

***AB „SNAIGĒ“***

***Semi-annual consolidated financial accounts for year  
2008***

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**I. FINANCIAL STATUS**

AB “Snaigė” is a parent company situated in Lithuania with the subsidiaries in Russia, Ukraine, and Lithuania. The financial statements of the subsidiary companies are integrated into the consolidated financial statements. The following financial statements have been composed in accordance with the Business Accounting Standards of Lithuania and the International Accounting Standards.

**1. Accounting Balance Sheet (in LTL)**

Ref. No.	Items	2008.06.30	2007.12.31
<b>A.</b>	<b>Fixed assets</b>	<b>110 080 796</b>	<b>119 258 923</b>
I.	FORMATION COSTS		
II.	INTANGIBLE ASSETS	17 137 417	17 451 146
III.	FIXED TANGIBLE ASSETS	87 874 687	97 925 574
III.1.	Land		
III.2.	Buildings	35 393 008	36 663 254
III.3.	Other fixed tangible assets	50 061 431	58 968 702
III.4.	Construction in progress and advance payments	2 420 248	2 293 618
IV.	FIXED FINANCIAL ASSETS		
V.	Deferred taxes assets	5 068 692	3 882 203
VI.	ACCOUNTS RECEIVABLE AFTER ONE YEAR		
<b>B.</b>	<b>Current assets</b>	<b>160 431 789</b>	<b>126 254 156</b>
I.	INVENTORY AND CONTRACTS IN PROGRESS	86 447 615	63 184 898
1.1.	Inventory	86 447 615	63 184 898
1.2.	Advance payments		
1.3.	Contracts in progress		
II.	ACCOUNTS RECEIVABLE WITHIN ONE YEAR	63 860 446	53 530 858
III.	INVESTMENTS AND TERM DEPOSITS		
IV.	CASH AT BANK AND ON HAND	2 927 275	3 984 560
V.	Other current assets	7 196 453	5 553 840
	<b>TOTAL ASSETS</b>	<b>270 512 585</b>	<b>245 513 079</b>

Ref. No.	Shareholders' equity and liabilities	2008.06.30	2007.12.31
<b>A.</b>	<b>Capital and reserves</b>	<b>82 664 994</b>	<b>91 518 241</b>
I.	SHARE CAPITAL	36 554 635	36 554 635
1.1.	Authorized (subscribed) share capital	23 827 365	23 827 365
1.2.	Uncalled share capital (-)		
II.	SHARE PREMIUM (surplus of nominal value)	12 727 270	12 727 270
	Own shares (-)		
III.	REVALUATION RESERVE	-919 488	-903 947
IV.	RESERVES	6 911 305	36 486 171
V.	PROFIT (LOSS) BROUGHT FORWARD	40 118 542	19 381 382
<b>B</b>	<b>Minority interest</b>	<b>3 465</b>	<b>3 913</b>
<b>C</b>	<b>Financing (grants and subsidies)</b>	<b>2 456 343</b>	<b>3 014 916</b>
<b>D</b>	<b>Provisions and deferred taxes</b>		<b>0</b>
I.	PROVISIONS FOR COVERING LIABILITIES AND DEMANDS		
II.	DEFERRED TAXES		
<b>E</b>	<b>Accounts payable and liabilities</b>	<b>185 387 783</b>	<b>150 976 009</b>
I.	ACCOUNTS PAYABLE AFTER ONE YEAR AND NON-CURRENT LIABILITIES	59 550 382	23 029 025
I.1.	Financial debts	56 604 440	20 841 891
I.2.	Trade creditors		
I.3.	Advances received on contracts in progress		
I.4.	Other accounts payable and non-current liabilities	2 945 942	2 187 134
II.	ACCOUNTS PAYABLE WITHIN ONE YEAR AND CURRENT LIABILITIES	125 837 401	127 946 984
II.1.	Current portion of non-current debts	35 539 346	32 758 823
II.2.	Financial debts		
II.3.	Trade creditors	74 129 865	82 319 881
II.4.	Advances received on contracts in progress	311 250	442 023
II.5.	Taxes, remuneration and social security payable	6 171 713	6 508 857
II.6.	Other accounts payable and current liabilities	9 685 227	5 917 400
II.7.	Fair value of derivative financial instruments		

<b>F</b>	<b>Accrued expenses and deferred income</b>		
	<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>270 512 585</b>	<b>245 513 079</b>

