393,248		53,546,971
Depreciation for the year	1,643,955	13,298,019	2,683,772		17,625,746
Disposals	-4,725	-1,480,491	-814,478		-2,299,694
Reclassifications	914	-610,577	460,749		-148,914
Translation difference	64,391	236,457	33,385		334,233
Depreciation at 31 December 2005	3,352,982	54,948,684	10,756,676	0	69,058,342
Net book value at 31 December	41,363,950	54,998,899	8,430,442	678,428	105,471,719
Net book value at 1 January 2005	37,660,586	57,300,590	7,621,428	3,250,062	105,832,666

Depreciation has been allocated as follows:

Litas	2005	2004
Production and production development costs	15,030,321	11,059,188
Administrative expenses	2,438,416	1,900,549
Distribution expenses	157,009	123,413
Total	17,625,746	13,083,150

Leased plant and machinery

The Group (lessee) leases production equipment under finance lease agreements. The net carrying amount of leased assets amounts to Litas 1,227 thousand as at 31 December 2005 (2004: Litas 1,405 thousand). The leased equipment secures lease obligations (refer note 22).

Non-current assets with a book value of Litas 349 thousand as at 31 December 2005 (2004: Litas 612 thousand) are rented under operating lease contracts to third parties.

Security

At 31 December 2005, buildings with a carrying amount of Litas 34,467 thousand (2004: Litas 10,916 thousand) and machinery and equipment with a carrying amount of Litas 39,489 thousand (2004: Litas 30,691 thousand) are pledged to secure bank loans (refer to note 22).

14 Intangible fixed assets

Litas	Goodwill	Development costs	Software, licences	Total
Cost at 1 January 2005	2,798,747	6,363,738	1,940,098	11,102,583
Additions during the period		1,836,377	242,429	2,078,806
Disposals			-26,683	-26,683
Reclassified from tangible assets		239,135	25,603	264,738
Other reclassifications	-326,520			-326,520
Cost at 31 December 2005	2,472,227	8,439,250	2,181,447	13,092,924
Amortisation at 1 January	326,520	2,964,504	1,297,167	4,588,191
Amortisation for the period		990,036	349,493	1,339,529
Depreciation of disposals			-26,529	-26,529
Reclassified from tangible assets		122,358	26,557	148,915
Other reclassifications	-326,520			-326,520
Amortisation at 31 December 2005	0	4,076,898	1,646,688	5,723,586
Net book value at 31 December 2005	2,472,227	4,362,352	534,759	7,369,338
Net book value at 1 January 2005	2,472,227	3,399,234	642,931	6,514,392

Amortisation is included under operating expenses, except for amortization of goodwill that was included in other operating expenses for the year 2004.

Litas	2005	2004
15 Inventories		
Raw materials and spare parts	38,353,945	27,065,508
Work in progress	732,916	1,045,221
Finished goods	21,659,996	25,764,226
Other	13,727	969
Net book value at 31 December	60,760,584	53,875,924

Raw materials and spare parts consist of compressors, components, plastics, wires, metals and other materials used in the production.

At 31 December 2005, inventories up to the carrying amount of Litas 19,300 thousand (2004: Litas 19,300 thousand) are pledged to secure bank loans. (refer to Note 22).

Inventories expensed during the year are as follows:

Litas	2005	2004
Cost of sales (produced goods sold)	300,003,063	229,866,718
Administrative expenses (write down of inventories)	39,659	24,129
	300,042,722	229,890,847

	Litas	2005	2004
16	**Other receivables**		
	VAT receivable	2,130,141	6,625,529
	Prepayments and deferred charges	817,423	957,202
	Receivable compensations	235,064	15,432
	Loans issued	0	2,300,000
	Receivable for non current assets sold	0	1,663,011
	Other receivable	274,434	356,665
		3,457,062	11,917,839

Compensations are receivable from suppliers for bad quality goods supplied.

As at 31 December 2004 other receivables include loan receivables from related parties. Refer to note 26 for details on the related party loan outstanding as at 31 December 2004.

17 Cash and cash equivalents

	2005	2004
Cash at bank	5,166,840	5,403,558
Cash in hand	18,942	5,006
Cash and cash equivalents at 31 December	5,185,782	5,408,564

At 31 December 2005, cash inflows into the bank accounts up to Litas 10,000 thousand (2004: Litas 10,000 thousand) are pledged to secure bank loans (refer to Note 22).

18 Capital and reserves

Share capital

The share capital comprises 23,070,405 ordinary shares with a nominal value of 1 Litas each and the total share capital of 23,070,405 Litas, fully paid. The holders of the ordinary shares are entitled to one vote per share in the shareholders' meeting and are entitled to receive dividends as declared from time to time and to capital repayment in case of decrease of the capital.

Own shares

	2005		2004	
Litas	Number of shares	Treasury shares	Number of shares	Treasury shares
At 1 January	0	0	1,000	200,340
Treasury shares acquired in the market			-1,000	-200,340
At 31 December	0	0	0	0

The gain resulting from the disposal of own shares amounting to Litas 79 thousand was recognised directly in equity.

Legal reserve

The legal reserve in the amount of Litas 2,338 thousand is a compulsory reserve under Lithuanian legislation. Annual contributions of 5% of the retained earnings available for distribution are required until the legal reserve and the share premium reach 10% of the authorised capital.

Other reserves, distributable

According to a decision of the shareholders other reserves are allocated for specific purposes. Before profit allocation, all distributable reserves are transferred to retained earnings and re-distributed by the shareholders' decision each year.

Other distributable reserves in the amount of Litas 26,588 thousand were formed according to the shareholders decision, dated 27 April 2005, and comprise a reserve for own shares acquisition of Litas 10,000 thousand, a reserve for investments of Litas 16,000 thousand and other reserves for charity and social needs of Litas 588 thousand.

19 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the parent company's shareholders by the weighted average number of ordinary shares in issue during the year.

Litas	2005	2004
Shares issued 1 January	23,070,405	23,070,405
Effect of own shares held at 1 January	0	-1,000
Treasury shares sold in April 2004	0	1,000
Average weighted number of shares in issue	23,070,405	23,070,072
Net result for the year, attributable to the parent company	13,722,364	15,158,255
Earnings per share	0.59	0.66

The Company has no dilutive potential shares or convertibles. The diluted earnings per share are the same as the basic earnings per share.

20 Warranty provision

The Group provides a warranty of up to 10 years for the production sold. The provision for warranty repairs has been made based on the expected cost of repairs and statistical warranty repair rates and, accordingly divided to long term and short term provisions.

21 Deferred grants

Litas	Grant income
Grants at 1 January	10,204,100
Additions during the period	111,000
Grants at 31 December	10,315,100
Amortisation at 1 January	3,835,576
Amortisation for the period	1,370,592
Amortisation at 31 December	5,206,168
Net book value at 31 December	5,108,932
Net book value at 1 January	6,368,524

Deferred grant income comprises grant received for renewal of production machinery and improvements of buildings in connection with the elimination of CFC 11 element from the production of poliethanic insulation and filling foam, a grant for elimination of green house gases in the manufacturing of domestic refrigerators and freezers and a grant for export development programme. Deferred grants are amortised over the same period as the machinery and improvements or recognized as income when compensated costs are incurred. Amortisation of grants is included in production cost against depreciation of machinery and improvements and in the profit and loss account against other compensated expenses.

		2005	2004
22	**Interest bearing loans and borrowings**	Litas	Litas
	Non-current liabilities		
	Loans	45,873,773	66,822,262
	Leasing obligations	419,834	735,588
	Total non-current	46,293,607	67,557,850
	Current liabilities		
	Bank loans	23,805,621	17,903,843
	Leasing obligations	382,687	372,290
	Total current	24,188,308	18,276,133
	Grand total	70,481,915	85,833,983

Future minimum lease payments are as follows:

Litas	Total	Interest	Principal
Less than 1 year	404,930	22,243	382,687
Between 1 and 2 years	217,658	11,018	206,640
Between 2 and 5 years	219,482	6,288	213,194
	842,070	39,549	802,521

Financial lease liabilities bear variable interest rates set to 12 months LIBOR EUR plus 1.4% margin, 6 months EURIBOR plus 1.5% margin and 6 months LIBOR EUR plus 1.3% - 1.2% margin.

