AB SNAIGĖ

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 PREPARED ACCORDING
TO INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION
PRESENTED TOGETHER WITH INDEPENDENT AUDITORS' REPORT

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Code of legal entity 110878442
VAT payer code LT108784411
Register of Legal Entities

Independent auditor's report to the shareholders of AB Snaigė

Report on the Financial Statements

We were engaged to audit the accompanying 2008 consolidated financial statements of AB Snaigė and its subsidiaries (hereinafter the Group), which comprise the balance sheet as at 31 December 2008, 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.

Basis for Disclaimer of Opinion

As further described in Note 31 of the accompanying financial statements, due to the worldwide economic crisis and its significantly unfavourable impact on the Group's operations, on 29 January 2009 the Group's Management made a decision to stop production activities of OOO "Techprominvest" for an undefined period of time and significantly reduce the volume of operations of the Company. As of the date of release of these financial statements it is unknown, when OOO "Techprominvest" will re-launch its activities. These circumstances give rise to significant uncertainty, due to which we were not able to obtain sufficient audit evidence in respect of the carrying amounts of goodwill, non-current tangible assets, inventories, accounts receivable and deferred income tax in the Group's balance sheet as of 31 December 2008 and the respective impact on the financial performance of the Group for the year then ended.

Disclaimer of Opinion

Because of the significance of the matters discussed in section "*Basis for Disclaimer of Opinion*" above, we do not express an opinion on the Group's financial statements for the year ended 31 December 2008.

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
President

The audit was completed on 2 April 2009.

Consolidated income statement

	Notes	2008	2007 (restated)
Sales	4	338,867,460	410,130,831
Cost of sales	5	(296,302,333)	(361,043,596)
Gross profit		**42,565,127**	**49,087,235**
Other income	6	2,088,150	2,672,199
Selling and distribution expenses	7	(28,324,564)	(26,942,139)
Administrative expenses	8	(25,600,434)	(26,735,585)
Other expenses	9	(1,667,754)	(2,112,583)
Operating (loss)		**(10,939,475)**	**(4,030,871)**
Finance income	10	21,218,714	11,970,517
Finance expenses	11	(35,964,101)	(19,878,683)
(Loss) before tax		**(25,684,862)**	**(11,939,037)**
Income tax	12	1,584,518	212,699
Net (loss)		**(24,100,344)**	**(11,726,340)**
Attributable to:			
The shareholders of the Company		(24,099,292)	(11,722,885)
Minority interest		(1,052)	(3,455)
Basic and diluted earnings (loss) per share	27	(0.87)	(0.49)

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

Managing Director	Gediminas Čeika		2 April 2009
Financial Director	Neringa Menčiūnienė		2 April 2009

Consolidated balance sheet

	Notes	As at 31 December 2008	As at 31 December 2007 (restated)
ASSETS			
Non-current assets			
Intangible assets	13	15,725,926	17,451,146
Property, plant and equipment	14	72,595,486	94,888,802
Deferred income tax asset	12	5,661,100	3,882,203
Total non-current assets		**93,982,512**	**116,221,151**
Current assets			
Inventories	15	56,605,977	63,184,898
Trade receivables	16	42,237,285	49,442,815
Prepaid income tax		1,614,526	4,088,043
Other current assets	17	2,161,483	5,553,840
Cash and cash equivalents	18	1,675,302	3,984,560
Total current assets		**104,294,573**	**126,254,156**
Total assets		**198,277,085**	**242,476,307**

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

Consolidated balance sheet (cont'd)

	Notes	As at 31 December 2008	As at 31 December 2007 (restated)
EQUITY AND LIABILITIES			
Equity			
Equity attributable to equity holders of the Company			
Share capital	19	27,827,365	23,827,365
Share premium		18,727,270	12,727,270
Legal reserve	20	2,828,472	2,398,571
Reserves	20	4,512,300	34,087,600
Foreign currency translation reserve	20	(5,241,966)	(903,947)
Retained earnings		20,840,602	15,794,495
		69,494,043	**87,931,354**
Minority interest		**2,861**	**3,913**
Total equity		**69,496,904**	**87,935,267**
Liabilities			
Non-current liabilities			
Grants and subsidies	21	2,000,711	3,014,916
Warranty provision	22	2,462,603	1,892,800
Deferred income tax liability	12	1,177,441	294,334
Non-current borrowings and financial lease obligations	23, 24	1,906,200	2,564,693
Total non-current liabilities		**7,546,955**	**7,766,743**
Current liabilities			
Current borrowings, current portion of non-current borrowings and financial lease obligations	23, 24	58,804,422	51,036,021
Trade payables		50,450,833	82,319,881
Advances received		1,252,572	442,023
Warranty provision	22	2,876,478	2,640,850
Other current liabilities	26	7,848,921	10,335,522
Total current liabilities		**121,233,226**	**146,774,297**
Total equity and liabilities		**198,277,085**	**242,476,307**