**2. Profit (Loss) account (in LTL)**

Ref. No.	Items	2008.06.30	2007.06.30
<b>I.</b>	<b>SALES INCOME</b>	<b>168,377,347</b>	<b>178,978,213</b>
II.1	Income of goods and other products sold	6,358,270	7,909,719
II.2	Income of refrigerators sold	162,019,077	171,068,494
<b>II.</b>	<b>COST OF GOODS SOLD</b>	<b>148,455,766</b>	<b>155,520,076</b>
II.1	Net cost of goods and other products sold	5,132,007	6,285,825
II.2	Net cost of refrigerators sold	143,323,759	149,234,251
<b>III.</b>	<b>GROSS PROFIT (LOSS)</b>	<b>19,921,581</b>	<b>23,458,137</b>
<b>IV.</b>	<b>OPERATING EXPENSES</b>	<b>24,358,164</b>	<b>22,561,298</b>
IV.1	Sales expenses	12,023,622	10,386,218
IV.2	General and administrative expenses	12,334,542	12,175,080
<b>V.</b>	<b>PROFIT (LOSS) FROM TYPICAL ACTIVITIES</b>	<b>-4,436,583</b>	<b>896,839</b>
<b>VI.</b>	<b>OTHER ACTIVITY</b>	<b>233,585</b>	<b>330,272</b>
VI.1.	Income	938,677	1,417,622
VI.2.	Expenses	705,092	1,087,350
<b>VII.</b>	<b>FINANCIAL AND INVESTING ACTIVITIES</b>	<b>-5,628,245</b>	<b>-2,107,233</b>
VII.1.	Income	4,859,107	5,459,939
VII.2.	Expenses	10,487,352	7,567,172
<b>VIII.</b>	<b>PROFIT (LOSS) FROM ORDINARY ACTIVITIES</b>	<b>-9,831,243</b>	<b>-880,122</b>
IX.	EXTRAORDINARY GAIN		
X.	EXTRAORDINARY LOSS		
<b>XI.</b>	<b>PROFIT (LOSS) BEFORE TAXES</b>	<b>-9,831,243</b>	<b>-880,122</b>
<b>XII.</b>	<b>TAXES</b>	<b>1,231,432</b>	<b>0</b>
XII.1.	Profit tax	39,244	
XII.2.	Adjustment of deferred profit tax	1,270,676	
XII.3	Social tax		
XIII.	Minority interest	448	3,442
<b>XIII.</b>	<b>NET PROFIT (LOSS)</b>	<b>-8,599,363</b>	<b>-876,680</b>

## 3. Cash Flows Statement (in LTL)

Ref. No.	Items	2008.06.30	2007.06.30
<b>I.</b>	<b>Cash flows from the key operations</b>		
I.1	Operating result before taxes	(9,831,243)	(880 122)
I.2	Depreciation and amortization expenses	11,343,206	10 151 514
I.3	Subsidies amortization	(558,574)	(588 038)
I.4	Return from sales of fixed assets	(63,369)	(88 853)
I.5	Fixed assets written-off	663	21 506
I.6	Write-off of inventory		
I.7	Devaluation of trade receivables		
I.8	Unrealized loss of future currency transactions	(354,683)	
I.9	Change in provisions for warranty repair services	62,219	724 243
I.10	Recovery of devaluation of trade receivables		
I.11	Influence of foreign currency exchange rate change	3,167,453	206 478
I.10	Financial income	(16,120)	(8 658)
I.11	Financial expenses	1,705,680	1 713 825
	<b>Cash flows from operating activities against change in circulating assets</b>	<b>5,455,232</b>	<b>11 458 373</b>
II.1.	Change (increase) in trade receivables and other debts	(12,247,948)	(7 768 079)
II.2.	Change (increase) in inventory	(23,262,717)	(5 930 457)
II.3.	Change (decrease) in trade payables and other debts to suppliers	(4,896,126)	5 432 489
	<b>Cash flows from ordinary activities</b>	<b>(34,951,559)</b>	<b>3 192 326</b>
III.1.	Interest received		8 658
III.2.	Interest paid	(1,705,680)	(1 713 825)
III.3.	Profit tax paid	(1,052,496)	(1 949 642)
	<b>Cash flows from operating activities, at net book value</b>	<b>(37,709,735)</b>	<b>(462 483)</b>
<b>IV.</b>	<b>Cash flows from the investing activities</b>		
IV.1.	Acquisition of fixed tangible assets	(1,225,394)	(4 602 872)
IV.2.	Capitalization of fixed intangible assets	(823,999)	(96 048)
IV.3.	Inflows from sales of fixed assets	158,773	2 351 777
IV.4.	Loans granted		
IV.5.	Loans regained		
	<b>Net cash flows from the investing activities</b>	<b>(1,890,620)</b>	<b>(2 347 143)</b>

No.	Items	2008.06.30	2007.06.30
<b>III.</b>	<b>Cash flows from the financial activities</b>	38,543,070	(19,309,383)
III.1	Cash flows related to the shareholders of the company		
III.1.1	Issue of shares		
III.1.2	Shareholders' contributions for covering losses		
III.1.3	Inflows from sales of own shares		
III.1.4	Payment of dividends		
III.2	Cash flows arising from other financing sources		423 976
III.2.1	Subsidies received		345,280
III.2.1.1	Inflows from non-current loans	42,806,182	92 669 623
III.2.1.2	Loans repaid	(21,314,231)	(90 699 374)
III.2.2	Leasing received		
III.2.2.1	Payments of leasing liabilities	(424,121)	(1 356 410)
III.3.	Other decreases in the cash flows from financial activities	17,475,240	(535 143)
	<b>Cash flows from financing activities, at net book value</b>	<b>38,543,070</b>	<b>423 976</b>
<b>IV.</b>	<b>Cash flows from extraordinary items</b>		
IV.1.	Increase in cash flows from extraordinary items		
IV.2.	Decrease in cash flows from extraordinary items		
<b>V.</b>	<b>The influence of exchange rates adjustments on the balance of cash and cash equivalents</b>		
<b>VI.</b>	<b>Cash flows from ordinary activities, investments and financing activities, at net book value</b>	<b>(1,057,285)</b>	<b>(2 385 650)</b>
<b>VII.</b>	<b>Cash and cash equivalents at the beginning of period</b>	<b>3,984,560</b>	<b>4 805 080</b>
<b>VIII.</b>	<b>Cash and cash equivalents at the end of period</b>	<b>2,927,275</b>	<b>2 212 952</b>