Terms and repayment schedule:

Litas	Total	Up to 1 year	1 - 2 years	2 - 5 years
Credit line of 3,688,793 EUR - variable at rate of 6 months EUR LIBOR + 1,2%	12,736,667	5,831,067	6,905,600	
Loan of 3,867,939 EUR – variable at rate of 6 months EUR LIBOR + 1,1%	13,355,219	5,935,653	7,419,566	
Overdraft of 1,630,829 EUR – variable at rate of 1 month EURIBOR + 1,1%	5,630,927	5,630,927		
Loan of 952,000 EUR – variable at rate of 6 months EURIBOR + 1,1%	3,287,066	3,287,066		
Credit line of 5,616,410 LTL – variable at rate of 6 months VILIBOR + 1,1%	5,616,410		5,616,410	
Credit line of 4,323,322 EUR – variable at rate of 6 months EUR LIBOR + 1,0%	14,927,567		14,927,567	
Loan of 2,848,000 EUR – variable at rate of 6 months EUR LIBOR + 1,0%	9,833,574		9,833,574	
Loan of 364,160 USD – fixed at rate 3,9%	1,059,778		1,059,778	
Loan of 843,000 USD – fixed at rate 3,9%	2,453,299	2,453,299		
Loan of 64,500 EUR – fixed at rate 3,9%	222,706	222,706		
Loan of 15,085 USD – not interest bearing	43,901		43,901	
Loan of 19,514 EUR – not interest bearing	67,377		67,377	
Loan of 135,403 USD – not interest bearing	394,050	394,050		
Loan of 14,728 EUR – not interest bearing	50,853	50,853		
Total	69,679,394	23,805,621	45,873,773	0

The Group has 7 loans issued by Lithuanian banks, 1 loan issued by Ammotrade LLC and 2 loans issued by Texas Fertilizer Investment LLC.

At 31 December 2005, buildings with a carrying amount of Litas 34,467 thousand (2004: Litas 10,916 thousand), machinery and equipment with a carrying amount of Litas 39,489 thousand (2004: Litas 30,691 thousand), inventories up to the carrying amount of Litas 19,300 thousand (2004: Litas 19,300 thousand), cash inflows into the bank accounts up to Litas 10,000 thousand (2004: Litas 10,000 thousand) and Techprominvest shares of Litas 2,808 thousand (2004: Litas 2,808 thousand) are pledged to secure bank loans. Other loans issued by Texas Fertilizer Investment LLC and Ammotrade LLC are unsecured.

On 15 February 2006, the Group agreed with a bank on increased credit line of Litas 20 million (Litas 5,6 million were used as at 31 December 2005) and prolonged the maturity until 15 February 2008.

		2005	2004
23	**Other creditors**	Litas	Litas
	Salaries and related taxes payable	3,146,929	2,633,114
	Vacation reserve	2,121,311	1,014,238
	Accrued bonuses and payment to the Board	473,453	1,385,921
	Other taxes payable	6,797,892	5,792,540
	Other payables and accrued charges	325,940	399,583
		12,865,525	11,225,396

24 Derivative financial instruments

In January 2005, the Group entered into a forward foreign exchange agreements with a bank to sell 43,340 thousand USD at a fixed rate during the period from January 2005 to January 2006. The derivatives were used to hedge income denominated in USD. During the year the Group incurred a loss of Litas 6,300 thousand on matured forwards. As at 31 December 2005, the Group has outstanding liability to sell USD 12,483 thousand equivalent to Litas 36,328 thousand that mature in January 2006.

As at 31 December 2005, derivative financial instruments were revaluated to their fair value as at that date. The fair value of forward exchange contracts is their market price at the balance sheet date, being the present value of the quoted forward price. The loss on instruments' re-measurement to fair value of Litas 4,120 thousand was recognised in profit and loss account for 2005.

25 Financial instruments

Exposure to credit, interest rate and currency exchange risk arises from operational, financing and investing activities of the Group.

Credit risk

Management has a credit policy in place, and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Majority of the Group's trade receivable is insured.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities.

Interest rate risk

The Group's borrowings are subject to fixed and variable interest rates, related to LIBOR and EURIBOR.

As of 31 December 2005, the Group did not use any financial instruments to hedge its exposure to the cash flow or price risk related to debt instruments with variable interest rates.

Foreign exchange risk

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than EUR (the Lithuanian Litas is pegged to euro at a fixed rate equal 3.4528 LTL / EUR). The currencies giving rise to this risk are US Dollars, Russian RUB and Ukrainian UAH.

The Group uses foreign currency derivatives to hedge its exposure to foreign currency risk. See note 24 on details of derivative instruments used.

Accounts receivable and payable in foreign currencies as at 31 December 2005 and 31 December 2004 could be specified as follows:

	31 December 2005				31 December 2004			
LTL'000	EUR	USD	RUB	UAH	EUR	USD	RUB	UAH
Trade debtors	25,041	10,234	21,657	1,366	22,940	6,764	14,715	882
Other debtors	30	0	2,895	154	74	2,420	3,749	794
Cash	861	10	3,666	154	81	1,832	2,706	420
Borrowings	-60,914	-3,951	0	0	-73,921	-3,060	0	0
Trade creditors	-32,209	-4	-606	-2	-20,027	-1,036	-1,510	-20
Other creditors	-134	-64	-7,930	-95	-121	-246	-5,742	-1
Fair value of currency derivative	0	-4,120	0	0	0	0	0	0
Net position	-67,325	2,105	19,682	1,577	-70,974	6,674	13,918	2,075

26 Related party transactions

Related parties of the Company are:

-the party that controls, is controlled by or is under common control with the Company;

-the party that has significant influence over the Company;

-the party that is a member of key management personnel of the Company or its parent;

-the close members of the family of the above mentioned individuals and

-the companies under control or significantly influenced by the above mentioned individuals.

Inter-company transactions and balances have been eliminated under consolidation.

Remuneration to the Company's management is disclosed in note 7 to the annual accounts. Remuneration to the Board members amounted to Litas 184 thousand in 2005.

Purchases from other related parties during 2005 and 2004 are as follows:

Litas	Item	2005	2004
From:			
Company under common control with AB Snaige:			
UAB Hermis Fondų Valdymas	Rent fees	60,480	45,360
Companies owned by management members and/or their close relatives:			
UAB Lisiplastas	Materials	8,258,540	6,801,284
UAB Baltijos Polistirenas	Materials	1,036,536	305,365
UAB Aljana	Materials	19,789	19,243
UAB Lanksti Linija	Materials	68,517	2,069,982

Income from other related parties during 2005 and 2004 are as follows:

Litas	Item	2005	2004
From shareholders:			
UAB Hermis Capital	Interest	43,985	217,463
From companies owned by management members and/or their close relatives:			
UAB Lisiplastas	Spare parts	356,710	488,539
UAB Lanksti Linija	Repair services	126,505	3,550,927

Accounts receivable and payable from other related parties as at 31 December 2005 and 31 December 2004 are as follows:

Litas	Item	31 12 2005	31 12 2004
Payable to:			
UAB Hermis Capital	Loan	0	2,300,000
UAB Hermis Capital	Interest receivable	0	75,089
UAB Lanksti linija	Trade receivable	59,327	32,814
Receivable from:			
UAB Lisiplastas	Trade payable	615,890	784,495
UAB Aljana	Trade payable	2,643	4,809
UAB Lanksti Linija	Trade payable	21,589	0

27 Subsequent events

On 7 February 2006, the Group acquired 100% shares of the newly established OOO Liga Servis in Russia for Litas 1 thousand. The subsidiary will provide sales agency services to Techprominvest.

On 15 February 2006, the Group has extended the credit line with a bank to Litas 20 million (Litas 5,6 million was used as at 31 December 2005) and prolonged its maturity until 15 February 2008. According to the agreement with the bank, the lent funds could only be used for financing of the working capital and issuance of guarantees to suppliers but not for any other purpose. Without a written permission from the bank, the company is not allowed to make any investments in other companies.

AB Snaige issued new loans to OOO Techprominvest of EUR 2,000 thousand in February 2006, bearing interest at of 3.9% p.a. and maturing on 1 March 2009.

On 28 February 2006, the Group issued a loan to UAB Hermis Capital of Litas 5.5 million with fixed interest rate of 5% p.a. and maturing on 30 April 2006. Part of the loan amounting to Litas 4.9 million was repaid on 16 March 2006.