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

Managing Director	Gediminas Čeika		2 April 2009
Financial Director	Neringa Menčiūnienė		2 April 2009

Consolidated statement of changes in equity

	Notes	Attributable to the shareholders of the Company: Share capital	Share premium	Legal reserve	Reserves	Foreign currency translation reserve	Retained earnings	Total	Minority interests	Total equity
Balance as at 31 December 2006 (as previously reported)		**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**
Correction of errors	3	-	-	-	-	-	(3,276,482)	(3,276,482)	-	(3,276,482)
Balance as at 31 December 2006 (restated)		**23,070,405**	**3,643,750**	**2,337,913**	**26,899,000**	**(986,705)**	**34,766,638**	**89,731,001**	**7,368**	**89,738,369**
Net (loss) for the year		-	-	-	-	-	(11,722,885)	(11,722,885)	(3,455)	(11,726,340)
Income (expenses) for the year recognised directly in equity	20	-	-	-	-	82,758	-	82,758	-	82,758
Total recognised income and expenses in 2007		-	-	-	-	82,758	(11,722,885)	(11,640,127)	(3,455)	(11,643,582)
Transfer to reserves	20	-	-	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 (restated)		**23,827,365**	**12,727,270**	**2,398,571**	**34,087,600**	**(903,947)**	**15,794,495**	**87,931,354**	**3,913**	**87,935,267**
Net (loss) for the year		-	-	-	-	-	(24,099,292)	(24,099,292)	(1,052)	(24,100,344)
Income (expenses) for the year recognised directly in equity	20	-	-	-	-	(4,338,019)	-	(4,338,019)	-	(4,338,019)
Total recognised income and expenses in 2007		-	-	-	-	(4,338,019)	(24,099,292)	(28,437,311)	(1,052)	(28,438,363)
Transfer to reserves	20	-	-	429,901	(29,575,300)	-	29,145,399	-	-	
Increase of share capital	1	4,000,000	6,000,000	-	-	-	-	10,000,000	-	10,000,000
Balance as at 31 December 2008		**27,827,365**	**18,727,270**	**2,828,472**	**4,512,300**	**(5,421,966)**	**20,840,602**	**69,494,043**	**2,861**	**69,496,904**

Managing Director	Gediminas Čeika		2 April 2009
Financial Director	Neringa Menčiūnienė		2 April 2009

Cash flow statement

	2008	2007 (restated)
Cash flows from (to) operating activities		
(Loss) before tax	(25,684,862)	(11,939,037)
Adjustments for non-cash items:		
Depreciation and amortisation	21,856,378	20,407,594
(Amortization) of grants and subsidies	(1,014,205)	(1,179,704)
Result from disposal of non-current assets	(27,913)	(259,449)
Write-off of non-current assets	172,265	312,495
Write-off (excess) of inventories	(176,646)	461,217
Change in allowance for trade receivables	(1,154,668)	(441,778)
(Gain) loss on change in fair value of derivative financial instruments	(738,510)	(591,126)
Change in warranty provision	805,431	200,731
Foreign currency exchange loss (gain), net	6,942,020	2,225,077
Interest income	(25,071)	-
Interest expenses	3,986,849	3,679,536
	4,941,068	12,875,556
Changes in working capital:		
Decrease (increase) in inventories	6,578,921	(7,774,832)
Decrease in trade and other receivables	13,357,587	15,509,151
(Decrease) increase in trade payables and other payables	(33,545,100)	15,501,851
Income tax (paid)	(1,614,526)	(1,328,243)
Interest (paid)	(3,986,849)	(3,679,536)
Net cash flows from operating activities	**(14,268,899)**	**31,103,947**
Cash flows from (to) investing activities		
(Acquisition) of non-current assets	(4,894,677)	(19,054,406)
Proceeds from disposal of non-current assets	105,863	6,439,322
Loans granted	(49,123)	-
Loans repossessed	26,381	-
Net cash flows (to) investing activities	**(4,811,556)**	**(12,615,084)**

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

Cash flow statement (cont'd)