**4. Statement of Changes in Equity**

	Paid up authorized capital	Share premium	Own shares (-)	Legal reserves		Other reserves				Profit (loss) brought forward	TOTAL	Minority shareholders	TOTAL
				Compulsory	Acquisition of own shares	For charity and donation	For social needs and Christmas events	For investments	Other				
<b>Recalculated balance as of December 31, 2006</b>	<b>23,070,405</b>	<b>3,643,750</b>		<b>2,337,913</b>	<b>10,000,000</b>	<b>151,000</b>	<b>410,000</b>	<b>16,338,000</b>		<b>38,043,120</b>	<b>93,007,483</b>	<b>7,368</b>	<b>93,014,851</b>
Dividends for 2007											<b>0</b>		<b>0</b>
Total registered income and expenses as of 2007						<b>0</b>	<b>0</b>			<b>-11,412,480</b>	<b>-11,412,480</b>	<b>-3,455</b>	<b>-11,415,935</b>
Formed reserves				<b>60,668</b>	<b>0</b>	<b>-61,000</b>	<b>-60,000</b>	<b>7,309,600</b>		<b>-7,249,258</b>	<b>0</b>		<b>0</b>
Repurchase of own shares during the financial years											<b>0</b>		<b>0</b>
Sale of own shares during the financial years											<b>0</b>		<b>0</b>
Net profit / loss of the reporting period (2007)											<b>0</b>		<b>0</b>
Appropriated profit of the minority shareholders for covering previous losses, which have been defrayed by the major shareholders											<b>0</b>		<b>0</b>
Other changes	<b>756,960</b>	<b>9,083,520</b>								<b>82,758</b>	<b>9,923,238</b>		<b>9,923,238</b>
Year 2006 profit not registered in the Profit (Loss) account											<b>0</b>		<b>0</b>
<b>Balance as of December 31, 2007</b>	<b>23,827,365</b>	<b>12,727,270</b>	<b>0</b>	<b>2,398,571</b>	<b>10,000,000</b>	<b>90,000</b>	<b>350,000</b>	<b>23,647,600</b>	<b>0</b>	<b>19,381,382</b>	<b>91,518,241</b>	<b>3,913</b>	<b>91,522,154</b>
Total registered income and expenses as of 2008										<b>-8,599,363</b>	<b>-8,599,363</b>	<b>-448</b>	<b>-8,599,811</b>
Dividends for 2008											<b>0</b>	<b>0</b>	<b>0</b>
Formed reserves								<b>4,512,300</b>	<b>0</b>	<b>-4,512,300</b>	<b>0</b>	<b>0</b>	<b>0</b>
Transfers from reserves					<b>-10,000,000</b>	<b>-90,000</b>	<b>-350,000</b>	<b>-23,647,600</b>	<b>0</b>	<b>34,087,600</b>	<b>0</b>	<b>0</b>	<b>0</b>
Repurchase of own shares during the financial year										<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Sale of own shares during financial year													0				0		
Appropriated profit of the minority shareholders for covering previous losses, which have been defrayed by the major shareholders																	0		
Other changes												-15,541					-15,107		
Current year profit not registered in the Profit (Loss) account													-238,777				-238,777		
<b>Balance as of June 30, 2008</b>													0	4,512,300	-919,488	40,118,542	82,664,995	3,465	<b>82,668,460</b>

## II. EXPLANATORY NOTE

### 1. Basic information

Public Limited company „Snaigė“ (Company) is registered in the Republic of Lithuanian. Company is located

Pramonės st. 6,

Alytus,

Lietuva

Company is active manufacturer of refrigerators and freezers. The refrigerator manufacturing plant was established on the 1 April 1963. After the privatization of the Company on 1 December 1992, the joint-stock company “Snaigė” was established and in December 1993 all state-owned shares were bought out. Company’s shares are listed on Vilnius Stock Exchange Main List.

Main shareholders of AB „Snaigė“ as of June 30, 2008 and December 31, 2007 were:

	June 30, 2008		December 31, 2007	
	Number of shares owned	Share of total capital, %	Number of shares owned	Share of total capital, %
Survesta	5138140	21,56	4935810	20,71
Hansabank Clientd	10263369	43,07	11291650	47,39
Skandinaviska Enskilda Banken Clients	3491647	14,65	2537131	10,65
SSBT AS Custodian For Eterity Limited	808000	3,39	808000	3,39
Skandinaviska Enskilda Banken AB Finnish Clients	823662	3,46	796162	3,34
Kiti akcininkai	3302547	13,87	3458612	14,52
Total	23827365	100,00	23.827.365	100,00

All the shares (with nominal value 1Lt per share), are ordinary and were fully paid as for June 30, 2008 and December 31, 2007. Authorized share capital as of June 30, 2008 is equal to 23 827 365 Lt. Subsidiaries did not have any shares of AB „Snaigė“ as of June 31, 2008 and December 31, 2007. Company did not have any of their own shares.