AB Snaigė

Report on the Company's activities for the year 2005 including review report

Contents

Review report regarding report on the Company’s activities

We have reviewed the accompanying report on the activities of AB Snaigė (the Company) for the year ended 31 December 2005. This report and the assumptions for operational plans and forecasts are the responsibility of the Company’s management. Our responsibility is to issue a report whether the information contained in the report on the Company's activities is consistent with the statutory financial statements.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements as promulgated by the International Federation of Accountants. This standard requires that we plan and perform the review to obtain reasonable assurance as to whether the report on the Company’s activities is consistent with the statutory financial statements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. Specifically, we have not reviewed management’s estimations and comments concerning future plans and forecasts, and, consequently, we do not comment on the estimations, future plans and forecasts contained in the report. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the report on the Company’s activities is inconsistent with the Company's statutory financial statements for the year ended 31 December 2005 on which we expressed a qualified opinion in our auditor’s report dated 31 March 2006.

Vilnius, 31 March 2006
KPMG Baltics, UAB

Leif Rene Hansen
Danish State Authorized
Public Accountant

Domantas Dabulis
Certified Auditor

Report on the Company's activities for the year 2005

Speech of the Chairman of the Board

Dear Shareholders, Partners, Customers and Employees

2005 was a very important year for AB "Snaigė", having required significant investments and decisions.

According to the audited consolidated data the turnover together with other activity income of AB "Snaigė" in 2005 amounted to 372.1 mill. LTL, whereas the consolidated profit before tax amounted to 19.2 mill. LTL. The turnover rise was determined by significantly increased sales figures and development in the Russian market, namely due to the expanded distributors' network and entrance of the company's products into the large chains selling domestic electric appliances.

Despite increased prices of materials and customs duties in Ukraine, the profit growth was achieved by investing into the sales procedures, optimising the costs and improving the manufacture processes.

The long-term strategy of the company served the purpose. After launch of new plant in Kaliningrad and increase of production capacity, we have established our position in the Russian market and expanded the production volumes for export to other Eastern countries. This year the turnover gained due to the operations in Russia and other Eastern countries amounted to near 50 percent of the total consolidated turnover of AB "Snaigė".

Due to progressively more stiffened requirements of the EU Directives with regard to the reduced consumption of electrical power, and due to growing customer needs and severe competition in comparison with cheap products imported from the Asian region, we must continuously invest and perform researches in order to maintain a competitive product. We are pleased to confirm that the energy effectiveness dynamics at the refrigerators plant of Alytus comply with the trends in EU markets. It is of utmost importance to state that currently new next generation, two-freeze chambers fridge-freezer type refrigerators are being developed and tested, which belong to the A+ energy class, thus requiring 40 % of the average electrical power that could have been used for a comparable old generation refrigerator.

We believe that next year AB "Snaigė" will not only be able to maintain the similar figures but also improve its return. We hope that the company's development strategy will help in achieving the set goals.

We will continue popularising the "Snaigė" brand and enlarge its position in foreign markets. Assurance of high quality, satisfaction of customers expectations and effective management – these are some of the company's strategic priorities. Innovations are always being considered in our company.

We hope that the amount of the produced refrigerators will ensure fast growth of the company's consolidated income and profit during next year.

In 2006 cost reduction will remain one of the company's priorities, whereas comprehensive analysis and development strategy will help in achieving the set goals.

We believe that the most progressive ideas of our employees will be thereinafter implemented in line with the up-to-date market trends. With the help of internal resources and intellectual potential possessed by the company, AB "Snaigė" is capable of entering competitive international markets.

We believe that next year we will actively strive for remarkable results, which will be devoted to you and your benefit.

Sincerely,

Giedrius Barysas
Chairman of the Board of AB "Snaigė"

Speech of the Managing Director

Dear All,

We are pleased to confirm that 2005 was a very successful year for AB "Snaigė". Despite changes in markets and rush development of living, the company's turnover demonstrates stable growth every year. The ten millionth refrigerator will soon be manufactured in the company. It is obviously a remarkable event. AB "Snaigė" can be distinguished by exceptional advantages that help in development of the company's activities not only in Lithuania but also worldwide.

One of the main factors determining the successful operation of AB "Snaigė" is modern and flexible approach. In competing with other manufacturers of domestic electric appliances we have not only changed the prices for the benefit of the customers, but also improved quality of the products and demonstrated enhanced attention towards the users of our products.

While ensuring the maximum profit and increase in the company's value, the main development tendencies of the company's activities are as follows: increase of income, optimisation of costs, improvement of organisational management and employees' qualification.

In order to enlarge its position and increase sales figures in Russia – the priority market of the company – the following goals are being successfully implemented in AB "Snaigė": improve distribution, enter into agreements with the largest chains of domestic electric appliances and popularise the "Snaigė" brand.

One of the strategic goals of AB "Snaigė" is to achieve the level of operation effectiveness, which would not be inferior to the one demonstrated by the Western European manufacturers. In order to achieve the above-mentioned goal we have concluded a plan for investments into new technologies and company modernisation, based on costs and effective operation. The company is continuously searching for new ways of improvement of sales and logistic processes.

It is of utmost importance to state that the management structure of the company was completely reorganised at AB "Snaigė" in 2005. New Marketing and Logistics departments were established. Competent and experienced managers were appointed to lead the main structural units of the company, who have collected an outstanding team. Reorganisation of the management model will enable effective management and optimal results. The employees' knowledge, skills and professional competence is an important factor of the company's success.

AB "Snaigė" will continue enlarging its position and developing business in the markets of Ukraine and Baltic Countries, as well as expansion to other viable markets. As before, we are going to make large investments into new products, human resources and organisational development.

Due to increasing business volumes and complexity of the company, we are going to reorganise the management model of AB "Snaigė" next year. It will ensure a common strategic approach to the shareholders' needs and enable more effective organisation of the overall group management.

Our company has proven that it is capable of competing with established foreign manufacturers. Next year we are going to maintain the gained position in the Western countries, distinguished by severe competition.

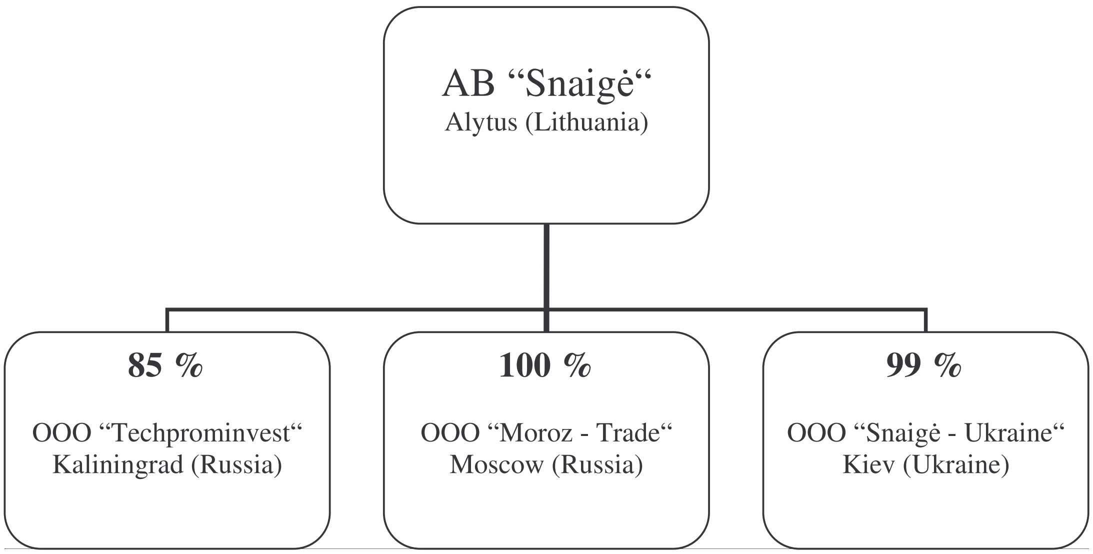
We would like to once more express our satisfaction with the care demonstrated by the State with regard to the only refrigerator plant in Lithuania. We express our acknowledgement for solving the conflict with the Ukrainian customs office that had imposed a remarkably higher customs duty upon the company's products. The customs duty was reduced through the mediation of the President of Lithuania Mr. Valdas Adamkus and the Minister of Foreign Affairs Mr. Antanas Valionis.

Summarizing I would like to repeatedly underline the ability of AB "Snaigė" to successfully achieve the set goals, namely maintain and improve price and quality relation in all the markets and satisfy customers' expectations. I would like to emphasize that consolidation of relationship between science and business, and increased attention towards modernisation of refrigerator manufacture processes have resulted in outstanding return. The refrigerators of "Snaigė" are being continuously improved in order to stay ahead of time. The company has reached high level of technologies using its own resources, and thus our products are capable of competing with the established brands of Western Europe at the moment. We can be definitely proud of our products and therefore we are pleased to rejoice at it together with you.