	2008	2007 (restated)
Cash flows from (to) financing activities		
Proceeds from the sale of own shares (emission)	10,000,000	-
Subsidies received	-	345,280
Proceeds from borrowings	20,159,063	11,394,945
(Repayment) of borrowings	(29,636,180)	(29,224,049)
Financial lease (payments)	(888,216)	(1,825,559)
Emission of convertible bonds	17,136,530	-
Net cash flows (to) financial activities	**16,771,197**	**(19,309,383)**
Net (decrease) in cash flows	**(2,309,258)**	**(820,520)**
Cash and cash equivalents at the beginning of the year	**3,984,560**	**4,805,080**
Cash and cash equivalents at the end of the year	**1,675,302**	**3,984,560**

Supplemental cash flow information:
Non-cash investing and financing activity:

Property, plant and equipment acquisitions financed by financial lease	-	4,601,892
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		2 April 2009
Financial Director	Neringa Menčiūnienė		2 April 2009

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 NASDAQ OMX Vilnius stock exchange.

As at 31 December 2008 and 2007 the shareholders of the Company were:

	2008		2007	
	Number of shares held	Percentage	Number of shares held	Percentage
UAB Survesta	7,034,891	25,28%	4,935,810	20.71%
Other shareholders	20,792,474	74.72%	18,891,555	79.29%
Total	27,827,365	100%	23,827,365	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 2008 and 2007.

In 2008 the share capital was increased by issuing 4,000,000 ordinary shares. The par value of shares is LTL 1 each, the price of shares is LTL 2.5. The increased share capital was registered on 11 September 2008.

Subsidiaries did not hold any shares of the Company as at 31 December 2008 and 2007. 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%	67.846.761	(7.803.477)	26.122.879
TOB Snaige Ukraina	Ukraine	99%	88.875	(25.546)	264.718
OOO Moroz Trade	Russia	100%	947	(948.755)	(5.683.945)
OOO Liga Servis	Russia	100%	1.028	34.008	244.922
UAB Almecha	Lithuania	100%	1.375.785	(1.057.801)	915.665

1 General information (cont'd)

As at 31 December 2008 the Board of the Company comprised one member from the management of the Company and three representatives of UAB Hermis Capital (same ultimate controlling shareholder) and UAB Survesta (subsidiary of UAB Hermis Capital). As at 31 December 2007 – two members from the management of the Company and three representatives of UAB Hermis Capital and UAB Survesta, respectively.

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.

On 12 August 2008 the share capital of OOO Techprominvest was increased by issuing ordinary shares amounting to LTL 55,198 thousand. AB Snaige acquired these shares by converting them into share capital and receivables of the subsidiary.

The part of share capital of OOO Techprominvest, controlled by the Group, is pledged to a bank as collateral for loans. Due to this pledge 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 2008 the number of employees of the Group was 2,237 (as of 31 December 2007 – 2,479).

The Group's management authorised these financial statements on 2 April 2009. 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 interpretations during the year:

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* – Reclassification of Financial Assets;
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions.*

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

The principal effects of these changes are as follows:

Amendments to IAS 39 and IFRS 7 – Reclassification of Financial Assets. Through these amendments the IASB implemented additional options for reclassification of certain financial instruments categorised as held-for-trading or available-for-sale under specified circumstances. Related disclosures were added to IFRS 7. The Group did not have financial instruments caught by these amendments.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions. 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. The Group has not issued instruments caught by this interpretation.

Standards issued but not yet effective

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

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 January 2009). The amendment to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. The new requirements affect only the parent's separate financial statements and do not have an impact on the consolidated financial statements.

Besides, a new version replacing the earlier one of IFRS 1 was issued in November 2008 (effective for financial years beginning on or after 1 July 2009 once adopted by the EU). It retains the substance of the previous version, but within a changed structure and replaces the previous version of IFRS 1.

Amendment to IFRS 2 Share-based Payment (effective for financial years beginning on or after 1 January 2009). The amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have share-based payments.

Amendments to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 July 2009 once adopted by the EU). Revised IFRS 3 (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 (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to 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. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures*. In accordance with the transitional requirements of these amendments, the Group will adopt them as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standards will not be restated.

Amendments to IFRS 7 Financial Instruments: Disclosures (effective for financial years beginning on or after 1 January 2009 once adopted by the EU). The amendments improve disclosure requirements about fair value measurement and enhance existing principles for disclosures about liquidity risk associated with financial instruments. The amendments will have no impact on the financial position or performance of the Group. The Group is still evaluating whether additional disclosures will be needed.

