

AB SNAIGĒ

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 PREPARED ACCORDING TO
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION
PRESENTED TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Independent auditors' report to the shareholders of AB Snaigė

Report on the Financial Statements

We have audited the accompanying 2007 consolidated financial statements of AB Snaigė and its subsidiaries (hereinafter the Group) which comprise the balance sheets as at 31 December 2007, the statements of income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory notes).

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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 as set forth by the International Federation of Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide the basis for our audit opinion.

Basis for Qualified Opinion

- a) Until 1 January 2006 the Group's companies capitalised LTL 10,975 thousand expenditures of newly installed spare parts for equipment and LTL 7,935 thousand expenditures of reconstructing and repairing buildings, without derecognizing the carrying amount of replaced parts and of the previous reconstructions. We were not provided with sufficient evidence that would allow us to assess the carrying amounts of the replaced spare parts and of the previous reconstructions, which should be derecognized as at 31 December 2007.
- b) As at 31 December 2007 the Group accounted for goodwill as an intangible asset with the carrying amount of LTL 11,929 thousand, which resulted from the acquisition of shares of the subsidiary OOO Techprominvest. In our opinion, the goodwill as at 31 December 2007 is impaired; however, the Group did not account for the impairment of goodwill and did not provide goodwill impairment disclosures in these financial statements, as required by IAS 36. If this impairment was accounted for, the carrying value of the Group's goodwill would decrease as at 31 December 2007, net loss for the year 2007 would increase and the shareholder's equity as at 31 December 2007 would decrease by LTL 11,929 thousand.

- c) As at 31 December 2007 the Group did not account for payroll related liabilities to the Group's management amounting to LTL 420 thousand, which, in our opinion, should have been recognized as the Group's expense in 2007. If this adjustment was accounted for, current liabilities of the Group as at 31 December 2007 would increase, net loss for the year 2007 would increase and the shareholders' equity as at 31 December 2007 would decrease by LTL 420 thousand.
- d) As at 31 December 2007 the Group, according to the agreement, which is valid until 28 February 2009, classified factoring liabilities with the carrying amount of LTL 18,277 thousand (as at 31 December 2006 – LTL 15,554 thousand) as non-current liabilities. According to IAS 1, liabilities can be classified as non-current only if the Group has an unconditional right to postpone the payment for 12 months after the balance sheet date. Because the settlement term of the factoring liabilities is shorter, then, in our opinion, these liabilities should have been presented as current liabilities. If this adjustment was accounted for, current liabilities of the Group as at 31 December 2007 would increase and non-current liabilities would decrease by LTL 18,277 thousand (as at 31 December 2006 – LTL 15,554 thousand).

Qualified Opinion

In our opinion, except for the effect of such adjustments, if any, as might have been determined, had we been able to obtain sufficient audit evidence regarding the matters described in section *Basis for Qualified Opinion* paragraph (a) above, and except for the matters described in section *Basis for Qualified Opinion* paragraphs (b) to (d) above, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

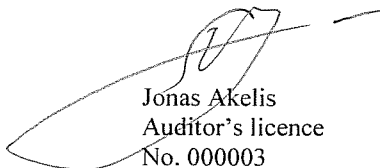
Emphasis of Matter

Without further qualifying our opinion, we draw your attention to the fact that, considering the effect of the matters described in section *Basis for Qualified Opinion*, as of 31 December 2007 the current liabilities of the Group exceeded its current assets by LTL 20,390 thousand; furthermore, in 2007 and 2006 the Group operated with losses. These reasons indicate the existence of a material uncertainty, which may cast significant doubt about the Group's ability to continue as a going concern. As management of the Group has discussed in Note 30, the Group has taken steps to secure financing of the Group's operations; therefore, no adjustments have been made in these financial statements related to this material uncertainty.

Report on Other Legal and Regulatory Requirements

At the end of our audit the management was still drafting the Management Report, therefore in this report we could not present our assessment of the Management Report.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335



Jonas Akelis
Auditor's licence
No. 000003

The audit was completed on 11 April 2008.

Consolidated income statement

	Notes	2007	2006
Sales	4	410,130,831	351,826,739
Cost of sales		(361,043,596)	(301,511,532)
Gross profit		49,087,235	50,315,207
Other income	5	2,672,199	4,614,883
Selling and distribution expenses	6	(26,942,139)	(27,623,665)
Administrative expenses	7	(26,425,180)	(32,947,424)
Other expenses	8	(2,112,583)	(2,331,509)
Operating (loss)		(3,720,468)	(7,972,508)
Finance income	9	11,970,517	21,125,945
Finance expenses	10	(19,878,683)	(23,281,310)
(Loss) before tax		(11,628,634)	(10,127,873)
Income tax	11	212,699	(457,394)
Net (loss)		(11,415,935)	(10,585,267)
Attributable to:			
The shareholders of the Company		(11,412,480)	(10,581,640)
Minority interest		(3,455)	(3,627)
Basic and diluted earnings (loss) per share	26	(0.48)	(0.46)

The accompanying notes are an integral part of these financial statements.

_____ Managing Director	_____ Gediminas Čeika	_____ 11 April 2008
_____ Financial Director	_____ Loreta Nagulevičienė	_____ 11 April 2008

Consolidated balance sheet

	Notes	As at 31 December 2007	As at 31 December 2006 (restated)
ASSETS			
Non-current assets			
Intangible assets	12	17,451,146	17,356,669
Property, plant and equipment	13	97,925,574	103,531,482
Deferred income tax asset	11	3,882,203	3,873,712
Total non-current assets		119,258,923	124,761,863
Current assets			
Inventories	14	63,184,898	55,871,283
Trade receivables	15	49,442,815	63,458,025
Prepaid income tax		4,088,043	2,921,943
Other current assets	16	5,553,840	6,014,877
Cash and cash equivalents	17	3,984,560	4,805,080
Total current assets		126,254,156	133,071,208
Total assets		245,513,079	257,833,071

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Consolidated balance sheet (cont'd)

	Notes	As at 31 December 2007	As at 31 December 2006 (restated)
EQUITY AND LIABILITIES			
Equity			
Equity attributable to equity holders of the Company			
Share capital	18	23,827,365	23,070,405
Share premium		12,727,270	3,643,750
Legal reserve	19	2,398,571	2,337,913
Reserves	19	34,087,600	26,899,000
Foreign currency translation reserve	19	(903,947)	(986,705)
Retained earnings		19,381,382	38,043,120
		91,518,241	93,007,483
Minority interest		3,913	7,368
Total equity		91,522,154	93,014,851
Liabilities			
Non-current liabilities			
Grants and subsidies	20	3,014,916	3,849,340
Warranty provision	21	1,892,800	3,081,965
Deferred income tax liability	11	294,334	706,000
Non-current borrowings and financial lease obligations	22, 23	20,841,891	35,472,342
Total non-current liabilities		26,043,941	43,109,647
Current liabilities			
Current borrowings, current portion of non-current borrowings and financial lease obligations	22, 23	32,758,823	33,181,143
Trade payables		82,319,881	67,346,955
Advances received		442,023	794,895
Warranty provision	21	2,640,850	1,250,954
Other current liabilities	25	9,785,407	19,134,626
Total current liabilities		127,946,984	121,708,573
Total equity and liabilities		245,513,079	257,833,071

The accompanying notes are an integral part of these financial statements.

_____ Managing Director	_____ Gediminas Čeika	_____ 11 April 2008
_____ Financial Director	_____ Loreta Nagulevičienė	_____ 11 April 2008

AB SNAIGĖ, company code 249664610, address Pramonės Str. 6, Alytus
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007
(all amounts are in LTL unless otherwise stated)

Consolidated statement of changes in equity

	Attributable to the shareholders of the Company							Total	Minority interests	Total equity
	Notes	Share capital	Share premium	Legal reserve	Reserves	Foreign currency translation reserve	Retained earnings			
Balance as at 31 December 2005		23,070,405	3,643,750	2,337,913	26,588,000	(1,288,563)	48,922,761	103,274,266	23,994	103,298,260
Net (loss) for the year		-	-	-	-	-	(10,581,640)	(10,581,640)	(3,627)	(10,585,267)
Income (expenses) for the year recognised directly in equity	19	-	-	-	-	301,858	-	301,858	-	301,858
Total recognised income and expenses in 2006		-	-	-	-	301,858	(10,581,640)	(10,279,782)	(3,627)	(10,283,409)
Transfer to reserves	19	-	-	-	311,000	-	(311,000)	-	-	-
Minority profit allocated to cover previous losses of minority absorbed by the Company		-	-	-	-	-	12,999	12,999	(12,999)	-
Balance as at 31 December 2006		23,070,405	3,643,750	2,337,913	26,899,000	(986,705)	38,043,120	93,007,483	7,368	93,014,851
Net (loss) for the year		-	-	-	-	-	(11,412,480)	(11,412,480)	(3,455)	(11,415,935)
Income (expenses) for the year recognised directly in equity	19	-	-	-	-	82,758	-	82,758	-	82,758
Total recognised income and expenses in 2007		-	-	-	-	82,758	(11,412,480)	(11,329,722)	(3,455)	(11,333,177)
Transfer to reserves	19	-	-	60,658	7,188,600	-	(7,249,258)	-	-	-
Increase of share capital	1	756,960	9,083,520	-	-	-	-	9,840,480	-	9,840,480
Balance as at 31 December 2007		23,827,365	12,727,270	2,398,571	34,087,600	(903,947)	19,381,382	91,518,241	3,913	91,522,154