Sincerely,

Mindaugas Šeštokas
Managing Director of AB "Snaigė"

Structure of the Companies' Group



AB "Snaigė" companies' group consists of Refrigerator Plant of Alytus "Snaigė" and three subsidiary companies with the following types of activities:

- OOO "Techprominvest" – manufacture of refrigerators. The plant was launched in Kaliningrad in March, 2004;
- OOO "Moroz – Trade" – sales and marketing services. The company was acquired in October 2004. Presently twelve people are employed in the company.
- OOO "Snaigė – Ukraine" – sales and marketing services. The company was established in November 2002; three people are employed therein.

Management Structure

Board of Observers:
Chairman – Martynas Česnavičius
Members:
James Richard, Algis Pakalnis, Saulius Butkus, Domininkas Kašys

Board:
Chairman of the Board - Giedrius Barysas
Members:
Nerijus Dagilis, Titas Sereika, Mindaugas Šeštokas, Albinas Valašinas

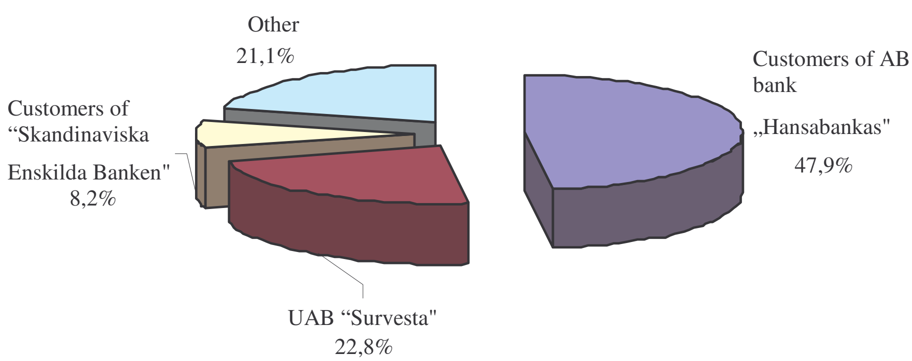
Management:
Mindaugas Šeštokas – Managing Director
Albinas Valašinas – Technical Manager
Andrius Bartkevičius – Logistics Manager
Arūnas Lingė – Finance Manager
Rūta Petrauskaitė – Marketing Manager
Giedrius Mikulskas – Personnel Manager
Gediminas Čeika – Sales Manager

Shares and Shareholders' Structure

	2005	***2004***	***2003***	***2002***	***2001***
Earnings per share, LTL	0.59	0.66	0.92	0.94	0.44
Average annual share market price	17.02	17.51	11.29	3.48	2.48
EBITDA per share, LTL	1.79	1.53	1.64	1.61	0.91
EBITDA multiplier (EBITDA per share/ average annual share market price)	0.11	0.09	0.15	0.46	0.37
Total dividends, in thous. of LTL	-	1,384	3,074	18,457	2,676
Dividends per share, LTL	-	0.06	0.13	0.80	0.12
Average net book value (equity) per share	4.48	3.91	3.46	3.35	2.43

The company's authorized capital is divided into 23,070,405 shares. The nominal value of a share is 1 LTL.

Shareholders' Structure



Key Consolidated Figures of the Company

In thous. of LTL	*2005*	*2004*	*2003*	*2002*	*2001*
Turnover from the key operations (refrigerators and freezers, spare parts and materials)	368,878	293,367	269,417	247,317	194,475
Total turnover and other operating income	372,128	297,131	272,232	249,695	198,428
Gross profit	68,836	63,476	50,851	46,740	29,590
Operating profit before financial items and tax	20,502	27,091	26,343	26,134	10,991
Profit before tax	19,208	18,419	24,078	25,523	10,913
Current year profit	15,040	13,927	21,502	21,587	10,198
EBIT, in thous. of LTL	22,138	20,971	25,346	26,675	12,464
EBITDA, in thous. of LTL	41,438	35,304	37,834	37,175	20,998
Investments (capital expenditures), in thous. of LTL	20,399	29,755	47,481	19,103	11,915
Fixed assets	113,759	112,347	100,336	66,977	61,016
Current assets	132,526	121,307	85,110	62,024	52,815
Total assets	246,284	233,654	185,446	129,001	113,831
Share capital	23,070	23,070	23,070	23,070	23,070
Equity	103,298	90,145	79,907	77,233	56,013
Long-term debts	53,027	75,144	60,910	24,320	29,736
Short-term debts	89,959	68,365	44,629	27,448	28,082
Net cash flow from ordinary activities	36,117	-5,695	34,307	25,702	9,224
Net cash flow from investing activities	-19,715	-26,464	-46,123	-18,903	-11,223
Net cash flow from financing activities	-16,625	30,927	17,483	-6,717	1,454
Total cash flow	-223	-1,232	5,667	82	-545
Average number of employees	2,292	2,304	1,904	1,866	1,849

Financial Figures

	2005	*2004*	*2003*	*2002*	*2001*
Profit before tax ratio	5.21%	6.28%	8.94%	10.32%	5.61%
Return on investments ratio	7.80%	7.86%	12.98%	19.79%	9.59%
Gross margin	18.66%	21.64%	18.87%	18.90%	15.22%
EBITDA margin	11.23%	12.03%	14.04%	15.03%	10.80%
Current ratio	147.32%	177.4%	189.8%	226.0%	188.1%
Shareholders' equity to total liabilities ratio	72.24%	62.81%	76.00%	59.80%	49.20%
Return on shareholders' equity ratio	15.55%	16.38%	27.37%	32.40%	19.50%

Major Events

February 7, 2005
Starting from February 7, 2005 Mr. Eduard Arkadjevich Gilerman was apointed a new Managing Director of the plant in Kaliningrad.

February 28, 2005
AB "Snaigė" finalised negotiations with the largest trade chain of domestic electric appliances in Russia "Eldorado". Starting from the beginning of March the *General Frost* refrigerators were presented for sale in the said chain.

March 9, 2005
AB "Snaigė" started sales of refrigerators in Belarus, which had been manufactured in Kaliningrad. Starting from the beginning of March the consumers of Belarus can buy the refrigerators of "Snaigė" in the stores of Minsk and many district centres.
By offering the refrigerators compliant with the strict EU standards to the Belorussian consumers, "Snaigė" is ready to compete with the products of the local manufacturer ЗАО "Atlant". The refrigerators of "Snaigė" are currently the only bid for numerous Belorussians willing to purchase European refrigerator within the average price class.

May 30, 2005
AB "Snaigë" finalised negotiations with the one of the largest trade chains in Ukraine "ABV Technika".

July 21, 2005
The company signed the Agreement on Sales of Refrigerators in Moldova.

July 22, 2005
AB "Snaigė" signed the agreement with one of the largest trade chains in the Central Ukraine "Domotechnika".

August 27, 2005
Through mediation of the Lithuanian an Ukrainian authorities and diplomats manufacturer of refrigerators "Snaigė" was given free access to deliver the products to Ukraine, which is liable to customs duty of 5 %.
Starting from the beginning of August the Customs Office of Ukraine imposed a larger import rate of 25 % upon the refrigerators of "Snaigė". Lithuania submitted note to Ukraine, stating that the latter does not comply with the agreement of last year with regard to the customs duty of 5 % applicable to the Lithuanian manufacturer of refrigerators.

October 11, 2005
Changes in the Board of AB "Snaigė": Ms. Virginija Graudinienė resigned from the office of the Members of the Board of the company. The Managing Director of AB "Snaigė" Mr. Mindaugas Šeštokas was elected to the Board of the Company.

October 29, 2005
AB "Snaigė", in cooperation with the Kaunas Technological University, developed a domestic refrigerator with an integrated computer, which allows to find out what products are in the refrigerator, what is their quantity and validity term, even without being at home, via Internet. Manufacture of the new refrigerators that are possible to being managed directly or via Internet is to be started within appr. two years; first they will be delivered to Lithuanian and EU states markets, and later – to Russia.