Group consists of AB “Snaigė “ and its subsidiaries and associated companies (hereinafter – Group):

Company	Company address	Share capital owned by Group, %	Investment value	Current period profit (loss)	Main activity
OOO „Techprominvest“	Bolšaja Okružnaja, 1-a, Kaliningrad	100	12648840	( 4829240 )	Manufacturing and trade of

					refrigerators and freezers
TOB „Snaige Ukraina“	Gruševskio 28-2a/43, Kiev	99	88875	6434	Trade, consulting, service
OOO „Moroz Trade“	Prospekt Mira 52, Moscow	100	947	( 130641 )	Trade and marketing services
OOO „Liga Servis“	Prospekt Mira 52, Moscow	100	1028	147158	Trade, marketing, logistics
UAB Almecha	Pramonės 6, Alytus	100	1375785	( 302437)	Manufacturing of machinery equipment

As of 30 June, 2008 Company's board consisted of 5 members, one of whom is an employee of Company.

The refrigerator manufacturing plant was established on the 1 April 1963. After the privatization of the Company on 1 December 1992, the joint-stock company “Snaigė” was established and in December 1993 all state-owned shares were bought out. On the 30 June 2007, 23.61% of Company's shares were owned by institutional investors of Lithuania, 5.61% by private individuals of Lithuania, and 70.78% by foreign institutions and private individuals.

The headquarters of AB „Snaigė“, which is a parent company of the group, is situated in Alytus, Pramonės str. 6.

The Company has established 5 subsidiary enterprises, as of 2008-06-30, including:

**“Techprominvest”**- Refrigerator manufacturing company situated in Kaliningrad, at 4 Balshaja Okruzhnaja, 1-a. The company was established for the activities comprising manufacture and sales of refrigerators in Russian Federation. AB “Snaigė”, in line with the 15% subscribed capital purchase-sale agreement signed on the 28 December 2006 and share subscription agreement of the same date acquired the whole 100% of OOO “Techprominvest” shares, the value of which is 12 648 840 LTL.

**“Snaige-Ukraine”** - Sales company with 99 % of controlled portfolio amounting to 88875 LTL, situated in Kiev, at Grushevski str. 28-2a / 43. The company was acquired for increasing the sales of the products of AB “Snaigė” in Ukraine.

**“Moroz Trade”** - Sales company with 100 % of controlled portfolio amounting to 947 LTL, situated in Moscow, at prospekt Mira 52. The goal of this company is sales of refrigerators produced by OOO “Techprominvest” in Russian Federation.

**“Liga – Servis”** - Sales company with 100 % of controlled portfolio amounting to 1028 LTL, situated in Moscow, at prospekt Mira 52. The goal of this company is the expansion of sales network and sales of refrigerators produced by OOO “Techprominvest” in Russian Federation.

**UAB „Almecha“** - manufacturing company with 100% of controlled portfolio amounting to 30000 LTL, situated in Alytus, Pramonės str. 6. On 1 January 2007 the subscribed company's capital was increased by private contribution to 1375785 LTL.

The number of employees in the Group as of 30 June, 2008 was 2367 (while on 31 December, 2007 – 2479)

## **2. Accounting principles**

The main accounting principles used in preparation of Group's financial accounts as of 30 June, 2008:

### **2.1. Preparation basis of financial statements**

These financial statements are prepared according to international financial reporting standards (IFRS), which are accepted in the European Union countries.

### **2.2. Currency of financial statements**

Accounting of the Group is done using the domestic currency of the Country, and all the sums of these financial accounts are expressed in the national currency of the Republic of Lithuania, Litas (Lt).

From 2 February, 2002 Litas is pegged with Euro at a rate 3.4528 Lt for 1 Euro, and the exchange rate with other currencies is decided by the central bank of the Republic of Lithuania every day.

The valid currency exchange rates were:

	2008-06-30	2007-12-31
Russian Rouble	0.093536	0.096085
Ukrainian Hryvna	0.47925	0.46649
US Dollar	2.1938	2.3572

### **2.3. Principles of consolidation**

Consolidated financial statements of the Group include AB "Snaigė" and its controlled subsidiaries and associated companies. 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 and liabilities of another company at their fair value at acquisition date. The difference of the acquired minority interest value in the Group's financial statements and costs of shares is accounted for as goodwill.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity

extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.

#### **2.4. Intangible assets, except for goodwill**

Intangible assets are recognized 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 amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over their estimated useful lives (3 years).

The useful lives, residual values and amortization 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

The cost of research expensed during the objective for new technological improvements, are accounted in the profit (loss) account at the moment when they were expensed.

Expenses from the development activities of creation of new or enhanced products and operational processes are capitalized if the product or the process is technically and commercially proven and the Group has enough resources and intentions to finish the creation of this product or process. Capitalized expenses include raw material and direct work expenses as well as respective additional expenses, Capitalized development expenses is accounted at their cost subtracting the accumulated depreciation. Capitalized product creation expenses are being amortized as soon as product creation works are finished and their results can be used in commercial production. Capitalized product creation expenses will be amortized over the period when the economic benefit is received. The amortization period applied varies from 1 to 4 years.