Managing Director _____ Gediminas Čeika _____ 11 April 2008

Financial Director _____ Loreta Nagulevičienė _____ 11 April 2008

Cash flow statement

	<u>2007</u>	<u>2006</u>
		(restated)
Cash flows from (to) operating activities		
(Loss) before tax	(11,628,634)	(10,127,873)
Adjustments for non-cash items:		
Depreciation and amortisation	20,647,304	20,144,648
Amortization of grants and subsidies	(1,179,704)	(1,303,092)
Result from disposal of non-current assets	(259,449)	(2,098,920)
Write-off of non-current assets	312,495	12,557
Write-off of inventories	461,217	-
Change in allowance for trade receivables	(441,778)	9,836,546
(Gain) loss on change in fair value of derivative financial instruments	(591,126)	(4,760,721)
Change in warranty provision	200,731	210,324
Foreign currency exchange loss (gain), net	2,225,077	473,474
Interest income	-	(33,767)
Interest expenses	3,679,536	3,716,161
	<u>13,425,669</u>	<u>16,069,337</u>
Changes in working capital:		
(Increase) decrease in inventories	(7,774,832)	4,889,301
Decrease (increase) in trade and other receivables	15,509,151	(5,803,068)
Increase in trade payables and other payables	14,951,738	16,826,309
Income tax (paid)	(1,328,243)	(5,588,264)
Interest (paid)	(3,679,536)	(3,716,161)
Interest received	-	33,767
Net cash flows from operating activities	<u>31,103,947</u>	<u>22,711,221</u>
Cash flows from (to) investing activities		
(Acquisition) of non-current assets	(19,054,406)	(23,300,206)
Proceeds from disposal of non-current assets	6,439,322	2,524,228
Net cash flows (to) investing activities	<u>(12,615,084)</u>	<u>(20,775,978)</u>

(cont'd on the next page)

The accompanying notes are an integral part of these financial statements.

Cash flow statement (cont'd)

	<u>2007</u>	<u>2006</u>
		(restated)
Cash flows from (to) financing activities		
Subsidies received	345,280	43,500
Proceeds from borrowings	11,394,945	32,170,072
(Repayment) of borrowings	(29,224,049)	(33,998,502)
Financial lease (payments)	(1,825,559)	(531,015)
Net cash flows (to) financial activities	<u>(19,309,383)</u>	<u>(2,315,945)</u>
Net increase (decrease) in cash flows	(820,520)	(380,702)
Cash and cash equivalents at the beginning of the year	<u>4,805,080</u>	<u>5,185,782</u>
Cash and cash equivalents at the end of the year	<u>3,984,560</u>	<u>4,805,080</u>

Supplemental cash flow information:

Non-cash investing and financing activity:

Property, plant and equipment acquisitions financed by financial lease	4,601,892	217,613
Non-cash shares issue (set off against other current liabilities)	9,840,480	-

The accompanying notes are an integral part of these financial statements.

_____ Managing Director	_____ Gediminas Čeika	_____ 11 April 2008
_____ Financial Director	_____ Loreta Nagulevičienė	_____ 11 April 2008

AB SNAIGĖ**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007**

(all amounts are in LTL unless otherwise stated)

Notes to the financial statements**1 General information**

AB Snaigė (hereinafter the Company) is a public company registered in the Republic of Lithuania. The address of its registered office is as follows:

Pramonės Str. 6,
Alytus,
Lithuania.

The Company is engaged in producing refrigerators and refrigerating equipment. The Company was registered on 1 April 1963. The Company's shares are traded on the Baltic Main List of the Vilnius Stock Exchange.

As at 31 December 2007 and 2006 the shareholders of the Company were:

	2007		2006	
	Number of shares held	Percentage	Number of shares held	Percentage
UAB Survesta	4,935,810	20.71%	4,910,900	21.29%
Other shareholders	18,891,555	79.29%	18,159,505	78.71%
Total	23,827,365	100%	23,070,405	100%

All the shares of the Company are ordinary shares with the par value of LTL 1 each and were fully paid as at 31 December 2007 and 2006.

In 2007 the share capital was increased by issuing 756,960 ordinary shares with the par value of LTL 1 each. The price of shares is LTL 13. The shares were paid for by a set-off of accounts payable for OOO Techprominvest shares acquired in 2006. The increased share capital was registered on 18 January 2007.

Subsidiaries did not hold any shares of the Company as at 31 December 2007 and 2006. The Company did not hold its own shares.

The Group consists of AB Snaigė and the following subsidiaries (hereinafter the Group):

Company	Country of incorporation	Percentage of the shares held by the Group	Size of investment (cost)	Profit (loss) for the reporting year	Shareholders' equity
OOO Techprominvest	Russia (Kaliningrad)	100%	12,648,840	(9,283,924)	(18,225,544)
TOB Snaige Ukraina	Ukraine	99%	88,875	55,800	403,576
OOO Moroz Trade	Russia	100%	947	(129,446)	(7,625,347)
OOO Liga Servis	Russia	100%	1,028	184,654	289,892
UAB Almecha	Lithuania	100%	1,375,785	598,210	1,973,466

AB SNAIGĖ

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(all amounts are in LTL unless otherwise stated)

1 General information (cont'd)

As at 31 December 2007 and 2006, the Board of the Company comprised two members from the management of the Company and three representatives of UAB Hermis Capital and UAB Survesta (subsidiary of UAB Hermis Capital).

The subsidiary OOO Techprominvest (Kaliningrad, Russia) was acquired by AB Snaigė in 2002. Since the acquisition date, the Company held 85% of OOO Techprominvest share capital. In 2006 AB Snaigė acquired the remaining 15% of OOO Techprominvest share capital, the acquisition was settled by 756,960 ordinary shares of AB Snaigė, which were issued with this purpose in 2007. The subsidiary is involved in the production of refrigerators and freezers, the major part of which are sold in Russia.

The part of share capital of OOO Techprominvest, controlled by the Group, is pledged to a bank as collateral for loans. The Company is obligated to not dispose of a part of shares of the subsidiary OOO Techprominvest to third parties without a prior written permission of the bank and to not vote in the shareholders' meetings on disposal of non-current assets, rent and pledging to third parties.

TOB Snaige Ukraina (Kiev, Ukraine) was established in 2002. Since the acquisition in 2002, the Company holds 99% of this subsidiary's share capital. The subsidiary provides sales and marketing services to the Company in the Ukrainian market.

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

OOO Liga Servis (Moscow, Russia) was established on 7 February 2006. The subsidiary provides sales and marketing services in the Russian market.

UAB Almecha (Alytus, Lithuania) was established on 9 November 2006. The main activities of the company are production of refrigerating components and equipment.

As of 31 December 2007 the number of employees of the Group was 2,479 (as of 31 December 2006 – 2,265).

The Group's management authorised these financial statements on 11 April 2008. The shareholders of the Company have a statutory right to either approve these financial statements or not to approve them and request that the management prepares a new set of financial statements.

2 Accounting principles

The principal accounting policies adopted in preparing the Group's financial statements for 2007 are as follows:

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (hereinafter the EU).

Adoption of new and/or changed IFRSs and IFRIC interpretations

The Group has adopted the following new and amended IFRS and IFRIC (International Financial Reporting Interpretations Committee) interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures:

- IFRS 7 Financial Instruments: Disclosures.
- Amendments to IAS 1 Capital Disclosures.
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies.
- IFRIC 8 Scope of IFRS 2.
- IFRIC 9 Reassessment of Embedded Derivatives.
- IFRIC 10 Interim Financial Reporting and Impairment.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

The principal effects of these changes are as follows:

IFRS 7 Financial Instruments: Disclosures. This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 Presentation of Financial Statements. This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are presented in Note 28.

IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies". This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period. The interpretation had no impact on the financial position or performance of the Group.

IFRIC 8 Scope of IFRS 2. This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are not issued to employees, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 9 Reassessment of Embedded Derivatives. IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The interpretation had no impact on the financial position or performance of the Group.