November 2, 2005
AB "Snaigė", in cooperation with the Charity and Aid Fund of Alma Adamkienė implemented charity action, during which 47 schools of Lithuania were given refrigerators. The value of this charity action amounted to 70,500 LTL. 50 modern refrigerators "Snaigė" reached the schools and foster homes. The schools were given large volume, modern design, user-friendly and energy-effective refrigerators with the integrated up-to-date freezing technologies.
According to Alma Adamkienė, the schools patronised by her Charity and Aid Fund are happy with any private business initiative. "Each charity action improves domestic, living and learning conditions of the students and foster-children", - says Alma Adamkienė. – "Therefore each good deed is sincerely appreciated".

December 12, 2005
December 12, 2005 "Hermis Capital" assigned 22.77 % of the shares of AB "Snaigė" to its daughter-enterprise "Survesta" for the price of 85.05 mill. LTL. The shares were assigned to "Survesta" in order to dissolve the debt of "Hermis Capital" to the daughter-enterprise, which provided the loan to the investment company after profitable sale of the shares of "Rokiškio sūris".

Company News

1. A new product has been offered to the business sector: a showcase-refrigerator CD 480 and two mini-bars with the environmental-friendly freezing agent R600a (isobutane), which has been used in domestic freezing appliances up to now. These refrigerators match up with the best analogous products of foreign manufacturers.
2. AB "Snaigė", in cooperation with the Kaunas Technological University, presented a futuristic project – a refrigerator with an integrated computer. Manufacture of the new refrigerators that are possible to being managed directly or via Internet is to be started within appr. two years.
3. A new line of exclusive coloured refrigerators has been launched: their housing is coloured using special cherry and blue paints, which include silver and golden particles creating volume effect due to illumination change. Such refrigerators are the first in Lithuania.
4. The serial manufacture of fridge-freezer FR 275 has been implemented and launched, which belongs to the A+ energy class, distinguished by special energy efficiency.
5. The serial manufacture of fridge-freezer FR 390 has been launched. This is the largest refrigerator produced by "Snaigė".

6. The serial manufacture of electronically controlled freezer F 245 has been launched.
7. The Patent Office of the Republic of Lithuania patented an invention of "Snaigė" – a valve-operated freezing system. The new system significantly enhanced the functional abilities of the products and can be distinguished by energy effectiveness.
8. New equipment has been acquired for the price of 7.9 mill. LTL. One of the largest implemented projects is a complex of programmable supervisory punching press *Trumatic 3000R* and flexing press *TrumaBend V1300* manufactured by German firm *TRUMPF* and used for the purpose of flexible production. These are automated equipment featuring the up-to-date technology, and enabling fast production of various complex parts out of sheet steel and timely delivery of the products to consumers.
9. Distribution networks in Russia and Ukraine have been expanded, and the sales departments in these countries has been enhanced; 20 new sales employees were employed and trained.
10. The management structure of the company has been reorganised. Departments of Logistics and Marketing have been established. Competent and experienced managers have been appointed to lead the main structural units of the company, who have collected an outstanding team of hard-working and skilled employees.

Performance Overview

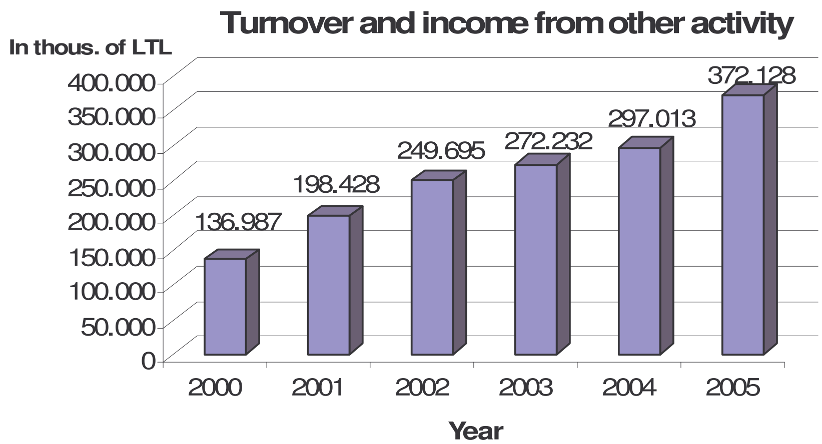
Sales and Profit

AB "Snaigė" is the only manufacturer of domestic refrigerators in Lithuania and other Baltic countries. The company produces various domestic refrigerators, showcase-refrigerators, mini-bars-refrigerators and wine-refrigerators for offices and hotels, freezers and spare parts of high quality.

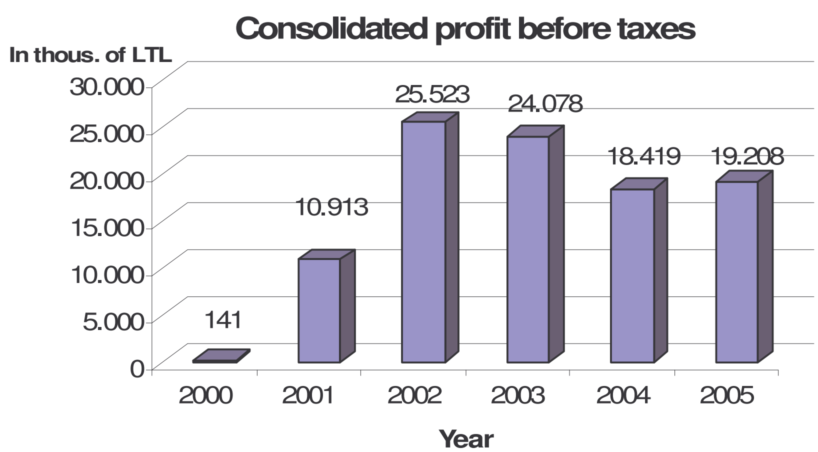
Currently the company manufactures more than 50 percent of the refrigerators using the own "Snaigė" trademark, and performs orders of other brand partners and large trade chains.

The production capacity of the plant in Alytus amounts to 500,000 pcs. of refrigerators per year, whereas in Kaliningrad - 300,000 to 350,000 pcs.

The turnover of AB "Snaigė" demonstrates stable growth every year. In 2005 the turnover and other activity income amounted to 372.1 mill. LTL, thus the turnover and other income increased by 25% in comparison with the previous year.



According to the audited consolidated data the profit of the company before taxes in 2005 amounted to 19.2 mill. LTL, thus increased by 4% in comparison with 2004.

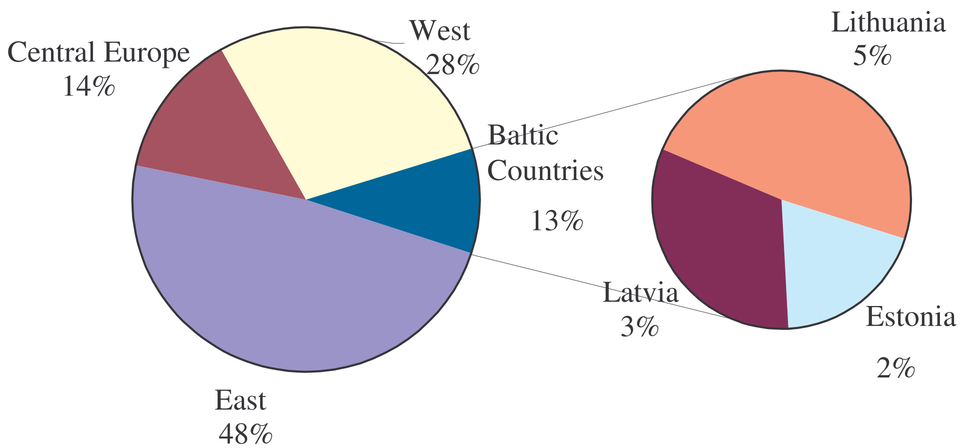


AB "Snaigė" plans to enhance sales, by showing particular consideration to the eastern markets. The company is going to expand its sales networks in the priority markets, i.e., in Russia, Ukraine and Kazakhstan.

Market Overview

AB "Snaigė" exports 93% of its products to more than 40 countries in Eastern, Central and Western Europe, Scandinavia and Asia.

Sales Structure in 2005

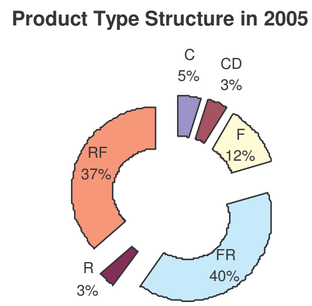


AB "Snaigė" exports its products to the following regions:

- Baltic Region (Lithuania, Latvia, Estonia);
- Western Region (Germany, Switzerland, Austria, France, Belgium, the Netherlands, Cyprus, Lebanon, Libya, Spain, Norway, Sweden, Finland, Denmark, Island, Ireland, England, Portugal, Italy);
- Central Europe Region (the Czech Republic, Slovakia, Hungary, Serbia, Croatia, Slovenia, Bulgaria, Romania, Poland);
- Eastern Region.