#### Licenses

Amounts paid for licenses are capitalized and then amortized over their validity period.

#### Software

The costs of acquisition of new software are capitalized and treated as an intangible asset if these costs are not an integral part of the related hardware. Software is amortized 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 recognized as an expense when the restoration or maintenance work is carried out.

#### **2.5. 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 defined and is higher than LTL 500.

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.

The initial cost of property, plant and equipment comprises its purchase price, including non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repair and maintenance costs, are normally charged to the income statement in the period the costs are incurred.

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

Buildings and structures (excluding commercial buildings)	15 - 63 years
Machinery and equipment	5 - 10 years
Vehicles	6 - 7 years
Other non-current assets	3 - 8 years

The useful lives are reviewed annually to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from items in property, plant and equipment.

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.

## **2.6. Inventories**

Inventories are valued at the lower of cost or net realizable value, after impairment evaluation for obsolete and slow moving items. Net realizable 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. Unrealizable inventory has is fully written-off.

Inventories in transit are accounted for in accordance with INCOTERMS.

## **2.7. Receivables and loans granted**

Receivables are initially recorded at the fair value of the consideration given. Receivables and loans granted are subsequently carried at amortized cost, less impairment.

## **2.8. 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 and bank overdrafts.

## **2.9. Borrowings**

Borrowing costs are expensed as incurred.

Borrowings are initially recognized at fair value of proceeds received. They are subsequently carried at amortized cost, the difference between net proceeds and redemption value being recognized 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 authorization of the financial statements for issue provides evidence that the substance of the liability at the balance sheet date was non-current.

Borrowings are classified as current, if the Group does not comply with the provisions of the financing agreement that provide the creditor with a possibility to demand early repayment.

## **2.10. Factoring**

Factoring transaction is a funding transaction wherein the company 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). The factoring expenses comprise a lump-sum contract fee charged on the conclusion of the contract, commission fees charged for processing the invoices, and interest expenses depending on the duration on the payment term set by the debtor. Factored accounts receivable (with regress right) and related financing are recorded in accounts receivable caption and liabilities to credit institutions caption in the financial statements.

## **2.11. Financial lease and operating lease**

Financial lease – the Group as lessor



The Group recognizes financial lease receivables in the balance sheet on the inception day of the lease period, and they equal to the net investment in the lease. Financing income is based on the constant periodical interest rate calculated on the net investment balance. The initial direct expenses are included upon assessment of receivables at the time of initial recognition.

*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 recognized 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 recognized 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 recognized immediately. If the sales price is lower than the fair value, any profit or loss is recognized 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 amortized 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 amortized over a period, during which the assets are expected to be operated.

*Operating lease – the Group as lessor*

Assets leased under operating lease in the balance sheet of the Group are accounted for depending on their nature. Income from operating lease is recognized as other income in the statement of income within the lease period using the straight-line method. All the discounts provided to the operating lessee are recognized using straight-line method during the lease period by reducing the lease income. Initial direct expenses incurred in order to generate lease income are included in the carrying value of the leased asset.

**2.12. Grants and subsidies**

Grants and subsidies 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 recognized 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 amortization.

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 recognized as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant.

The balance of unutilized grants is shown in the balance sheet caption “Grants and subsidies (deferred income)”.

### **2.13. Provisions**

Provisions are recognized when the Group or the Company 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. Were discounting is used, the increase in the provision due to the passage of time is recognized as an interest.

### **2.14. Revenue recognition**

Revenue is recognized 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 recognized net of VAT and discounts.

Revenue from sales of goods is recognized when delivery has taken place and transfer of risks and rewards has been completed. Revenue from services is recognized when services are rendered. Interest income is recognized on accrual basis (using the effective interest rate).

**Sales among the Group’s companies are eliminated in the consolidated profit (loss) account**

### **2.15. Expense recognition**

Expenses are recognized 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.

### **2.16. Foreign currencies**

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies on the balance sheet date are recognized in the income statement. Such balances are translated at period-end exchange rates.

The accounting of subsidiaries is arranged in respective local currencies, which is their functional currency. Financial statements of foreign consolidated subsidiaries are translated to Litas at year-end exchange rates in respect to the balance sheet accounts, and at the average exchange rates for the year in respect to the accounts of the statement of income. The exchange differences arising on the translation are taken directly to equity. Upon disposal of the corresponding assets, the cumulative revaluation of translation reserves is recognized as income or expenses in the same period when the gain or loss on disposal is recognized.

Goodwill and fair value adjustments arising on the acquisition of a foreign subsidiary are treated as assets (or liabilities related to fair value adjustments) of the acquired company and are recorded at the exchange rate at the balance sheet date.

## **2.17. Segments**

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.

For the management purpose Group's activities is organized as one main segment – manufacturing of refrigerators. Financial information about the business and geographical segments is represented in 3<sup>rd</sup> note of these financial statements.