IFRIC 10 Interim Financial Reporting and Impairment. The Group adopted IFRIC Interpretation 10 as at 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 2 Share-based Payments – Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009 once adopted by the EU). The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes; therefore this IFRS will not have significant impact for Group's accounting.
- IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009 once adopted by the EU). IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.
- IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009 once adopted by the EU). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 supersedes IAS 14 Segment Reporting.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

- IAS 1 Presentation of Financial Statements – Revised (effective for annual periods beginning on or after 1 January 2009 once adopted by the EU). IAS 1 has been revised to enhance the usefulness of the information presented in the financial statements. Revision includes number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements in a case of their retrospective restatement.
- IAS 23 Borrowing Costs – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by the EU). The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.
- IAS 27 Consolidated and Separate Financial Statements – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by the EU). Revised standard requires that changes in ownership interest in a subsidiary are accounted for as equity transactions. Also, accounting for losses incurred by the subsidiary was changed: such losses will be allocated between the controlling and non-controlling interests even if the losses exceed the non-controlling equity investment in the subsidiary. On a loss of control of a subsidiary, any retained interest will be re-measured to fair value and will impact the gain or loss recognised on disposal. In addition, revised standard provides more guidance as to when multiple arrangements should be accounted for as a single transaction. These most significant changes introduced by the revised standard will be applied prospectively, except for the multiple arrangements that have been accounted for as a single transaction – these arrangements require retrospective assessment.
- Amendments to IAS 32 and IAS 1 Puttable Financial Instruments (effective for annual periods beginning on or after 1 January 2009 once adopted by the EU). The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Group does not expect these amendments to impact the financial statements of the Group.
- IFRS 3 Business Combinations – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by the EU). The scope of IFRS 3 has been revised to include combinations of mutual entities and combinations without consideration (dual listed shares). Also a number of changes are introduced in accounting for business combinations that will impact the amount of goodwill recognised, the results in the period when the acquisition occurs, and future revenues reported. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standard will not be restated.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007 once adopted by the EU). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.
- IFRIC 12 Service Concession Agreements (effective for annual periods beginning on or after 1 January 2008 once adopted by the EU). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008 once adopted by the EU). This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled.

AB SNAIGĖ

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(all amounts are in LTL unless otherwise stated)

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

- IFRIC 14 IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008 once adopted by the EU). This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan.

Under the condition that the standards and interpretations have been endorsed by the European Commission, the Group intends to adopt these IFRSs and IFRIC in the period they become effective.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application, except for IAS 1 Presentation of Financial Statements – Revised and IAS 23 Borrowing costs – Revised.

IAS 1 Presentation of Financial Statements – Revised

This standard sets out new requirements on the presentation of the statement of changes in equity and introduces a new statement of comprehensive income that combines all items of income and expense recognised in profit or loss together with "other comprehensive income" and requires a separate disclosure of all items reclassified from other comprehensive income to profit and loss as well as disclosure of the income tax relating to each component of other comprehensive income. Also, requirements related to the presentation of the financial statements in a case of their retrospective restatement are amended and new terminology, replacing "balance sheet" with "statement of financial position" and "cash flow statement" with "statement of cash flows", although the titles are not obligatory, is introduced. The Group is still estimating the impact of the adoption of this revision.

IAS 23 Borrowing costs - Revised

Currently all borrowing costs are expensed as incurred. The revised standard requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. When the Group adopts this standard, borrowing costs related to qualifying assets will be capitalised. The Group is still estimating the impact of the adoption of this revision.

2.2 Going concern

The financial statements for the year ended 31 December 2007 are prepared under the assumption that the Group will continue as a going concern.

2.3 Presentation currency

The Group's financial statements are presented in local currency of the Republic of Lithuania, Litas (LTL), which is the Company's functional and the Group's and Company's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the foreign currency exchange rate currency ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The functional currency of the foreign operations Techprominvest OOO, Moroz Trade OOO and Liga Servis OOO is Russian rouble (RUB) and of Snaige Ukraina TOB - Ukrainian hryvnia (UAH). As at the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of AB Snaige (LTL) at the rate of exchange on the balance sheet date and their income statements are translated at the average monthly exchange rates for the reporting period. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Lithuanian litas is pegged to euro at the rate of 3.4528 litas for 1 euro, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

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(all amounts are in LTL unless otherwise stated)

2 Accounting principles (cont'd)

2.3 Presentation currency (cont'd)

The applicable exchange rates of the functional currencies as of the 31 December were as follows:

	2007	2006
RUB	0.096085	0.0997
UAH	0.46649	0.5219

2.4 Principles of consolidation

The consolidated financial statements of the Group include AB Snaigé and its controlled entities. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50 percent of the voting rights of a company's share capital and/or is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and consolidated income statement.

The purchase method of accounting is used for acquired businesses. The Company accounts for the acquired identifiable assets, liabilities and contingent liabilities of another company at their fair value at acquisition date. The difference of the fair value of the acquired net assets and acquisition costs is accounted for as goodwill.

Acquisitions of minority interests are accounted for using the parent entity extension method, whereby the difference between the consideration paid and the book value of the share of the net assets acquired is recognised as goodwill.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

The excess of the acquired interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the investment remaining after the reassessment of the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination is recognised in the income statement immediately.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Subsidiaries are consolidated from the date when the Group acquires the actual control rights and are stopped being consolidated from the date these rights are renounced.

All other investments are accounted for according to TAS 39 "Financial instruments: recognition and measurement", as discussed in section 2.7.

Intercompany balances and transactions, including unrealised profits and losses, are eliminated on consolidation.

Consolidated financial statements are prepared by applying the same accounting principles to similar transactions and other events under similar circumstances.

2 Accounting policies (cont'd)

2.5 Intangible assets, except for goodwill

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over their estimated useful lives (3 years).

The useful lives, residual values and amortisation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from items in intangible assets other than goodwill.

Research and development costs

Research costs are expensed as incurred. Development expenditure on an individual projects is recognised as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortization periods from 1 to 8 years are applied by the Group. During the period of development, the asset is tested for impairment annually.

Licenses

Amounts paid for licences are capitalised and then amortised over their validity period.

Software

The costs of acquisition of new software are capitalised and treated as an intangible asset if these costs are not an integral part of the related hardware. Software is amortised over a period not exceeding 3 years.

Costs incurred in order to restore or maintain the future economic benefits that the Group expects from the originally assessed standard of performance of existing software systems are recognised as an expense when the restoration or maintenance work is carried out.

2.6 Property, plant and equipment

Property, plant and equipment, excluding construction in progress, are stated at historical cost, less accumulated depreciation and impairment loss. Property, plant and equipment are assets that are controlled by the Group, which is expected to generate economic benefits in the future periods with the useful life exceeding one year, and which acquisition (manufacturing) costs could be reliably measured. Property, plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the asset recognition criteria are met. Replaced parts are written off.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

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CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(all amounts are in LTL unless otherwise stated)

2 Accounting principles (cont'd)

2.6. Property, plant and equipment (cont'd)

Depreciation is computed on a straight-line basis over the following estimated useful lives:

Buildings and structures	15 - 63 years
Machinery and equipment	5 - 15 years
Vehicles	4 - 6 years
Other non-current assets	3 - 8 years

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

Construction in progress is stated at cost less accumulated impairment. This includes the cost of construction, plant and equipment and other directly attributable costs. Construction in progress is not depreciated until the relevant assets are completed and put into operation.

2.7 Investments and other financial assets

According to IAS 39 "Financial Instruments: Recognition and Measurement" the Group's financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

The category financial assets at fair value through profit or loss' includes financial assets classified as held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investment held for trading are recognised in income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group have the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost. Gains and losses are recognised in income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses (except impairment and gain or losses from foreign currencies exchange) being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

2 Accounting principles (cont'd)

2.8 Inventories

Inventories are valued at the lower of cost or net realisable value, after impairment evaluation for obsolete and slow moving items. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress includes the applicable allocation of fixed and variable overhead costs based on a normal operating capacity. Unrealisable inventory is fully written-off.

Inventories in transit are accounted for in accordance with INCOTERMS-2000.

2.9 Receivables

Receivables are initially recorded at the fair value of the consideration given. Receivables are subsequently carried at amortised cost, less impairment.

2.10 Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits at current accounts, and other short-term highly liquid investments.

2.11 Borrowings

Borrowing costs are expensed as incurred.

Borrowings are initially recognised at fair value of proceeds received, net of expenses incurred. They are subsequently carried at amortised cost, the difference between net proceeds and redemption value being recognised in the net profit or loss over the period of the borrowings. The borrowings are classified as non-current if the completion of a refinancing agreement before the balance sheet date provides evidence that the substance of the liability at the balance sheet date was non-current.

2.12 Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retain the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group have transferred their rights to receive cash flows from the asset and either (a) have transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

2 Accounting principles (cont'd)**2.13 Factoring**

Factoring transaction is a funding transaction wherein the group transfers to factor claim rights for determined fee. The companies alienate rights to receivables due at a future date according to invoices. Factoring transactions of the Group comprise factoring transactions with regress (recourse) right (the factor is entitled to returning the overdue claim back to the Group) and without regress (recourse) right (the factor is not entitled to returning the overdue claim back to the Group). Factored accounts receivable (with regress right) and related financing are recorded in accounts receivable caption and borrowings and financial lease obligations caption.