IFRS 8 Operating Segments (effective for financial years beginning on or after 1 January 2009). 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 replaces IAS 14 *Segment Reporting*. The Group expects that the operating segments determined in accordance with IFRS 8 will not materially differ from the business segments previously identified under IAS 14.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

Amendment to IAS 1 Presentation of Financial Statements (effective for financial years beginning on or after 1 January 2009). This amendment introduces a 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 when they are restated retrospectively. The Group is still evaluating whether it will present all items of recognised income and expense in one single statement or in two linked statements.

Amendment to IAS 23 Borrowing Costs (effective for annual periods beginning on or after 1 January 2009). 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.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for financial years beginning on or after 1 January 2009). The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group has not issued such instruments.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for financial years beginning on or after 1 July 2009). The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

Improvements to IFRSs

In May 2008 IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard; most of the changes are effective for financial years beginning on or after 1 January 2009. The Group anticipates that these amendments to standards will have no material effect on the financial statements.

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.* Clarification that all of a subsidiary's assets and liabilities are classified as held for sale, even when the entity will retain a non-controlling interest in the subsidiary after the sale.
- *IFRS 7 Financial Instruments: Disclosures.* Removal of the reference to 'total interest income' as a component of finance costs.
- *IAS 1 Presentation of Financial Statements.* Assets and liabilities classified as held for trading in accordance with IAS 39 are not automatically classified as current in the balance sheet.
- *IAS 8 Accounting Policies, Change in Accounting Estimates and Errors.* Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- *IAS 10 Events after the Reporting Period.* Clarification that dividends declared after the end of the reporting period are not obligations.
- *IAS 16 Property, Plant and Equipment.* Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Also, replaced the term "net selling price" with "fair value less costs to sell".
- *IAS 18 Revenue.* Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.
- *IAS 19 Employee Benefits.* Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment.
- *IAS 20 Accounting for Government Grants and Disclosures of Government Assistance.* Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

- *IAS 23 Borrowing Costs.* The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.
- *IAS 27 Consolidated and Separate Financial Statements.* When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- *IAS 28 Investment in Associates.* If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. In addition, an investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance.
- *IAS 29 Financial Reporting in Hyperinflationary Economies.* Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.
- *IAS 31 Interest in Joint ventures:* If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.
- *IAS 34 Interim Financial Reporting.* Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.
- *IAS 36 Impairment of Assets.* When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.
- IAS 38 *Intangible Assets.* Expenditure on advertising and promotional activities is recognised as an expense when the entity either has the right to access the goods or has received the service. The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.
- *IAS 39 Financial Instruments: Recognition and Measurement.* Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.
- *IAS 40 Investment Property.* Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.
- *IAS 41 Agriculture.* Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced the term 'point-of-sale costs' with 'costs to sell'.

Amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement – Embedded derivatives (effective for financial years ending on or after 30 June 2009 once adopted by the EU). The amendments clarify the accounting treatment of embedded derivatives for entities that make use of the reclassification amendment to IAS 39 and IFRS 7 issued in October 2008. The Group did not have financial instruments caught by these amendments.

IFRIC 12 Service Concession Arrangements (effective for financial years beginning on or after 1 January 2010). This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has no impact on the Group.

IFRIC 13 Customer Loyalty Programmes (effective for financial years beginning on or after 1 July 2008). 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. The Group does not maintain customer loyalty programmes, therefore, this interpretation will have no impact on the financial position or performance of the Group.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for financial years beginning on or after 1 January 2009). This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan. The Group does not have defined benefit plans, therefore, the interpretation will have no impact on the financial position or performance of the Group.

IFRIC 15 Agreement for the Construction of Real Estate (effective for financial years beginning on or after 1 January 2009 once adopted by the EU). The interpretation clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. The Group does not conduct such activity, therefore, this interpretation will not have an impact on the consolidated financial statements.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for financial years beginning on or after 1 October 2008 once adopted by the EU). The interpretation provides guidance on the accounting for a hedge of a net investment in a foreign operation. IFRIC 16 will not have an impact on the consolidated financial statements because the Group does not have hedges of net investments.

IFRIC 17 Distributions of Non-cash Assets to Owners (effective for financial years beginning on or after 1 July 2009 once adopted by the EU). The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. IFRIC 17 will not have an impact on the consolidated financial statements because the Group does not distribute non-cash assets to owners.