## **2.18. 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.

## **2.19. 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 certain Standard specifically requires such set-off.

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

## **3. Segment information**

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

Results for the reporting period and year ended 31 December 2007 by geographical segments can be specified as follows:

Group	Sales		Assets	
	2008-06-30	2007-06-30	2008-06-30	2007-06-30
Russia	54852	56806	97301	8877
Ukraine	36810	38826	400	644
Western Europe	43733	37950	-	-
Eastern Europe	18251	24183	-	-
Lithuania	6861	9108	172812	182092
Baltic Countries	2167	5197	-	-
Other countries from NVS	3990	6908	-	-
Other countries	1713	-	-	-
Total	168377	178978	270513	191613

#### 4. Operational Expenses

Over reporting period the operational expenses were:

	2008m.	2007 m.
Sales expenses	12023622	10386218
Administration expenses	12334542	12175080
<b>Total:</b>	<b>24358164</b>	<b>2256129</b>

#### 5. Other income (expense) – net result

Over reporting period the other income (expenses) were:

	2008 m.	2007 m.
<b>Other operating income</b>		
Income from logistics	457046	662439
Rent	251260	134053
Profit from sale of fixed asset	35159	282840
Other	195212	338290
	<u>938677</u>	<u>1417622</u>
<b>Other operating expenses</b>		
Transportation expenses	338419	573894
Rent	181380	114634
Other	185293	398822
	<u>705092</u>	<u>1087350</u>
<b>Other operating income (expense) – net result</b>	<b><u>233585</u></b>	<b><u>330272</u></b>

**6. Net result from financial activities**

	<b>2008-06-30</b>	<b>2007-06-30</b>
<b>Financial income</b>		
Profit from currency exchange	4174113	5434942
Profit from foreign currency derivatives	356486	
Other income from financial activities	328508	24997
	<u>4859107</u>	<u>5459939</u>
<b>Financial expenses</b>		
Loss from currency fluctuations	7423693	5646186
Realized loss from foreign currency derivatives	982	
Loss from revaluation of foreign currency derivatives	1803	
Interest expenses	2924676	1713280
Other expenses from financial activities	136198	207706
	<u>10487352</u>	<u>7567172</u>
<b>Net result from financial activities</b>	<u><b>( 5628245 )</b></u>	<u><b>(2107233)</b></u>

**7. Non-current intangible assets**

The balance sheet value of non-current intangible assets on 30 June 2008 was 17,137.4 thous. LTL (on 31 December 2007 – 17,441.1 thous. LTL)

Non-current intangible assets depreciation expenses are included under operating expenses in the profit and loss account.

Over this year, the Group has accumulated 729.8 thous. LTL of non-current intangible assets depreciation.

**8. Non-current tangible assets**

Non-current tangible assets consist of the following assets groups :

	Balance sheet value	
	<u>2008.06.30</u>	<u>2007.12.31</u>
Buildings and constructions	35393008	36663254
Other non-current assets	50061431	58968702
Construction in progress and prepayments	<u>2420248</u>	<u>2293618</u>
<b>In total:</b>	<b>87874687</b>	<b>97925574</b>

Group's non-current tangible assets depreciation on 30 June, 2008 is equal to 10 613 thous. LTL (in 2007 – 19 199 thous. LTL)

## 9. Inventories

	<b>2008.06.30</b>	<b>2007.12.31</b>
Raw materials and spare parts	38500567	43163462
Production in progress	47748659	19735912
Finished goods	198389	285524
Other	86447615	63184898
		-
Less: net realizable value allowance	<b>86447615</b>	<b>63184898</b>
	38500567	43163462

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

## 10. Trade receivables

Trade receivables were composed as follows:

	<b>2008.06.30</b>	<b>2007.12.31</b>
Trade receivables from the Group companies	69965305	60970170
Trade receivables, gross	(11245398)	( 11527355 )
Less: allowance for doubtful trade receivables	5140539	4088043
	63860446	53530858

Trade receivables are non-interest bearing and are generally on days terms.

As of 31 December 2007 trade receivables with the nominal value of LTL thousand (as of 31 December 2006 – LTL thousand) were impaired and fully provided for.

Movements in the provision for impairment of receivables were as follows:

	2007	2006
Balance at the beginning of the period	- 11527355	-11969133
Charge for the year		-470287
Write-off of trade receivables		
Recovered receivables		
Effect of the change in foreign currency exchange rate	281957	573445
Currency exchange rate influence		338620
Balance in the end of the period	-11245398	-11527355

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

	Trade receivables past due but not impaired						Total
	Trade receivables neither past due nor impaired	Less than 30 days	30 – 60 days	60 – 90 days	90 – 120 days	More than 120 days	
<b>2007</b>	42241977	5771742	235805	726957	189244	277090	49442815
<b>2006</b>	48075014	6911043	1467183	1810463	50788	405416	58719907

## 11. Other current assets

	2008-06-30	2007-12-31
VAT receivable	2611706	2485763
Prepayments and deferred charges	2723762	1205433
Compensations receivable from suppliers	171263	216728
Receivable for property, plant and equipment sold		
Fair value of currency futures	29695	587526
Other receivable	1660027	1058390

<b>Total other assets</b>	<b>7196453</b>	<b>5553840</b>
<b>Compensations from suppliers are received for bad quality goods.</b>		

## 12. Cash and cash equivalents

	<b>2008-06-30</b>	<b>2007-12-31</b>
Cash at bank	2915761	3977330
Cash on hand	11514	7230
	<b>2927275</b>	<b>3984560</b>

The accounts of the Company in foreign currency up to LTL 10,000 thousand are pledged to secure the bank loans.