2.14 Financial lease and operating leaseFinancial lease – the Group as lessee

The Group recognises financial leases as assets and liabilities in the balance sheet at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, to the present value of the minimum lease payments. The rate of discount used when calculating the present value of minimum payments of financial lease is the interest rate of financial lease payment, when it is possible to determine it, in other cases, Group's composite interest rate on borrowings is applied. Directly attributable initial costs are included into the asset value. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Direct expenses incurred by the lessee during the lease period are included in the value of the leased asset.

The depreciation is accounted for financial lease assets and it also gives rise to financial expenses in the income statement for each accounting period. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned. The leased assets cannot be depreciated over the period longer than the lease term, unless the Group according to the lease contract, gets transferred their ownership after the lease term is over.

If the result of sales and lease back transactions is financial lease, any profit from sales exceeding the book value is not recognised as income immediately. It is deferred and amortised over the lease term.

Operating lease – the Group as lessee

Leases where the lessor retains all the risk and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

The gains from discounts provided by the lessor are recognised as a decrease in lease expenses over the period of the lease using the straight-line method.

If the result of sales and lease back transactions is operating lease and it is obvious that the transaction has been carried out at fair value, any profit or loss is recognised immediately. If the sales price is lower than the fair value, any profit or loss is recognised immediately, except for the cases when the loss is compensated by lower than market prices for lease payments in the future. The profit is then deferred and it is amortised in proportion to the lease payments over a period, during which the assets are expected to be operated. If the sales price exceeds the fair value, a deferral is made for the amount by which the fair value is exceeded and it is amortised over a period, during which the assets are expected to be operated.

2.15 Grants and subsidies

Grants and subsidies (hereinafter Grants) received in the form of non-current assets or intended for the purchase, construction or other acquisition of non-current assets are considered as asset-related grants. Assets received free of charge are also allocated to this group of grants. The amount of the grants related to assets is recognised in the financial statements as used in parts according to the depreciation of the assets associated with this grant. In the income statement, a relevant expense account is reduced by the amount of grant amortisation.

Grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. The income-related grants are recognised as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant.

2 Accounting principles (cont'd)

2.16 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The provisions are reviewed at each balance sheet date and adjusted in order to present the most reasonable current estimate. If the effect of the time value of money is material, the amount of provision is equal to the present value of the expenses, which are expected to be incurred to settle the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest costs.

2.17 Income tax

Income tax charge is based on profit for the year and considers deferred taxation. Income tax is calculated based on the respective country's tax legislation.

The standard income tax rate in Lithuania is 15%. On 1 January 2006 the Provisional Social Tax Law came into effect in the Republic of Lithuania, which stipulates that along with the corporate income tax, for one tax year beginning on 1 January 2006, companies have to pay an additional 4% tax calculated based on the income tax principles, and for the following year a 3% tax starting from 1 January 2007. Starting from 2007 the standard income tax rate in Lithuania will remain constant – 15%.

Tax losses can be carried forward for 5 consecutive years, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments that can be carried forward for 3 consecutive years. The losses from disposal of securities and/or derivative financial instruments can only be used to reduce the taxable income earned from the transactions of the same nature.

The standard income tax rate in Russia – 24%.

Tax losses in Russian Federation can be carried forward for 10 consecutive years.

Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets have been recognised in the balance sheet to the extent the Group's management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

2.18 Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably. Sales are recognised net of VAT and discounts.

Revenue from sales of goods is recognised when delivery has taken place and transfer of risks and rewards has been completed.

Revenue from services is recognized on accrual basis when services are rendered.

In these consolidated financial statements intercompany sales are eliminated.

2.19 Expense recognition

Expenses are recognised on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred.

The amount of expenses is usually accounted as the amount paid or due to be paid, excluding VAT. In those cases when long period of payment is established and the interest is not distinguished, the amount of expenses shall be estimated by discounting the amount of payment using the market interest rate.

2 Accounting principles (cont'd)

2.20 Segment information

In these financial statements business segment is considered component of the Group participating in production of an individual product or provision of a service or a group of related products or services, the risk and returns whereof are different from other business segments.

Geographical segment is considered component of the Group participating in production of an individual product or provision of a service or a group of related products or services, in particular economic environment the risk and returns whereof are different from other economic environments.

Business activities of the Group are structured as a sole primary business segment – manufacture of refrigerators and freezers. Financial segment information is presented in these financial statements in Note 4.

2.21 Impairment of assets

Financial assets

Financial assets as well as goodwill are reviewed for impairment at each balance sheet date.

For financial assets carried at amortised cost, whenever it is probable that the Group will not collect all amounts due according to the contractual terms of loans or receivables, impairment is recognised in the income statement. The reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the income statement. However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost that would have been had the impairment not been recognised.

Other assets

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is accounted for in the same caption of the income statement as the impairment loss.

2.22 Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to depreciation (Notes 2.6. and 13), amortisation (Notes 2.5. and 12), evaluation of impairment and provisions (Notes 2.6., 2.21. and 15), evaluation of deferred income tax valuation allowance and deferred tax recognition (Note 11). Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

2.23 Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow or economic benefits are probable.

2 Accounting principles (cont'd)**2.24 Subsequent events**

Post-balance sheet events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

2.25 Offsetting and comparative figures

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except the cases when a certain Standard specifically requires such set-off.

Where necessary, comparative figures have been adjusted to correspond to the presentation of the current year.

3 Correction of errors

As at 31 December 2006, considering that the banks have not demonstrated to take any actions to request an early repayment of the loans, under the non-current liabilities caption the Group accounted for LTL 3,761 thousand liabilities in accordance with loan agreement covenant, which were not fulfilled by the Group; therefore, the banks had the right to change the amounts of loans stated in the agreements as well as the maturity of the loans. According to IAS 1 requirements, liabilities can be classified as non-current only if the Group has an unconditional right to postpone the payment for 12 months after balance sheet date. Therefore, the aforementioned liabilities are presented in these financial statements as current liabilities.

	As stated in the financial statements for the year 2006	Adjustments	Amounts after adjustments in these financial statements
Non-current borrowings and financial lease obligations	39,233,456	(3,761,114)	35,472,342
Current borrowings and current portion of non-current borrowings and financial lease obligations	29,420,029	3,761,114	33,181,143
Total borrowings and financial lease obligations	<u>68,653,485</u>	-	<u>68,653,485</u>

In 2006 financial statements, the deferred income tax of the Group was accounted for at the net value under the non-current asset caption. As the deferred income tax asset and deferred income tax liabilities are related to income taxes of different Group companies and are paid to different tax authorities, as at 31 December 2006 deferred income tax was adjusted as follows:

	As stated in the financial statements for the year 2006	Adjustments	Amounts after adjustments in these financial statements
Deferred income tax asset	3,167,712	706,000	3,873,712
Deferred income tax liabilities	-	(706,000)	(706,000)
Deferred income tax, net	<u>3,167,712</u>	-	<u>3,167,712</u>

The presented liabilities and deferred income tax adjustments had no effect on net profit (loss) of the previous periods and for profit (loss) per share.

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(all amounts are in LTL unless otherwise stated)

4 Segment information

The Group's sole business segment (primary reporting format) is the production of refrigerators and specialised equipment.

Segment information is presented in respect of the Group's geographical segments (secondary reporting format) (in LTL thousand):

Group	Total segment sales revenue		Inter-segment sales		Sales revenue		Total assets by its location		Acquisition of property, plant and equipment and intangible assets	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Russia	172,421	120,345	(36,344)	(25,262)	136,077	95,083	84,748	100,268	3,315	11,292
Ukraine	98,612	82,794	(1,541)	(886)	97,071	81,908	294	662	12	11
Western Europe	82,254	77,277	-	-	82,254	77,277	-	-	-	-
Eastern Europe	46,436	48,072	-	-	46,436	48,072	-	-	-	-
Lithuania	35,764	24,919	(16,903)	(992)	18,861	23,927	160,471	156,903	20,329	17,894
Other CIS countries	15,846	11,017	-	-	15,846	11,017	-	-	-	-
Other Baltic states	13,307	14,366	-	-	13,307	14,366	-	-	-	-
Other countries	279	177	-	-	279	177	-	-	-	-
Total	464,919	378,967	(54,788)	(27,140)	410,131	351,827	245,513	257,833	23,656	29,197

Transactions between the geographical segments are generally made on commercial terms and conditions. They are eliminated on consolidation.