IFRIC 18 Transfers of Assets from Customers (effective for transfers of assets received on or after 1 July 2009 once adopted by the EU). The Interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). IFRIC 18 will not have an impact on the consolidated financial statements because the Group does not have such agreements

2.2 Going concern

The financial statements for the year ended 31 December 2008 are prepared under the assumption that the Group will continue as a going concern. The Group is planning to increase the profitability by concentrating trade export flows in the most profitable markets. The Group plans to continue costs optimisation policy, organisational and business structure of the Group will be further developed by adjusting to the economic slowdown and conditions of decreased consumption.

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.

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:

	2008	2007
RUB	0.083337	0.096085
UAH	0.32161	0.46649

2.4 Principles of consolidation

The consolidated financial statements of the Group include AB Snaigė and its controlled entities. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50 % 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 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 Group estimates the recoverable amount of an asset whenever there is an indication that the asset may be impaired. An impairment loss is recognised in the income statement, whenever estimated.

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.

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 using the effective interest method. 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 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.

2.10 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.

2.11 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.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2 Accounting principles (cont'd)

2.12 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.

2.13 Financial lease and operating lease

Financial 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.

2.14 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)

2.15 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. Were discounting is used, the increase in the provision due to the passage of time is recognised as an interest costs.

2.16 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 was 15% in 2008 (15% and 3% social tax in 2007). Starting from 1 January 2009 the income tax applied to the companies in the Republic of Lithuania is 20%.

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Company changes its activities due to which these losses incurred except when the Company does not continue its activities due to reasons which do not depend on Company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

The standard income tax rate in Russian Federation till 1 January 2009 – 24%. After 1 January 2009 income tax rate in Russian Federation – 20%.

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.

2.17 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.

2.18 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 Accounting principles (cont'd)

2.19 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.

2.20 Use of estimates in the preparation of financial statements

The preparation of financial statements 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 14), amortisation (Notes 2.5. and 13), evaluation of impairment for provisions, accounts receivables, inventories and property, plant and equipment (Notes 2.6., 14, 15 and 16), evaluation of deferred income tax valuation allowance and deferred tax recognition (Note 12). 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.

2.21 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.

2.22 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.

2.23 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

Prior financial year errors in respect of insufficient application of component accounting for property, plant and equipment; correct classification of factoring and not accounted additional liabilities were corrected retrospectively as it is required by IAS 8. Due to practicability, all adjustments related to non-current assets were applied only for the assets owned as of 31 December 2008.

	As of 31 December 2007 (as previously reported)		Adjustments 1), 2), 3)	As of 31 December 2007 (restated)
Balance sheet				
Intangible assets	17,451,146		-	17,451,146
Property, plant and equipment	97,925,574	1)	(3,036,772)	94,888,802
Other non-current assets	3,882,203		-	3,882,203
Other current assets	126,254,156		-	126,254,156
Total assets	**245,513,079**		**(3,036,772)**	**242,476,307**
Equity before minority interest	91,518,241	1), 2), 3)	(3,586,887)	87,931,354
Minority interest	3,913		-	3,913
Non-current liabilities	26,043,941	2)	(18,277,198)	7,766,743
Current liabilities	127,946,984	2), 3)	18,827,313	146,774,297
Total equity and liabilities	**245,513,079**		**(3,036,772)**	**242,476,307**
Income statement				
Sales	410,130,831		-	410,130,831
Cost of sales	(361,043,596)		-	(361,043,596)
Operating (expenses)	(53,367,319)	1), 3)	(310,405)	(53,677,724)
Other operating income (expenses), net	559,616		-	559,616
Income (expenses) from activities, net	(7,908,166)		-	(7,908,166)
Income tax	212,699		-	212,699
Net profit	**(11,415,935)**		**(310,405)**	**(11,726,340)**

1) The result of write-offs of the net book values and recalculation of the depreciation for the changed parts of equipment and reconstructions of buildings performed till 1 January 2006. The decrease of non-current assets depreciation recalculation amounting to LTL 239,710 is accounted for in operating expenses of the year 2007, the shareholder's equity is also decreased by LTL 3,036,772 and LTL 3,276,482 as of 31 December 2007 and 2006, respectively.
2) The reclassification of factoring liabilities to the current liabilities.
3) The additional payroll related liability is accounted for in the year 2007 amounting to LTL 550,115 and the shareholder's equity as of 31 December 2007 is decreased, respectively.

The deferred income tax asset related to the above mentioned adjustments was not recognised, as the management of the Company does not expect to realise it.