The goal of the company is to successfully compete in different markets of the world, deliver to the customer energy effective, ecological, modern, well designed and functional domestic appliances. In order to achieve this goal market research was performed in various countries in 2005, on the basis of which long-term priority development tendencies were created. The main competitors in internal and external markets are Italian "*Ardo*", Korean "*Daewoo*", "*Samsung*", "*LG*", Turkish "*Beko*", German "*Hansa*", Belorussian "*Atlant*", Ukrainian "*Nord*", Russian "*Stinol*", "*Indesit*".

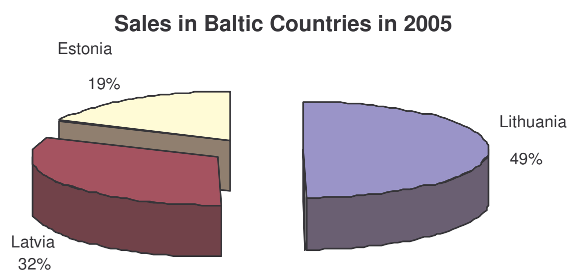
AB "Snaigė" is a manufacturer of refrigerators and freezers of various types. The product type structure is provided in the below diagram:



RF – a fridge-freezer with two freeze chambers in the lower part;
FR – a fridge-freezer with two freeze chambers in the upper part;
R – a refrigerator with a freezing compartment;
C – a refrigerator;
CD – a showcase-refrigerator;
F – a freezer.

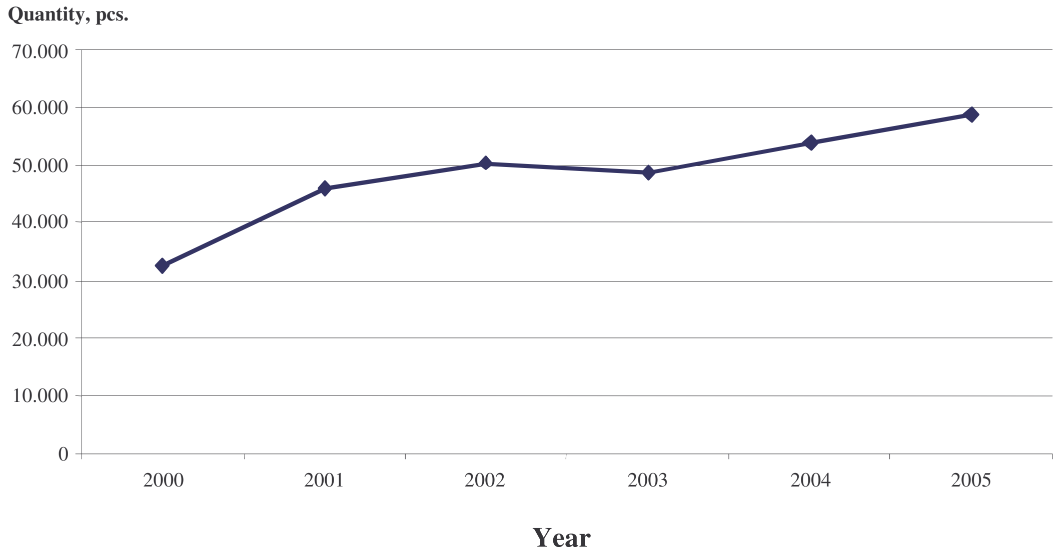
Baltic Region

Almost 50 percent of the products of AB "Snaigė" designed for the Baltic region was sold in Lithuania. The sales structure in the Baltic Countries in 2005 is provided in the below diagram:



Sales figures in Baltic Region demonstrate stable growth every year.

AB "Snaigė" sales in Baltic Region in 2000-2005



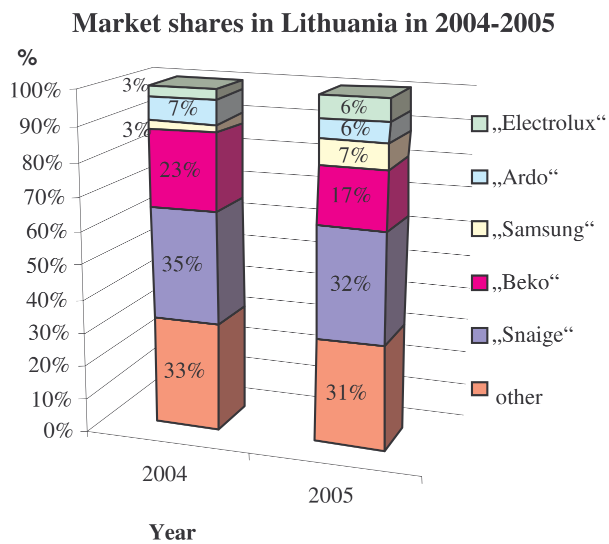
In 2005 the products of higher quality (with antibacterial cover) were presented to the market; additional set of containers for meat and butter were introduced in order to enhance convenience for the consumers. In addition to that promotional campaigns were organised in Baltic Countries, which increased sales of the company's products. Significant attention was shown to enlarge of interest in selling the refrigerators of "Snaigė". Rapid reaction to the changes in market ensures the success of AB "Snaigė".

In order to enlarge its business position in the Baltic Region, the sales competence is being improved and investments made into development of brand image.

Lithuania

In 2005 AB "Snaigė" was a market leader in Lithuania, covering 32% of the market. According to the data of market research company "TNS – Gallup", the company's sales figures increased by 3 % in 2005. Despite that the market share was a little bit reduced (see diagram). Reduction of the market share in 2005 was caused by the following main reasons:

- introduction of especially cheap refrigerators (*Baumatic*, *Haier*, *Vestel*);
- decrease in price of the refrigerators of *AEG*, *Bosch*, *Daewoo*, *Electrolux*, *Liebherr*, *Samsung*, *Sharp*, *Siemens* brands.



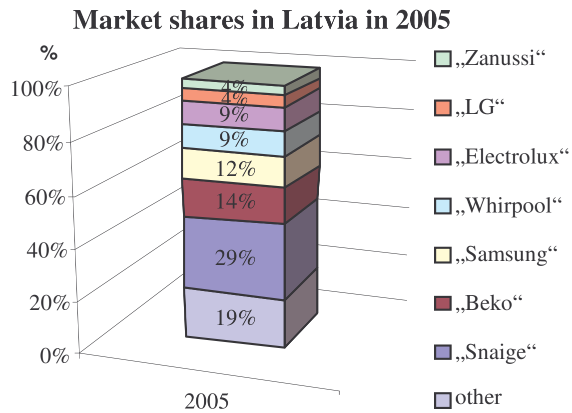
The nearest competitors of "Snaigė" are *Beko* (17 % of the market) and *Samsung* (7 % of the market).

Currently the company has the agreements with the largest trade centres and domestic electric appliances stores in Lithuania; therefore the refrigerators are well and timely delivered to the customer.

The consumers of the "Snaigė" refrigerators appreciate their quality, long-life service and long warranty period.

Latvia

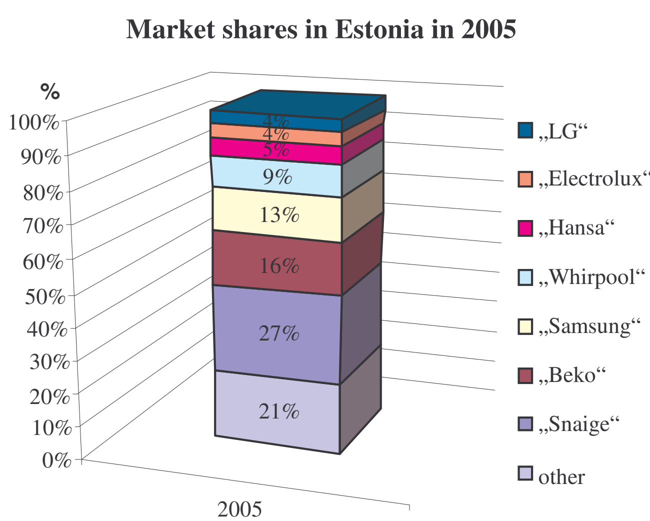
In Latvia, as well as in Lithuania AB "Snaigė" was a market leader in 2005, covering 28,6 % of the market. The nearest competitors in this country are also Beko (14 % of the market) and *Samsung* (12 % of the market).