5 Other income

	2007	2006
Income from transportation	1,579,462	1,316,589
Gain on disposal of property, plant and equipment	259,449	2,098,920
Income from rent of premises	239,159	366,308
Income from rent of equipment	205,314	225,721
Other	388,815	607,345
	2,672,199	4,614,883

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(all amounts are in LTL unless otherwise stated)

6 Selling and distribution expenses

	<u>2007</u>	<u>2006</u>
Transportation	10,711,892	9,171,078
Warranty service costs	3,897,548	3,457,183
Market research, sales promotion and commissions to third parties	3,520,616	2,369,840
Advertising	2,825,664	3,650,914
Salaries and social insurance	2,171,340	2,047,112
Rent of warehouses and storage cost	1,728,915	3,946,329
Insurance	587,789	630,154
Production dispatch cost	380,301	430,536
Certification cost	248,100	174,881
Business trips	138,011	353,234
Depreciation and amortization	125,969	139,163
Other	605,994	1,253,241
	<u>26,942,139</u>	<u>27,623,665</u>

7 Administrative expenses

	<u>2007</u>	<u>2006</u>
Salaries and social insurance	12,473,058	10,029,621
Depreciation and amortization	2,544,080	2,758,694
Taxes, other than income tax	1,618,460	1,943,303
Communication expenses	650,236	1,044,504
Utilities	643,129	394,558
Business trips	640,501	848,986
Rent and maintenance of premises	627,251	332,965
Trainings	552,610	215,983
Stationery	480,244	589,264
Bank services	455,343	453,264
Security	438,045	312,524
Insurance	414,885	323,715
Car maintenance	386,571	383,259
Other consultation cost	326,003	73,892
Legal services	297,780	23,073
Utilisation of refrigerators	294,101	202,665
Bonuses, payments accrued for the reporting period	290,587	300,000
Maintenance of computers and software	194,129	73,907
Charity, Christmas presents, etc.	105,232	249,219
Personnel recruitment costs	76,699	70,585
Change of allowance for receivables	(441,778)	9,836,546
Other	3,358,014	2,486,897
	<u>26,425,180</u>	<u>32,947,424</u>

Change of allowance for receivables in the years 2007 and 2006 are mainly related to overdue receivables from clients in Russia and Ukraine (Note 15).

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CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(all amounts are in LTL unless otherwise stated)

11 Income tax (cont'd)

	2007	2006 (restated)
Deferred income tax asset		
Tax losses carried forward	3,793	3,093
Allowance for receivables	2,820	2,311
Accruals	203	-
Warranty provision	867	932
Difference of tax basis and carrying amount of inventories	-	704
Property, plant and equipment	-	15
Other	7	68
Deferred income tax asset before valuation allowance	7,690	7,123
Less: valuation allowance	(2,767)	(3,249)
Deferred income tax asset, net	4,923	3,874
Deferred income tax liability		
Capitalised development and repair costs	(858)	(706)
Difference of tax basis and carrying amount of inventories	(477)	-
Deferred income tax liability	(1,335)	(706)
Deferred income tax, net	3,588	3,168
Stated in balance sheet:		
Deferred income tax asset	3,882	3,874
Deferred income tax liability	(294)	(706)

Presentation of deferred income tax components in 2006 was changed to correspond to the presentation of the current reporting period (Note 3).

Deferred income tax asset and liability were calculated at the rate of 15% and 24%. The changes of temporary differences in the Group were as follows:

	Balance as at 31 December 2006 (restated)	Recognised in income statement	Effect of changes in foreign currency rate	Balance as at 31 December 2007
Tax losses carried forward	3,093	794	(94)	3,793
Allowance for receivables	2,311	509	-	2,820
Accruals	-	208	(5)	203
Warranty provisions	932	(74)	9	867
Other	68	(61)	-	7
Property, plant and equipment	15	(14)	(1)	-
Difference of tax basis and carrying amount of inventories	704	(1,220)	39	(477)
Capitalised development and repair costs	(706)	(152)	-	(858)
Valuation allowance	(3,249)	525	(43)	(2,767)
Deferred income tax, net	3,168	515	(95)	3,588

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11 Income tax (cont'd)

Deferred income tax assets are recognized in the amount, which is expected to be realised. As at 31 December 2007, the Group did not recognise deferred income tax asset from LTL 5,268 thousand tax loss carry forward, which can be utilized until 2017.

LTL 3,882 thousand deferred income tax asset is related to the Group's subsidiary OOO Techprominvest, which incurred tax losses in 2007 and 2006. This deferred income tax asset was recognised based on the forecasting of the Group's management for the near future periods, however, not exceeding the amount expected to be realised.

As at 31 December 2007 the balance of tax losses can be carried forward until 2017.

The reported amount of income tax attributable to the theoretical amount that would arise from applying income tax rate of the Group is as follows:

	<u>2007</u>	<u>2006</u>
		(restated)
Profit before tax	(11,629)	(10,128)
Income tax expenses computed using the statutory tax rate (18% and 19%)	(2,093)	(1,924)
Non-deductible expenses	1,246	983
Change of income tax valuation allowance	(482)	-
Effect of unrecognized tax losses	1,264	1,830
Difference in income taxes rates of subsidiaries	(145)	(457)
Effect of change of income tax rate	(3)	25
Income tax expenses (income) recorded in income statement	<u>(213)</u>	<u>457</u>

12 Intangible assets

	<u>Goodwill</u>	<u>Development cost</u>	<u>Software, licenses</u>	<u>Total</u>
Cost:				
Balance as at 31 December 2006	12,312,707	9,874,025	2,287,811	24,474,543
Additions	-	1,933,013	177,000	2,110,013
Disposals	-	(541,179)	(11,647)	(552,826)
Effect of change in foreign currency exchange rate	(383,923)	-	-	(383,923)
Balance as at 31 December 2007	<u>11,928,784</u>	<u>11,265,859</u>	<u>2,453,164</u>	<u>25,647,807</u>
Accumulated amortisation:				
Balance as at 31 December 2006	-	5,358,433	1,759,441	7,117,874
Charge for the year	-	1,152,591	295,591	1,448,182
Disposals and write-off	-	(358,783)	(10,612)	(369,395)
Balance as at 31 December 2007	<u>-</u>	<u>6,152,241</u>	<u>2,044,420</u>	<u>8,196,661</u>
Net book value as at 31 December 2007	<u>11,928,784</u>	<u>5,113,618</u>	<u>408,744</u>	<u>17,451,146</u>
Net book value as at 31 December 2006	<u>12,312,707</u>	<u>4,515,592</u>	<u>528,370</u>	<u>17,356,669</u>

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12 Intangible assets (cont'd)

	Goodwill	Development costs	Software, licenses	Total
Cost:				
Balance as at 1 January 2006	2,472,227	8,439,250	2,181,447	13,092,924
Additions	9,840,480	1,655,246	395,465	11,891,191
Disposals and write-offs	-	(223,471)	(286,101)	(509,572)
Other reclassifications	-	3,000	(3,000)	-
Balance as at 31 December 2006	<u>12,312,707</u>	<u>9,874,025</u>	<u>2,287,811</u>	<u>24,474,543</u>
Accumulated amortisation:				
Balance as at 1 January 2006	-	4,076,898	1,646,688	5,723,586
Charge for the year	-	1,279,161	351,463	1,630,624
Disposals and write-offs	-	-	(236,336)	(236,336)
Other reclassifications	-	2,374	(2,374)	-
Balance as at 31 December 2006	<u>-</u>	<u>5,358,433</u>	<u>1,759,441</u>	<u>7,117,874</u>
Net book value as at 31 December 2006	<u>12,312,707</u>	<u>4,515,592</u>	<u>528,370</u>	<u>17,356,669</u>
Net book value as at 1 January 2006	<u>2,472,227</u>	<u>4,362,352</u>	<u>534,759</u>	<u>7,369,338</u>

The amortisation charge in 2007 amounting to LTL 22 thousand was included into the refrigerator manufacturing costs. The remaining part amounting to LTL 1,426 thousand (LTL 1,631 thousand in 2006) was included into operating expenses in the income statement.

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13 Property, plant and equipment

	Land, buildings and structures	Machinery and equipment	Vehicles	Construction in progress	Total
Cost:					
Balance as at 31 December 2006	45,530,655	117,393,084	19,430,677	6,416,586	188,771,002
Additions	-	15,172,327	6,373,958	-	21,546,285
Disposals and write-offs	-	(6,170,659)	(6,836,273)	-	(13,006,932)
Reclassifications	881,501	6,982,921	(1,468,151)	(6,396,271)	-
Effect of change in foreign currency exchange rate	(999,316)	(1,056,938)	(54,068)	(20,315)	(2,130,637)
Balance as at 31 December 2007	45,412,840	132,320,735	17,446,143	-	195,179,718
Accumulated depreciation:					
Balance as at 31 December 2006	5,229,469	68,207,715	11,802,336	-	85,239,520
Charge for the year	1,771,514	15,230,945	2,196,663	-	19,199,122
Disposals and write-offs	-	(5,302,447)	(1,395,548)	-	(6,697,995)
Reclassifications	-	(322,864)	322,864	-	-
Effect of change in foreign currency exchange rate	(104,243)	(353,789)	(28,471)	-	(486,503)
Balance as at 31 December 2007	6,896,740	77,459,560	12,897,844	-	97,254,144
Net book value as at 31 December 2007	38,516,100	54,861,175	4,548,299	-	97,925,574
Net book value as at 31 December 2006	40,301,186	49,185,369	7,628,341	6,416,586	103,531,482

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13 Property, plant and equipment (cont'd)