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	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Russia	147,499	172,421	(31,559)	(36,344)	115,940	136,077	69,765	84,748	675	3,315
Ukraine	73,722	98,612	(920)	(1,541)	72,802	97,071	177	294	-	12
Western Europe	81,225	82,254	-	-	81,225	82,254	-	-	-	-
Eastern Europe	38,394	46,436	-	-	38,394	46,436	-	-	-	-
Lithuania	29,189	35,764	(12,920)	(16,903)	16,269	18,861	128,335	160,471	4,354	20,329
Other CIS countries	7,743	15,846	-	-	7,743	15,846	-	-	-	-
Other Baltic states	5,283	13,307	-	-	5,283	13,307	-	-	-	-
Other countries	1,211	279	-	-	1,211	279	-	-	-	-
Total	384,266	464,919	(45,399)	(54,788)	338,867	410,131	198,277	245,513	5,029	23,656

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

5 Cost of sales

	2008	2007
Raw materials	228,834,292	278,833,969
Salaries and wages	28,267,243	32,168,984
Depreciation and amortisation	13,066,933	15,922,023
Other	26,133,865	34,118,620
	296,302,333	361,043,596

6 Other income

	2008	2007
Income from transportation	1,026,765	1,579,462
Gain on disposal of property, plant and equipment	27,913	259,449
Income from rent of premises	135,658	239,159
Income from rent of equipment	301,480	205,314
Other	596,334	388,815
	2,088,150	2,672,199

7 Selling and distribution expenses

	2008	2007
Transportation	12,654,341	10,711,892
Warranty service costs	4,960,742	3,897,548
Market research, sales promotion and commissions to third parties	2,982,891	3,520,616
Advertising	1,830,953	2,825,664
Salaries and social insurance	1,727,415	2,171,340
Rent of warehouses and storage cost	2,144,334	1,728,915
Insurance	531,135	587,789
Production dispatch cost	364,643	380,301
Certification cost	162,720	248,100
Business trips	108,160	138,011
Depreciation and amortization	87,801	125,969
Other	769,429	605,994
	28,324,564	26,942,139

8 Administrative expenses

	2008	2007 (restated)
Salaries and social insurance	13,216,996	13,023,173
Depreciation and amortization	2,479,516	2,430,371
Taxes, other than income tax	1,564,333	1,618,460
Communication expenses	475,210	650,236
Utilities	702,423	643,129
Business trips	444,856	640,501
Rent and maintenance of premises	500,343	627,251
Trainings	358,851	552,610
Low value inventory and stationery	193,850	480,244
Bank services	416,880	455,343
Security	528,696	438,045
Insurance	328,626	414,885
Car maintenance	414,518	386,571
Other consultation cost	160,377	326,003
Legal services	66,773	297,780
Utilisation of refrigerators	310,538	294,101
Bonuses, payments accrued for the reporting period	-	290,587
Maintenance of computers and software	308,718	194,129
Charity, Christmas presents, etc.	108,653	105,232
Personnel recruitment costs	51,420	76,699
Change of allowance for receivables	881,761	(441,778)
Audit expenses	314,812	310,601
Other	1,772,284	2,921,412
	25,600,434	26,735,585

Change of allowance for receivables in the years 2008 and 2007 are mainly related to overdue receivables from clients in Russia and Ukraine (Note 16).

9 Other expenses

	2008	2007
Transportation expenses	794,291	1,350,865
Expenses from rent of premises	94,360	201,254
Expenses from rent of equipment	246,561	163,963
Expenses of auxiliary departments	75,562	71,916
Other	456,980	324,585
	1,667,754	2,112,583

10 Financial income

	2008	2007
Foreign currency exchange gain	19,288,284	11,294,933
Gain on revaluation of foreign currency derivatives	1,557,874	591,126
Gain of foreign currency translation transactions	344,573	39,974
Other	27,983	44,484
	21,218,714	11,970,517

11 Financial expenses

	2008	2007
Foreign currency exchange loss	26,682,127	15,698,260
Interest expenses	6,915,754	3,679,536
Loss of foreign currency translation transactions	182,481	377,228
Realised loss on foreign currency derivatives	358,778	20,105
Loss on revaluation of foreign currency derivatives	1,743,248	-
Other	81,713	103,554
	35,964,101	19,878,683

12 Income tax (LTL thousand)

Income tax expenses, income, asset and liabilities consisted of the following:

	2008	2007
Components of the income tax expense (income)		
Current income tax for the reporting year	(104)	(302)
Correction of prior periods' income tax	793	-
Deferred income tax income	896	515
Income tax income recorded in income statement	1,585	213