## 13. 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 of 30 June 2008 the Company was in compliance with this requirement. At the date of the reporting the legal reserve was fully formed.

## 14. Reserves

### Legal 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.

### Non-restricted reserves

Non-restricted (distributable) reserves are formed based on the decision of the General Shareholders' Meeting on appropriation of distributable profit. These reserves can be used only for the purposes approved by the General Shareholders' Meeting.

### Foreign currency translation reserve

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



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

## 15. Subsidies

<b>Subsidies on 1 January 2006</b>	<b>5,108,932</b>
Increase during period	43,500
Amortization during period	1,303,092
<b>Net residual value 31 December 2006</b>	<b>3,849,340</b>
Increase during period ( 2007 )	345,280
Amortization during period ( 2007 )	1,179,704
<b>Net residual value 31 December 2007</b>	<b>3,014,916</b>
Increase during period	0
Amortization during period	558573
<b>Net residual value 30 June 2008</b>	<b>2456343</b>

Future periods' subsidies income consists of subsidies for renewal of manufacturing equipment and building repairs due to the CFC 11 ingredient abandonment in the manufacturing of polyurethane insulating material and filling foam manufacturing, elimination of greenhouse gas elimination in the refrigerators manufacturing processes, and subsidy for export development. Deferred subsidies amount is amortized during the same period as equipment and machinery, for which subsidies were received, and when compensated expenses are incurred. Subsidies amortization amount is included into costs of goods sold while decreasing equipment and buildings reconstruction, for which subsidies were received, depreciation

## 16. Provisions for guarantee related liabilities

Sold products are given from 3 to 10 years guarantees. Provisions for guarantee related services were made according to planned service expenses and refrigerators breakdowns statistics, and appropriately were divided into non-current and current provisions. Non-current provisions on 30 June 2008 were equal to 2,651.6 thous. LTL (2007 – 1892.8 thous. LTL), current provisions on 30 June 2008 are equal to 1120.1 thous. LTL (2007 – 2.640.8 thous.LTL).

Changes over the reporting period

	<u>2007 m.</u>
1 January .	4533650
Changes over reporting period	1383376

Used	2081789
Currency exchange rate change influence	( 63521 )
<b>30 June</b>	<b>3771716</b>

## 17. Borrowings

	As of 30 June 2008	As of 31 December 2007
<b>Non-current borrowings</b>		
Bank borrowings secured by state guarantees		-
Bank borrowings secured by Company's assets	36564507	18277198
Other loans	17475240	
Leasing	2564693	2564693
	56604440	20841891
<b>Current borrowings</b>		
Current portion of non-current bank borrowings	11767857	31900584
Other current borrowings	23337371	
Leasing	434118	858239
	35539346	32758823
	<b>92143786</b>	<b>53600714</b>

The loans with:

- limit of 12,374.8 thous. LTL are arranged at floating interest rates of 6 month LIBOR +1.3% margin,
- limit of 20,000 thous. LTL are arranged at floating interest rates of 6 month LIBOR +2.6% margin
- current debts of 23,337 thous. LTL are arranged at fixed interest rate of from 10% to 14%

As of 30 June, building with a nominal value of 31,279 thous. LTL (31 December 2007 32,460 thous. LTL), equipment and machinery with a nominal value of 15,928 thous. LTL (31 December 2007 19,639 thous. LTL), inventories with a nominal value of 19,300 thous. LTL (31 December 2007 19,300 thous. LTL) and financial income in the bank accounts up to 10,000 thous. LTL (31 December 2007 10,000 thous. LTL) and the shares of 2,808 thous. LTL (31 December 2007 2,808 thous. LTL) of "Techprominvest" are collateralized for the bank loans.

Current debts received from concerned parties are not guaranteed with the assets of the Group.

In April 2008 Company issued 200,000 of bonds each with the nominal value of 100LTL and repurchase price of 100 LTL. Annual interest rate of the bonds is 14%, with the time to maturity of 367 days. Bonds can be converted into ordinary shares, conversion rate with the Company's ordinary shares is 1 to 18. Maturity date is 6 April 2009.

### 18. Financial leasing

The assets leased by the Group under financial lease contracts consist of machines, 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:

	2008-06-30	2007-12-31
Machinery and equipment	2829618	3189209
Vehicles	169193	233723
	<u>2998811</u>	<u>3422932</u>

**Principal amounts of financial lease payables at the year-end denominated in national and foreign currencies are as follows:**

	2008-06-30	2007-12-31
EUR	-	-
LTL	2998811	3422932
	<u>2998811</u>	<u>3422932</u>

Financial lease obligations are arranged at floating interest rates of 6 month EURIBOR +1.1% margin, 6 month LIBOREUR +1% margin, 6 month LIBOREUR +1.2% margin

### 19. Operating lease

The group has formed several operating lease agreement. In the agreement conditions there are no limitations set for the Group's activities related to dividends, additional borrowings or additional long-term rent.