	Land, buildings and structures	Machinery and equipment	Vehicles	Construction in progress	Total
Cost:					
Balance as at 1 January 2006	44,716,932	109,947,583	19,187,118	678,428	174,530,061
Additions	-	7,566,243	4,000,010	5,739,239	17,305,492
Disposals	(259,060)	(1,374,980)	(1,205,523)	-	(2,839,563)
Reclassifications	1,175,607	1,373,357	(2,548,964)	-	-
Effect of change in foreign currency exchange rate	(102,824)	(119,119)	(1,964)	(1,081)	(224,988)
Balance as at 31 December 2006	45,530,655	117,393,084	19,430,677	6,416,586	188,771,002
Accumulated depreciation:					
Balance as at 1 January 2006	3,352,982	54,948,684	10,756,676	-	69,058,342
Charge for the year	1,799,725	14,484,982	2,240,218	-	18,524,925
Disposals	(25,537)	(1,297,920)	(1,020,290)	-	(2,343,747)
Reclassifications	102,299	71,969	(174,268)	-	-
Balance as at 31 December 2006	5,229,469	68,207,715	11,802,336	-	85,239,520
Net book value as at 31 December 2006	40,301,186	49,185,369	7,628,341	6,416,586	103,531,482
Net book value as at 1 January 2006	41,363,950	54,998,899	8,430,442	678,428	105,471,719

The depreciation charge of the Group's property, plant and equipment for 2007 amounts to LTL 19,199 thousand (LTL 18,525 thousand for 2006). The amount of LTL 17,955 thousand for 2007 (LTL 17,258 thousand for 2006) was included into production costs. The remaining amount of LTL 1,244 (LTL 1,267 thousand for 2006) was included into operating expenses in the Group's income statement.

At 31 December 2007, buildings of the Group with the carrying amount of LTL 32,460 thousand (2006 – LTL 21,311 thousand), machinery and equipment with the net book value of LTL 19,639 thousand (2006 – LTL 40,751 thousand) were pledged to banks as a collateral for the loans (Note 22).

14 Inventories

	2007	2006
Raw materials and spare parts and production in progress	43,163,462	36,004,615
Finished goods	19,735,912	19,652,890
Other	285,524	213,778
	<u>63,184,898</u>	<u>55,871,283</u>

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

In order to secure bank loans, the Group pledged inventories with the gross value of LTL 19,300 thousand as at 31 December 2007 (as at 31 December 2006 – LTL 29,300 thousand) (Note 22).

Inventories amounting to LTL 360,820 thousand were recognized as an expense in 2007 (LTL 301,402 in 2006).

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(all amounts are in LTL unless otherwise stated)

15 Trade receivables

	<u>2007</u>	<u>2006</u>
Trade receivables, gross	60,970,170	75,427,158
Less: allowance for doubtful trade receivables	(11,527,355)	(11,969,133)
	<u>49,442,815</u>	<u>63,458,025</u>

Trade receivables are non-interest bearing and are generally on 30–90 day terms.

As at 31 December 2007, trade receivables with the carrying value of LTL 11,527 thousand (as at 31 December 2006 – LTL 11,969 thousand) were impaired and fully provided for.

Movements in the individually assessed impairment of trade receivables were as follows:

	<u>2007</u>	<u>2006</u>
Balance at the beginning of the period	(11,969,133)	(2,157,392)
Charge for the year	(470,287)	(10,106,331)
Write-off of trade receivables	35,208	-
Effect of the change in foreign currency exchange rate	411,918	35,042
Recovered amounts	464,939	259,548
Balance in the end of the period	<u>(11,527,355)</u>	<u>(11,969,133)</u>

Receivables are written off when it becomes evident that they will not be recovered.

The ageing analysis of trade receivables as at 31 December 2007 and 2006 is as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due but not impaired					Total
		Less than 30 days	30 – 60 days	60 – 90 days	90 – 120 days	More than 120 days	
2007	42,241,977	5,771,742	235,805	726,957	189,244	277,090	49,442,815
2006	58,596,920	3,741,773	504,087	13,399	914	600,932	63,458,025

According to the factoring agreement with recourse, the amounts receivable were pledged to the factors of the Group. As at 31 December 2007 and 2006 the carrying amount of receivables pledged to the factors amounted to LTL 18,842 thousand and LTL 16,035 thousand, respectively.

16 Other current assets

	<u>2007</u>	<u>2006</u>
VAT receivable	2,485,763	3,745,675
Prepayments and deferred charges	1,205,433	1,236,485
The foreign currency forwards at fair value	587,526	-
Compensations receivable from suppliers	216,728	86,241
Receivable for property, plant and equipment sold	-	80,000
Other receivables	1,058,390	866,476
	<u>5,553,840</u>	<u>6,014,877</u>

Compensations are receivables from suppliers for low-quality goods.

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17 Cash and cash equivalents

	<u>2007</u>	<u>2006</u>
Cash at bank	3,977,330	4,777,706
Cash on hand	7,230	27,374
	<u>3,984,560</u>	<u>4,805,080</u>

The accounts of the Group in foreign currency and litas up to LTL 10,000 thousand are pledged as a collateral for bank loans (Note 22).

18 Share capital

According to the Law on Companies of the Republic of Lithuania, the Company's total equity cannot be less than 1/2 of its share capital specified in the Company's by-laws. As at 31 December 2007 and 2006 the Company was in compliance with this requirement.

19 ReservesLegal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net profit, calculated in accordance with Lithuanian Business Accounting Standards, are compulsory until the reserve reaches 10% of the share capital. As at 31 December 2007 and 2006 the legal reserve of the Group was fully formed.

Non-restricted reserves

Other reserves are formed based on the decision of the General Shareholders' Meeting for special purposes. All non-restricted reserves before distributing the profit are transferred to retained earnings and redistributed annually under a decision of the shareholders.

As at 31 December 2007 other distributable reserves amounted to LTL 10,000 thousand (in 2006 – LTL 10,000 thousand) and comprised a reserve for own shares acquisition, a reserve for investments of LTL 23,648 thousand (as at 31 December 2006 – 16,338 thousand) and other reserves for charity and support of LTL 90 thousand (as at 31 December 2006 – 151 thousand) and LTL 350 thousand (as at 31 December 2006 – 410 thousand) for social and cultural needs.

Foreign currency translation reserve

The foreign currency translation reserve is used for translation differences arising upon consolidation of the financial statements of foreign subsidiaries.

Exchange differences are classified as equity in the consolidated financial statements until the disposal of the investment. Upon disposal of the corresponding investment, the cumulative revaluation of translation reserves is recognised as income or expenses in the same period when the gain or loss on disposal is recognised.

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20 Grants and subsidies

Balance as at 31 December 2005	10,315,100
Received during the year	43,500
Balance as at 31 December 2006	10,358,600
Received during the year	345,280
Balance as at 31 December 2007	10,703,880
Accumulated amortisation as at 31 December 2005	5,206,168
Amortisation during the year	1,303,092
Accumulated amortisation as at 31 December 2006	6,509,260
Amortisation during the year	1,179,704
Accumulated amortisation as at 31 December 2007	7,688,964
Net book value as at 31 December 2007	3,014,916
Net book value as at 31 December 2006	3,849,340

The subsidies were received for the renewal of production machinery and improvements of buildings in connection with the elimination of CFC 11 element from the production of polyurethane insulation and filling foam, a subsidy for elimination of green house gases in the manufacturing of domestic refrigerators and freezers and a grant for export development programme. Subsidies are amortised over the same period as the machinery and improvements or recognized as income when compensatory costs are incurred. The amortisation of subsidy is included in production cost against depreciation of machinery and improvements.

21 Warranty provision

The Group provides a warranty of up to 10 years for the production sold. The provision for warranty repairs was formed based on the expected cost of repairs and statistical warranty repair rates and divided respectively into long-term and short-term provisions.

Change in warranty provisions during the reporting period can be specified as follows:

	<u>2007</u>
As at 1 January	4,332,919
Charge for the year	7,214,394
Utilized	(6,886,600)
Foreign currency exchange effect	(127,063)
As at 31 December	<u>4,533,650</u>

Warranty provisions are accounted for as at 31 December as:

	<u>2007</u>
- non-current	1,892,800
- current	2,640,850
	<u>2006</u>
- non-current	3,081,965
- current	1,250,954

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22 Borrowings

	31 December 2007	31 December 2006
		(restated)
Non-current borrowings		
Bank borrowings secured by the Group's assets	18,277,198	35,159,824
	<u>18,277,198</u>	<u>35,159,824</u>
Current borrowings		
Current portion of non-current bank borrowings	31,900,584	32,847,062
	<u>31,900,584</u>	<u>32,847,062</u>
	<u>50,177,782</u>	<u>68,006,886</u>

Non-current loans in the amount of LTL 18,277 are arranged at fixed interest rate based on the factoring agreement with recourse. The factoring agreement is valid until 28 February 2009. The rest of the loans have floating interest rates of 6-month LIBOR +1% margin, 6-month LIBOR + 1.1% margin, 6-month LIBOR + 1.2% margin, 1 month EURIBOR + 1.15% margin and 6-month VLIBOR + 1.1% margin.