12 Income tax (cont'd)

	2008	2007
Deferred income tax asset		
Tax losses carried forward	7,862	3,793
Allowance for receivables	426	2,820
Accruals	117	203
Warranty provision	1,134	867
Property, plant and equipment	106	-
Other	184	7
Deferred income tax asset before valuation allowance	9,829	7,690
Less: valuation allowance	(2,858)	(2,767)
Deferred income tax asset, net	6,971	4,923
Deferred income tax liability		
Capitalised development and repair costs	(1,177)	(858)
Difference of tax basis and carrying amount of inventories	(1,310)	(477)
Deferred income tax liability	(2,487)	(1,335)
Deferred income tax, net	4,484	3,588
Stated in balance sheet:		
Deferred income tax asset	5,661	3,882
Deferred income tax liability	(1,177)	(294)

Deferred income tax asset and liability were calculated at the rate of 20%. The changes of temporary differences in the Group were as follows:

	Balance as at 31 December 2007	Recognised in income statement	Effect of changes in foreign currency rate	Balance as at 31 December 2008
Tax losses carried forward	3,793	4,260	(191)	7,862
Allowance for receivables	2,820	(2,390)	(4)	426
Accruals	203	(86)	-	117
Warranty provisions	867	270	(3)	1,134
Other	7	179	(2)	183
Property, plant and equipment	-	107	(1)	106
Difference of tax basis and carrying amount of inventories	(477)	(850)	17	(1,310)
Capitalised development and repair costs	(858)	(319)	-	(1,177)
Valuation allowance	(2,767)	(91)	-	(2,858)
Deferred income tax, net	3,588	1,080	(184)	4,484

12 Income tax (cont'd)

Deferred income tax assets are recognized in the amount, which is expected to be realised.

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:

	2008	2007
Profit before tax	(26,685)	(11,629)
Income tax expenses computed using the statutory tax rate (15% and 18%)	(3,853)	(2,093)
Non-deductible expenses	752	1,246
Change of income tax valuation allowance	91	(482)
Effect of unrecognized tax losses	891	1,264
Difference in income taxes rates of subsidiaries	(892)	(145)
Effect of change of income tax rate	1,426	(3)
Income tax expenses (income) recorded in income statement	1,585	(213)

13 Intangible assets

	Goodwill	Development cost	Software, licenses	Total
Cost:				
Balance as at 31 December 2007	11,928,784	11,265,859	2,453,164	25,647,807
Additions	-	1,558,485	6,717	1,565,202
Disposals and write-offs	-	(197,654)	(240,000)	(437,654)
Effect of change in foreign currency exchange rate	(1,664,364)	(1,768)	(30)	(1,666,162)
Balance as at 31 December 2008	10,264,420	12,624,922	2,219,851	25,109,193
Accumulated amortisation:				
Balance as at 31 December 2007	-	6,152,241	2,044,420	8,196,661
Charge for the year	-	1,236,558	227,034	1,463,592
Disposals and write-offs	-	(37,058)	(239,928)	(276,987)
Balance as at 31 December 2008	-	7,351,741	2,031,526	9,383,267
Net book value as at 31 December 2008	**10,264,420**	**5,273,181**	**188,325**	**15,725,926**
Net book value as at 31 December 2007	**11,928,784**	**5,113,618**	**408,744**	**17,451,146**

13 Intangible assets (cont'd)

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

The amortisation charge in 2008 amounting to LTL 1.6 thousand was included into the refrigerator manufacturing costs. The remaining part amounting to LTL 1,462 thousand (LTL 1,426 thousand in 2007) was included into operating expenses in the income statement.

14 Property, plant and equipment

	Land, buildings and structures	Machinery and equipment	Vehicles	Total
Cost:				
Balance as at 31 December 2007 (restated)	41,581,186	131,871,051	17,446,143	190,898,380
Additions	150,538	2,573,346	740,399	3,464,283
Disposals and write-offs	-	(1,582,690)	(1,231,441)	(2,814,131)
Reclassifications	-	(1,002,441)	1,002,441	-
Effect of change in foreign currency exchange rate	(3,572,047)	(3,956,217)	(194,564)	(7,722,828)
Balance as at 31 December 2008	38,159,677	127,903,049	17,762,978	183,825,704
Accumulated depreciation:				
Balance as at 31 December 2007 (restated)	5,825,918	77,285,816	12,897,884	96,009,578
Charge for the year	1,572,408	16,843,625	1,976,753	20,392,786
Disposals and write-offs	-	(1,530,421)	(1,017,255)	(2,547,676)
Reclassifications	-	(252,815)	252,815	-
Effect of change in foreign currency exchange rate	(532,208)	(1,936,851)	(155,411)	(2,624,470)
Balance as at 31 December 2008	6,866,118	90,409,354	13,954,746	111,230,218
Net book value as at 31 December 2008	**31,293,559**	**37,493,695**	**3,808,232**	**72,595,486**
Net book value as at 31 December 2007 (restated)	**35,755,268**	**54,585,235**	**4,584,299**	**94,888,802**