**20. Trade credits**

The conditions of the above mentioned type of liabilities:

- Trade credits are non interest paying and approximate time to payment is equal to 60 days.
- Other amounts payable are non interest paying and approximate time to payment is equal to 60 days.
- Interests payable are usually set quarterly during the financial year.

**21. Other current amounts payable**

Other creditors were composed as follows:

	2008-06-30	2007-12-31
Salaries and related taxes payable	3498640	4114444
Vacation reserve	2667573	2611863
Bonuses and payments to the Board accrued	5500	300,000,
Other taxes payable	4605011	2598300
Provisions for guaranty repair	1822718	2640850
Other payables and accrued expenses	3257498	160800
<b>Total other creditors</b>	<b>15856940</b>	<b>12426257</b>

**22. Basic and diluted earnings (loss) per share**

	2008-06-30	2007m.
Shares issued 1 January	23827365	23070405
Average weighted number of shares in issue	23827365	23792109
Net result for the year, attributable to the parent company	( 8599363 )	(11412480)
Earnings (loss) per share	( 0,36)	(0.48)

**23. Risk and capital management**Credit risk

The Group has significant concentration of trading counterparties. The main ten customers of the Group on 30 June 2008 account for approximately 30.1% (27.5% as of 31 December 2007) of the total Group's trade receivables. The maximum sum of credit risk in the reporting period and on 31 December 2007 includes accounts receivables and loans provided.

The credit policy and credit risk is constantly controlled. All the customers willing to receive a deferred payment are evaluated for credit risk. Majority of accounts receivables are insured.

The Group does not guarantee obligations of other parties. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the balance sheet. Consequently, the Group considers that its maximum exposure is reflected by the amount of trade receivables, net of allowance for doubtful accounts recognized at the balance sheet date.

#### Interest rate risk

Majority of Groups loans consists of loans with floating interest rates; with the floating part being associated to LIBOR, therefore, creating an interest rate risk.

Group did not use any financial instruments to hedge the risks from interest rate fluctuations for debt obligations associated with floating interest rates.

#### Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans.

The Group's current ratio as of 30 June 2008 was 0.59 (31 December 2007 it was 0.52)

#### Foreign exchange risk

Major currency risks of the Group occur due to the fact that the Group earns majority of its income in US Dollars, Russian Roubles and Ukrainian Hryvnias, while borrows foreign currency denominated.

The Group used financial instruments to manage its exposure to foreign exchange risk in 2008, making a predefined currency exchange transactions. Financial derivatives are used to hedge from negative currency fluctuations for cash flows from sales income with US Dollars

## **24. Related parties transactions**

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 2008 and 2007 were as follows:

UAB „Hermis Capital „ (same final controlling shareholder);

UAB „ Genčių nafta „ (same final controlling shareholder) ;

AB „ Kauno duona „ (same final controlling shareholder);

UAB „ Meditus „(same final controlling shareholder);

UAB „ Baltijos polistirenas „ (other companies controlled by board members or their family members) ;

UAB „ Astmaris „ (other companies controlled by board members or their family members).

Companies owned by management members and/or their close relatives:

**2008 (First Half)**

		<b>Purchases</b>	<b>Sales</b>	<b>Accounts receivables</b>	<b>Accounts payables</b>
UAB „Baltijos polistirenas“	raw materials	2137055	-	-	815907
UAB „Astmaris“	raw materials	3994299	-	-	1516776
		11856012			2332683

**2007 (31 December)**

		<b>Purchases</b>	<b>Sales</b>	<b>Accounts receivables</b>	<b>Accounts payables</b>
UAB „Baltijos polistirenas“	raw materials	4399357	-	-	805689
UAB „Astmaris“	raw materials	7377466	-	-	961847
		11776823			1767536

The Group has a policy to make transactions with related parties only for commercial purpose and under commercial conditions. No guarantees were received or given from any related party in order to assure the payments of accounts receivable or accounts payable.

Financial and investment activities with related parties :

<u>2008 First Half</u>			<u>2007 m</u>		
Loans Received	Loans Paid	Interest payments	Loans Received	Loans Paid	Interest payments

UAB „Hermis Capital „	29300000	10962629	295776	12500000	12500000	42011
UAB „Genčių nafta „	8750000	8750000	190137	3500000	3500000	37178
AB „Kauno duona „	1100000	1100000	33659			
UAB „Baltijos polistirenas „	3000000	3000000				
UAB „Meditus „	5000000					
Total :	47150000	23812629	519572	16000000	16000000	79189

Over the first half of 2008 salary of senior management of the Company and its subsidiaries amounted to 2,102.7 thous. LTL and 328 Thous. LTL in total (over 2007 – 2,256 thous. LTL and 827 thous. LTL).

## 25. Post-balance sheet events

Under the decision of Company's senior management in August 2008 the authorized capital of subsidiary OOO Techprominvest was raised to 55197921. The authorized capital was raised using accounts receivables from OOO Techprominvest to Parent Company for given and unpaid loans of 32757325 LTL and for sold but unpaid equipment of 22440596 LTL.

It is intended to raise the capital of Parent Company by issuing an additional 4000000 shares issue with the share price of 2.5LTL

Director general

Gediminas Čeika

Financial director

Loreta Nagulevičienė