In 2005 the sales of refrigerators increased by almost 25 percent in Latvia, as compared to 2004. The increase in sales was determined by a continuous support campaign and sales employees' motivation program.

Estonia

In Estonia, as well as in other Baltic Countries, AB "Snaigė" was a market leader in 2005, covering 27 % of the market. The sales in Estonia increased by almost 5 % during the year.

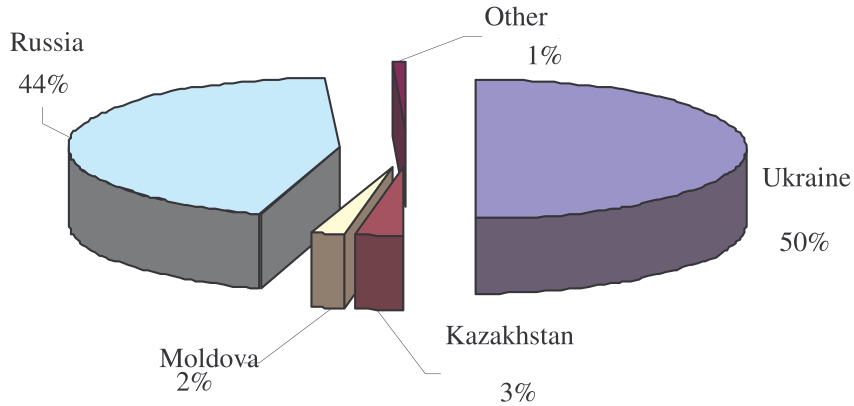


The nearest competitors in this country are also *Beko* (16 % of the market) and *Samsung* (13 % of the market).

Eastern Europe

In 2005 the sales of increased by 25 percent in Eastern Europe, as compared to 2004 This was mostly determined by the increase in sales by almost 2,5 times in Russia.

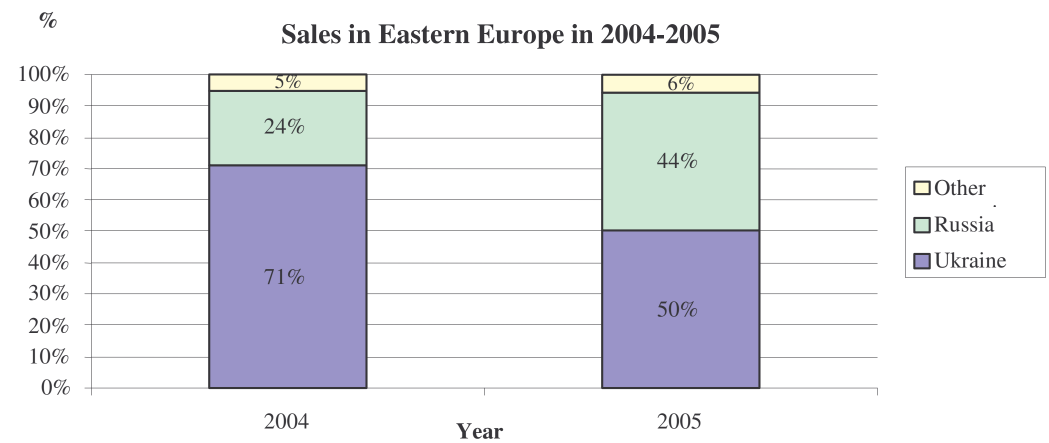
Export to Eastern European countries in 2005



The major part of the products was sold in Ukraine and Russia.

Development in Russia was especially successful – the distributors network was expanded, the "Snaigė" refrigerators were introduced in the largest chains selling domestic electric appliances.

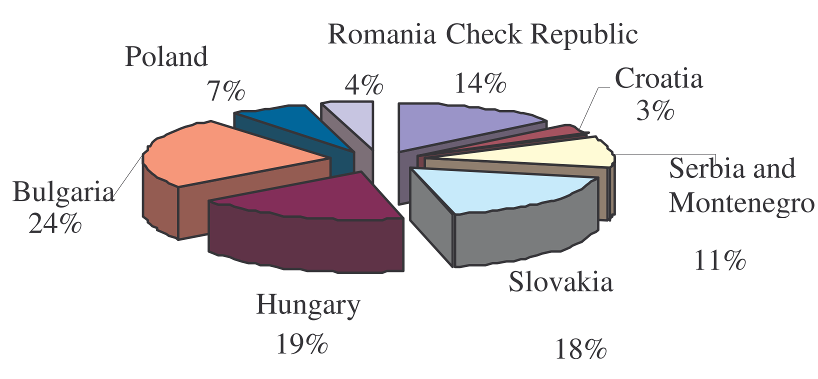
On the other hand in 2005 materials became more expensive, especially plastic and nonferrous metal; in addition to that Ukraine introduced a larger customs duty. Therefore sales of refrigerators in Ukraine were reduced by 10 percent in 2005.



AB "Snaigė" is going to further expand its sales networks in Russia, Ukraine and Kazakhstan, and thus increase the sales in Eastern markets. According to the macro economical forecasts the situation for business development in Eastern countries is positive: The Russian economy experiences a boom at the moment, thus the purchasing power increases rapidly.

Central Europe

In 2005 AB "Snaigė" exported 14 % of the total products to the Central European countries. The major part thereof was sold in Bulgaria, Hungary and Slovakia. The sales structure according to the countries is provided in the below diagram:



In 2005 the sales in Central Europe decreased by 13 % as compared to 2004, because less products was sold in Hungary, the Check Republic and Serbia and Montenegro.

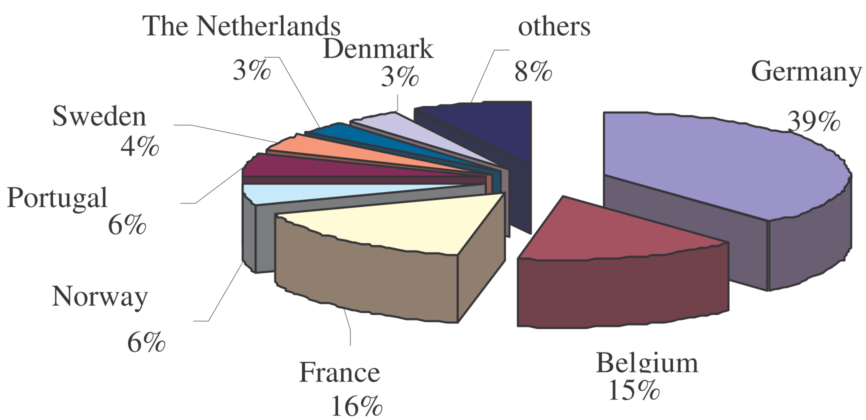
This region failed to achieve the planned results due to reduced market share and negative economical situation in several countries. Besides, Serbia and Montenegro does not impose an import duty upon the products of *Beko*, the main competitor of AB "Snaigė", whereas our products are influence by this customs duty, which affects the sales results.

AB "Snaigė" is going to further increase sales volumes, popularise the "Snaigė" brand, and expand its sales networks in Central Europe.

Western Europe

The export of the company's products to the Western European countries was also especially successful in 2005. In comparison with the last year the sales increased by 15 %. Almost 40 % of the products are delivered to German market, 16 % - to France, and 15 % - to Belgium The more detailed export structure to the Western European countries is provided in the below diagram.

Export to Western European countries in 2005



The sales were most rapidly increasing in Belgium (by almost 50 %), France (by 55 %) and Portugal (almost twice).

One of the strategic tendencies for the next year is cost and operations optimisation. The company plans to achieve the level of operation effectiveness, which would not be inferior to the one demonstrated by the Western European manufactures. This requires continuous investment into modern technologies, new products and design, as well as review and realisation of market trends and domestic electric appliances development.

Increase in sales shows that AB "Snaigė" is indeed capable of competing with the largest manufacturers of refrigerators in the Eastern and Western markets in terms of high quality, modern approach and flexibility. The company has a lot of advantages in comparison with its competitors: excellent geographic location, application of ecological standards, continuous modernisation of production processes, high management level, usage of the state-of-the-art technologies. Ecological-friendly features, optimal energy consumption, and best price and quality relationship distinguish the company's products.

Investments

Each year AB "Snaigė" invests into development of technical progress and manufacture of new, ecological-friendly, cost-effective and modern refrigerators. The total investments of the company in 2005 amounted to 11.6 mill. LTL, 7.86 mill. LTL of which were invested into manufacture of new products.