At 31 December 2007, buildings with the carrying amount of LTL 32,460 thousand (2006 – LTL 21,311 thousand), machinery and equipment with the net book value of LTL 19,639 thousand (2006 – LTL 40,751 thousand), inventories with the net book value of LTL 19,300 thousand (2006 – LTL 29,300 thousand), cash inflows into the bank accounts up to LTL 10,000 (2006 – LTL 10,000 thousand) and the major part of OOO Techprominvest shares are pledged as a collateral for loans from banks.

The Group was in default of certain loan covenants for loans amounting to LTL 23,623 as at 31 December 2007 (as at 31 December 2006 – LTL 22,783 thousand). During 2007 these loans were repaid on time; the banks did not take any action regarding non-compliance with the loan covenants. Liabilities related to these agreements as at 31 December 2007 and 2006 are accounted for under the current liabilities caption. As of the issue date of these financial statements, the banks had not initiated any action due to non-compliance with the loan covenants.

Borrowings at the end of the year in national and foreign currencies:

	2007	2006
Borrowings denominated in:		
EUR	19,197,912	38,868,183
USD	7,914,180	6,754,755
LTL	<u>23,065,690</u>	<u>22,383,948</u>
	<u>50,177,782</u>	<u>68,006,886</u>

As at 31 December 2007 the Group had unused funds in credit lines and overdrafts amounting to LTL 466 thousand (LTL 2,232 thousand as at 31 December 2006).

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23 Financial lease obligations

Principal amounts of financial lease payables at the 31 December 2007 and 2006 are denominated in euros.

The interest rate on the financial lease obligations in euros varies depending on the 6-month EURRIBOR + 1.1% and 1.5%, 6-month LIBOR EUR + 1% and 1.2%.

Future minimal lease payments under the above-mentioned financial lease contracts as at 31 December 2007 are as follows:

	<u>2007</u>	<u>2006</u>
Within one year	994,064	406,073
From one to five years	2,747,158	336,211
Total financial lease obligations	<u>3,741,222</u>	<u>742,284</u>
Interest	(318,290)	(95,685)
Present value of financial lease obligations	<u>3,422,932</u>	<u>646,599</u>
Financial lease obligations are accounted for as:		
- current	858,239	334,081
- non-current	2,564,693	312,518

The assets leased by the Group under financial lease contracts consist of machinery, equipment and vehicles. Apart from the lease payments, the most significant liabilities under lease contracts are property maintenance and insurance. The terms of financial lease are from 3 to 5 years. The distribution of the net book value of the assets acquired under financial lease is as follows:

	<u>As at 31 December 2007</u>	<u>As at 31 December 2006</u>
Machinery and equipment	4,446,602	-
Vehicles	333,851	1,152,091
	<u>4,780,453</u>	<u>1,152,091</u>

24 Operating lease

The Group has concluded several contracts of operating lease of land, premises and equipment. The terms of lease do not include restrictions of the activities of the Group in connection with the dividends, additional borrowings or additional lease agreements. In 2007 the lease expenses of the Group amounted to LTL 329 thousand (LTL 223 thousand in 2006).

Minimal future lease payments according to the signed lease contracts are as follows:

	<u>2007</u>	<u>2006</u>
Within one year	115,938	299,376
From one to five years	473,684	612,624
After five years	3,843,400	3,988,320
	<u>4,433,022</u>	<u>4,900,320</u>
Denominated in:		
- LTL	114,084	362,108
- RUB	4,318,938	4,538,212

The most significant operating lease agreement of the Group is the long-term agreement of OOO Techprominvest signed with the Municipality of Kaliningrad for rent of the land. The payments of the lease are reviewed annually.

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25 Other current liabilities

	<u>2007</u>	<u>2006</u>
Salaries and related taxes payable	4,114,444	3,421,261
Vacation reserve	2,611,863	2,000,860
Other taxes payable	2,598,300	3,235,215
Accrued bonuses	300,000	300,000
Payables for the shares of OOO Techprominvest (Note 1)	-	9,840,480
Other payables and accrued expenses	160,800	336,810
	<u>9,785,407</u>	<u>19,134,626</u>

Terms and conditions of the trade payables and other payables liabilities:

- Trade payables are non-interest bearing and are normally settled over a term of 60 days.
- Other payables are non-interest bearing and have the settlement term up to six months.
- Interest payable is normally settled monthly throughout the financial year.

26 Basic and diluted earnings (loss) per share

	<u>2007</u>	<u>2006</u>
Shares issued on 1 January	23,070,405	23,070,405
Weighted average of shares in issue	23,792,109	23,070,405
Net result for the year, attributable to the shareholders of the parent company	(11,412,480)	(10,581,640)
Basic and diluted earnings (loss) per share	<u>(0.48)</u>	<u>(0.46)</u>

27 Financial instruments

Fair value of financial instruments

The carrying amounts and fair values of the Group's financial assets and financial liabilities as of 31 December were as follows:

	<u>2007</u>		<u>2006</u>	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	3,984,560	3,984,560	4,805,080	4,805,080
Receivables	54,805,976	54,805,976	67,412,685	67,412,685
Derivative financial instruments	587,526	587,526	-	-
Financial liabilities				
Fixed rate borrowings	18,277,198	18,258,844	15,553,814	15,538,195
Floating rate borrowings	31,900,585	31,900,585	52,222,476	52,222,476
Obligations under financial lease	3,422,932	3,422,932	583,379	583,379
Other financial liabilities	87,014,331	87,014,331	81,857,164	81,857,164

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(all amounts are in LTL unless otherwise stated)

27 Financial instruments (cont'd)

Fair value of financial instruments (cont'd)

Fixed rate borrowings comprise current liabilities related to agreements of recourse factoring. The fair value of borrowings was calculated by discounting the expected future cash flows at the prevailing interest rates. The fair value of loans and other financial assets was calculated using market interest rates.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

- (a) The carrying amount of current trade and other accounts receivable, current accounts payable and short-term borrowings approximates fair value.
- (b) The fair value of non-current borrowings is based on the quoted market price for the same or similar issues or on the current rates available for borrowings with the same maturity profile. The fair value of non-current borrowings with variable and fixed interest rates approximates their carrying amounts.

The derivative financial instruments are carried at fair value, thus their fair value equals the carrying amount. The Group had no investments into unlisted entities as at 31 December 2007 and 2006.

The following table shows the net gains or losses of financial instruments included in the income statement:

	<u>2007</u>	<u>2006</u>
Financial assets available for sale	571,021	3,245,248
Loans and receivables	441,780	(9,836,546)

Net gains and losses of financial instruments include revaluation effect of foreign currency derivative financial instruments and impairment losses of receivables.

28 Capital and risk management

Credit risk

The Group has no significant concentration of trading counterparties. The two main customers of the Group – OOO Electrolux RUS and Sting Polska Sp z.o.o. – as at 31 December 2007 account for approximately 13.56% (23.38% as at 31 December 2006) of the total Group's trade receivables. The maximum exposure of the credit as at 31 December 2007 and 2006 comprise balance values of receivables including the derivative financial instruments' value.

The credit policy implemented by the Group and credit risk are constantly controlled. Credit risk assessment is applied to all clients willing to get a payment deferral.

In accordance with the policy of receivables recognition as doubtful, the payments variation from agreement terms are monitored and prevention actions are taken in order to prevent overdue receivables in accordance with the standard of the Group "Trade Credits Risk Management Procedure".

According to the policy of the Group, receivables are considered to be doubtful if they meet the following criteria:

- the client is late with settlement for 60 and more days and the receivable is not insured;
- factorised clients late with settlement for 30 and more days;
- client is unable to fulfil the obligations assumed;
- reluctant to communicate with the seller;
- the turnover of management is observed;
- reorganisation process is observed;
- information about tax penalties, judicial operation and restrictions of the use of assets is observed;
- bankruptcy case;
- inconsistency and variation in payments;
- not payable amount of insurance;
- other criteria.

A significant part of trade receivables is insured. The Group does not guarantee for other parties' liabilities.

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(all amounts are in LTL unless otherwise stated)

28 Capital and risk management (cont'd)Interest rate risk

The major part of the Group's borrowings is with variable rates, related to LIBOR and EURIBOR, which creates an interest rate risk. As at 31 December 2007 and 2006 the Group did not use any financial instruments to manage interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity, other than current year profit impact.

	<u>Increase/ decrease of basic points</u>	<u>Effect on the profit before tax</u>
2007		
EUR	+ 100	(153.235)
LTL	+ 100	(200.000)
EUR	- 200	306.470
LTL	- 200	400.000
2006		
EUR	+ 100	(334.937)
LTL	+ 100	(196.060)
EUR	- 200	669.873
LTL	- 200	392.120

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents by using cash flows statements with liquidity forecasting for future periods. The statement comprises predictable cash flows of monetary operations and effective planning of cash investment if it is necessary.

The purpose of the Group's liquidity risk management policy is to maintain the ratio between continuous financing and flexibility in using overdrafts, bank loans, obligations, financial and operating lease agreements.

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CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(all amounts are in LTL unless otherwise stated)

28 Capital and risk management (cont'd)

Liquidity risk (cont'd)

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2007 and 2006 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing loans, financial lease and borrowings	3,623,014	28,512,414	623,395	20,841,891	-	53,600,714
Interest payable	-	401,145	80,943	-	-	482,088
Trade and other payables	25,685,348	56,795,333	-	-	-	82,480,681
Other financial liabilities	-	660,213	1,980,638	1,892,800	-	4,533,651
Balance as at 31 December 2007	29,308,362	86,369,105	2,684,976	22,734,691	-	141,097,134
Interest bearing loans and borrowings	22,782,892	389,126	10,009,125	35,472,342	-	68,653,485
Interest payable	-	515,098	1,266,713	256,195	-	2,038,006
Trade and other payables	8,082,123	59,601,642	-	-	-	67,683,765
Other financial liabilities	-	312,739	938,216	3,081,965	-	4,332,920
Balance as at 31 December 2006	30,865,015	60,818,605	12,214,054	38,810,502	-	142,708,176

The Group seeks to maintain sufficient financing to meet the financial liabilities on time. In 2008 the Group secured the additional monetary funds to finance the operations of the Group (Note 30).

Foreign exchange risk

Major currency risks of the Group occur due to the fact that the Group's significant part of the revenue is in Russian roubles and US dollars and the borrowings are denominated in other foreign currencies.

To reduce the effect of foreign currency exchange fluctuation, the Group uses derivative financial instruments. In 2007 the Group arranged the foreign currency forwards with a bank for USD 15,540 thousand translation at a fixed rate. USD 3,340 thousand were executed in 2007. Derivative financial instruments are set to hedge from negative effect of change of foreign currency rate or cash flows from sales revenue in US dollars. As at 31 December 2007 derivative financial instruments were revalued to their fair value. Fair value of foreign currency forwards is estimated based on market prices as at the date of the balance sheet.

The table below summarises the maturity profile of the Group's derivative financial instruments as at 31 December 2007 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Contractual amounts payable	-	(9.428.800)	(19.329.040)	-	-	(28.757.840)
Contractual amounts receivable	-	9.516.271	19.829.096	-	-	29.345.366
Total undiscounted financial asset (liabilities)	-	87.471	500.056	-	-	587.526

The Group had no unsettled derivative financial instruments as at 31 December 2006.

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(all amounts are in LTL unless otherwise stated)

28 Capital and risk management (cont'd)

Foreign exchange risk (cont'd)

Monetary assets and liabilities of the Group stated in various currencies as at 31 December 2007 and 2006 were as follows (LTL):

	2007		2006	
	Assets	Liabilities	Assets	Liabilities
LTL	9,949,209	54,742,600	9,218,199	48,977,815
EUR	21,336,892	75,710,558	25,799,816	84,779,330
USD	12,782,919	8,582,314	11,256,416	6,951,333
RUB	16,549,408	10,484,268	28,946,069	8,833,995
Other	45,871	108,913	741,941	85,032
Total	60,664,299	149,628,653	75,962,441	149,627,505

The following table demonstrates sensitivity to a reasonably possible change in the foreign exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of financial assets and liabilities).

	Increase (decrease)	Effect on the profit
		before tax, LTL thousand
LTL/USD exchange rate increase (decrease)		
2007	+ 5%	(1,220)
	- 5%	1,151
2006	+ 5%	215
	- 5%	(215)
2007	+ 10%	(2,456)
	- 10%	2,194
2006	+ 10%	431
	- 10%	(431)
LTL/RUB, EUR/RUB exchange rate increase (decrease)		
2007	+ 3%	3,304
	- 3%	(3,304)
2006	+ 3%	3,595
	- 3%	(3,595)
2007	+ 5%	5,506
	- 5%	(5,506)
2006	+ 5%	5,991
	- 5%	(5,991)

AB SNAIGĖ**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007**

(all amounts are in LTL unless otherwise stated)

28 Capital and risk management (cont'd)Capital management

The Group manages share capital, share premium, legal reserves, reserves, foreign currency translation reserve and retained earnings as capital. The primary objectives of the Group's capital management are to ensure that the Group complies with the externally imposed capital requirements.

The Group manages its capital structure and makes adjustments to it in the light of changes in the economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. As described in Note 1, 756,960 ordinary shares with the nominal value of LTL 1 each were issued in 2007 for LTL 13 each. Funds from the issue were used to finance the acquisition of minority interest in the subsidiary OOO Techprominvest.

A company is obliged to keep its equity up to 50% of its share capital, as imposed by the Law on Companies of Republic of Lithuania. As of 31 December 2007 and 2006 the Company complied with this requirement. There were no other significant externally imposed capital requirements on the Group.

29 Related party transactions

According to IAS 24 *Related Party Disclosures*, the parties are considered related when one party can unilaterally or jointly control other party or have significant influence over the other party in making financial or operating decisions or operation matters, or when parties are jointly controlled and if the members of management, their relatives or close persons who can unilaterally or jointly control the Group or have influence on it. To determine if the parties are related the relation point is assessed not the form.

The parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Group and the transactions with related parties during 2007 and 2006 were as follows:

UAB Hermis Capital (same ultimate controlling shareholder);
 UAB Genčių Nafta (same ultimate controlling shareholder);
 UAB Hermis Fondų Valdymas (same ultimate controlling shareholder);
 UAB Baltijos Polistirenas (companies controlled by members of management and their relatives);
 UAB Astmaris (companies controlled by members of management and their relatives);
 UAB Aljana (companies controlled by members of management and their relatives);
 UAB Lisiplastas (companies controlled by members of management and their relatives);
 UAB Astmaris (companies controlled by members of management and their relatives);
 UAB Lanksti Linija (companies controlled by members of management and their relatives).

Due to a change in the Company's management in 2007, UAB Lanksti Linija and UAB Lisiplastas are not related parties in 2007.

2007	Transaction type	Purchases	Sales	Receivables	Payables
UAB Baltijos Polistirenas	Raw materials and consumables	4,399,357	-	-	805,689
UAB Astmaris	Materials	7,377,466	-	-	961,847
		<u>11,776,823</u>	-	-	<u>1,767,536</u>

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(all amounts are in LTL unless otherwise stated)

29 Related party transactions (cont'd)

2006	Transaction type	Purchases	Sales	Receivables	Payables
UAB Hermis Fondų Valdymas	Rent of premises	52,752	-	-	-
UAB Lisiplastas	Materials	7,072,470	397,342	23,020	-
UAB Baltijos Polistirenas	Materials	2,481,889	-	-	-
UAB Astmaris	Materials and consumables	6,847,895	-	-	-
UAB Lanksti Linija	-	-	-	9,435	1,368,513
		<u>16,455,006</u>	<u>397,342</u>	<u>32,455</u>	<u>1,368,513</u>

The Group has a policy to conduct related party transactions on commercial terms. Outstanding balances at the year-end are unsecured, interest-free and settlement occurs in cash. There were no guarantees provided or received for any related party receivables or payables. As at 31 December 2007 and 2006 the Group had not recorded any impairment of receivables from related parties.

Financial and investment transactions with the related parties:

	2007			2006		
	Loans received	Repayment of loans	Interest paid	Loans granted	Repayment of loans granted	Interests received
UAB Hermis Capital	12,500,000	12,500,000	42,011	20,500,000	20,500,000	33,767
UAB Genčių Nafta	3,500,000	3,500,000	37,178	-	-	-
	<u>16,000,000</u>	<u>16,000,000</u>	<u>79,189</u>	<u>20,500,000</u>	<u>20,500,000</u>	<u>33,767</u>

Remuneration of the management and other payments

Remuneration of the Company's and subsidiaries' management amounted to LTL 2,256 thousand and LTL 827 thousand, respectively, in 2007 (LTL 2,323 and LTL 764 thousand in 2006). In 2007 and 2006 the management of the Group did not receive any loans, guarantees; no other payments or property transfers were made or accrued.

30 Subsequent events

On 5 March 2008 the Group and AB SEB Bankas signed an agreement for EUR 3,584 thousand credit limit combining previously received loans and setting new repayment maturities. EUR 580 thousand from the credit limit will have to be repaid in 2008, the remaining part till 1 March 2009.

On 15 February 2008 the Group and AB Bankas Hansabankas signed an agreement for LTL 20 million loan restructuring into EUR 5,792 thousand and repayment maturity till 15 February 2009.

In April 2008 the Company issued 200,000 bonds with the par value of LTL 100 each and the redemption price of LTL 100 each. The annual interest rate is 14%, the obligations expire in 367 days. Obligations can be converted to ordinary shares, the ratio of the conversion with ordinary shares of the Company is 1:18. Bonds are to be redeemed on 6 April 2009.

In March 2008 new loan agreements were signed with related parties, and the total cash funds received amount to LTL 7,100 thousand. The loans are repayable in 2008.