There were six projects implemented at AB "Snaigė" in 2005, according to the investment program. Three of them have been already finished and implemented (CD 480, RF 390-1703 and RF 390-4703, RF 390-5703). The activities of other projects are continued in 2006.

Commercial Refrigerator CD 480

CD 480 is a 203 cm high, 480 litres capacity professional commercial refrigerator with an advertising plate mounted (removable) on the glass door. The refrigerator places 553 (0.33 l) or 274 (0.5 l) bottles. Beside that, the design of the refrigerator provides for many user-friendly elements: self-closing door, vertical illumination within the whole height of the refrigerator, possibility to mount the shelves in horizontal or leaned position, etc.

This project served as a basis for manufacture of various commercial refrigerators.

RF 390-1703 in Alytus Plant

This project was meant for satisfying the demand of two-meter-height, two-freeze-chambers refrigerators in the EU market. The production line of the two-freeze-chambers refrigerators have been finalised in the company.

The production line of this refrigerator was prepared in Kaliningrad plant in 2004. Since export of the refrigerators from Russia is not cost-effective, it was decided to manufacture the products in Alytus. Thus, starting from 2005 manufacture of refrigerators RF 390 was launched in Lithuania.

RF 390 is a 2-meter high, 365 litres volume two-freeze-chambers refrigerator, maintaining all the best features of "Snaigė" refrigerators, as well as variety of modifications.

RF 390-4703 and RF 390-5703

In order to complement the line of the "TOP" class refrigerators and considering the increasing customers' needs and technological progress, we developed a two-freeze-chambers fridge-freezer with switch valve. The project was completed at the end of 2005.

RF 390-4703 and **RF 390-5703** are the variations of RF 390 with a valve-operated freezing system. Thos freezing system is much more progressive than the products with two-compressors freezing system.

A one-compressor system is exceptional for the following reasons:

1. the temperature of the refrigerator and the freezer can be adjusted with the accuracy of one degree in each separate freeze chamber;
2. a one compressor freezing system with a switch valve consumes less electrical power than the refrigerators with two compressors system;
3. the refrigerator or the freezer chamber can be switched off and used independently from each other.

Both chambers of RF 390-5703 can be manually operated independently from each other. Added value is provided to the RF 390-4703 by electronic control system, low energy consumption and convenient details.

RF 390, RF 360, RF 315, RF 310, RF 300, RF 270 new design

Recently a trend of angular domestic appliances has been observed. Besides, technical and energetic requirements are rapidly increasing, which are not possible to satisfy by the current design of the "Snaigė" refrigerators. Therefore presently the new refrigerator design is being developed, complying with the mainstream trends and the existing and prospective requirements.

The idea of new design was created in 2004, which encompasses all three versions listed below:

- the door is mounted up to the top of the refrigerator, and control panel is mounted under the door, on the upper angle;
- the upper part of the door includes a window, where the control panel can be seen;
- the door is mounted with the additional finishing plate, where the control panel is mounted.

The construction basis of all the variations is the same: the side panels are mounted up to the top, thicker insulation, updated internal chamber design and construction. Internal illumination is ensured in the upper part, and the shelves are mounted in the special formed grooves. Various handles may be used with this design (vertical, horizontal, integrated), which further enhances the choice of the available variations.

Manufacture of the refrigerators of the first design variation was started in 2005.

Implementation of New Technologies

Investments into new technologies of AB "Snaigė" amounted to 1.38 mill. LTL in 2005. New progressive technologies were implemented in the company, which enlarge production capacity, comply with the environmental requirements, improve quality of the products and work conditions. Within the process of development of new products new technologies were implemented and the existent ones improved.

The production technologies were enhanced in order to improve quality of the products and reduce production costs:

- assembling, packing and testing lines were modernised: it is now possible to assemble and pack high (2.1 m) and deep (up to 80 cm) refrigerators;
- casting department was renewed and new casting equipment were launched. Labour-intensity and energy consumption were reduced, spare parts of higher quality could be produced, production areas can be used more efficiently, coloured parts can be moulded without any additional preparation (granulation), production rhythm can be ensured and equipment repair costs reduced;
- refrigerator fastening unit was modernised. The operating cycle of fastening machines was shortened and adjusted to high refrigerators;
- helium supply and regeneration system was updated. Thus emission of helium into the environment could be prevented and helium rate per refrigerator could be reduced;
- two (electric and gas) loaders were acquired for transportation of the refrigerators from assembling and packing unit to the finished products warehouse, including gripping devices, as well as a tractor with a trailer;
- plastic painting line was modernised. Thereafter 3-shift work schedule was cancelled. Work conditions were improved;
- painting line "Eisenmann" was modernised;
- programmable supervisory punching press TRUMATIC 3000R and flexing press TRUMABEND V1300 were implemented. Test parts of refrigerator CD 480 were manufactured. Launch costs for manufacture of new product were reduced. The all-purpose punching complex enables flexible and quick part replacement and rapid launch of manufacture of new products out of metal sheet;
- welding equipment for welding of compressor support;
- OLMA line was modernised and adjusted for manufacture of up to 2-meter height side panels.

Environmental Protection

In 2005 Environmental Management System of AB "Snaigė" was re-certified, in compliance with the requirements of ISO 14001 international standard.

In choosing partners, environmental protection became one of the evaluation criteria, i.e., starting from 2005 all the employees of the company and parties working on behalf thereof are introduced with the Environmental Management System of the company, compliant with the ISO 14001 standard: the appendices with regard to the Environmental Management System are attached to the agreements, new employees are instructed according to the new introductory instruction on safety, health and environment.

AB "Snaigė" cooperated in development of the draft legislative acts of the Republic of Lithuania on implementation of the European Parliament and Council Directive 2002/96/EB regarding waste of electrical and electronic equipment, and was introduced with the experience gained in this field in the EU countries.

The funds planned and used for the environmental protection measures in the company in 2005 amounted to 1.5 mill. LTL:

- the program for ground water monitoring as of 2004-2005 was implemented. Upon having evaluated the results of hydro-chemical monitoring as of 2001-2005, it may be stated that ground water in the area of AB "Snaigė" is affected by anthropogenic pollution, however it does not exceed the allowable limit;
- gas extractors with electrostatic filters were installed in the welders' work places. This enabled reduction in air pollution;
- the six old casting machines were replaced by three new ones, thus eliminating a possibility of oil emission into the ground due to piping leaks. The new casting machines are ecological-friendlier;
- the freezing machine was replaced by a new air conditioner;
- the old water treatment station was used as a warehouse for storing old refrigerators;
- the company participated in the yearly waste treatment seminar-forum "Waste Treatment 2005";
- governmental tasks with regard to packaging and its scrap were successfully performed.

Personnel

At the end of 2005 more than 2000 employees were working in AB "Snaigė": 586 of them were employed in Kaliningrad plant OOO "Techprominvest", 12 – in OOO "Moroz – Trade", and 3 – in OOO "Snaige – Ukraine".

	2005		*2004*		*2003*	
Employees	*Average amount, persons*	*Structure*	*Average amount, persons*	*Structure*	*Average amount, persons*	*Structure*
Managers	11	0.5 %	11	0.5 %	10	0.5 %
Specialists	461	20.1 %	449	19.5 %	328	17.2 %
Workers	1,820	79.4 %	1,844	80.0 %	1,566	82.2 %
Total:	**2,292**	**100.0 %**	**2,304**	**100.0 %**	**1.904**	**100.0 %**

In 2005 the company structure of AB "Snaigė" was reorganised. The main changes included:

- Personnel Manager function was established;
- departments of Logistics and Marketing have been established;
- the Quality Office was allocated under the Technical Manager;
- the Purchasing Department was allocated under the Logistics Manager;
- the Purchasing Manager function was dissolved;
- the function of the Manager of the Centralized Purchasing Department was established.

AB "Snaigė" takes care of its employees. During the year the social expenses amounted to more than 400 thous. of LTL. The employees of the company are honoured on their anniversaries and other occasions; various events (incl. sport activities are organised). The employees of the company have the possibility to spend their vacation in the "Šventoji" rest house. The children of the employees are not forgotten either: every year Christmas celebration with present is organised for them.

During 2005 AB "Snaigė" implemented a lot of measures for improvement of work conditions of employees: the employees of the energetic office were moved to new facilities, laboratory for chemical measurements was repaired, etc.

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