14 Property, plant and equipment (cont'd)

	Land, buildings and structures	Machinery and equipment	Vehicles	Construction in progress	Total
Cost:					
Balance as at 1 January 2007 (restated)	41,699,001	116,943,400	19,430,677	6,416,586	184,489,664
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 (restated)	41,581,186	131,871,051	17,446,143	-	190,898,380
Accumulated depreciation:					
Balance as at 1 January 2007(restated)	4,330,636	68,101,692	11,802,336	-	84,234,664
Charge for the year (restated)	1,599,525	15,163,224	2,196,663	-	18,959,412
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 (restated)	5,825,918	77,285,816	12,897,844	-	96,009,578
Net book value as at 31 December 2007 (restated)	**35,755,268**	**54,585,235**	**4,548,299**	**-**	**94,888,802**
Net book value as at 31 December 2006 (restated)	**37,368,365**	**48,841,708**	**7,628,341**	**6,416,586**	**100,255,000**

The depreciation charge of the Group's property, plant and equipment for 2008 amounts to LTL 20,393 thousand (LTL 18,959 thousand for 2007). The amount of LTL 19,375 thousand for 2008 (LTL 17,955 thousand for 2007) was included into production costs. The remaining amount of LTL 1,018 thousand (LTL 1,004 thousand for 2007) was included into operating expenses in the Group's income statement.

At 31 December 2008, buildings of the Group with the carrying amount of LTL 24,421 thousand (2007 – LTL 32,460 thousand), machinery and equipment with the net book value of LTL 12,717 thousand (2007 – LTL 19,639 thousand) were pledged to banks as a collateral for the loans (Note 23).

15 Inventories

	2008	2007
Raw materials and spare parts and production in progress	28,084,224	43,163,462
Finished goods	28,303,677	19,735,912
Other	218,076	285,524
	56,605,977	63,184,898

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

As described in Note 23, in order to secure bank loans, the Group pledged inventories with the gross value of LTL 26,300 thousand as at 31 December 2008 (as at 31 December 2007 – LTL 19,300 thousand).

16 Trade receivables

	2008	2007
Trade receivables, gross	52,609,972	60,970,170
Less: allowance for doubtful trade receivables	(10,372,687)	(11,527,355)
	42,237,285	49,442,815

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

As at 31 December 2008, trade receivables with the carrying value of LTL 10,373 thousand (as of 31 December 2007 – LTL 11,527 thousand) were impaired and fully provided for.

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

	2008	2007
Balance at the beginning of the period	(11,527,355)	(11,969,133)
Charge for the year	(445,221)	(470,287)
Write-offs	-	35,208
Effect of the change in foreign currency exchange rate	1,556,831	411,918
Recovered amounts	43,058	464,939
Balance in the end of the period	(10,372,687)	(11,527,355)

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

The ageing analysis of trade receivables as at 31 December 2008 and 2007 is as follows:

		Trade receivables past due but not impaired					
	Trade receivables neither past due nor impaired	Less than 30 days	30 – 60 days	60 – 90 days	90 – 120 days	More than 120 days	Total
2008	22,078,988	7,795,645	7,608,610	2,578,491	1,660,176	515,375	42,237,285
2007	42,241,977	5,771,742	235,805	726,957	189,244	277,090	49,442,815

According to the factoring with recourse agreement, the Group's amounts receivable were pledged to the factors. As of 31 December 2008 and 2007 the carrying amount of receivables pledged to the factors amounted to LTL 12,058 thousand and LTL 18,842 thousand, respectively.

17 Other current assets

	2008	2007
VAT receivable	757,043	2,485,763
Prepayments and deferred charges	716,655	1,205,433
The foreign currency forwards at fair value (Note 28)	233,992	587,526
Compensations receivable from suppliers	150,293	216,728
Receivable for property, plant and equipment sold	16,081	-
Other receivables	287,419	1,058,390
	2,161,483	5,553,840

Compensations are receivables from suppliers for low-quality goods. For other receivables with the carrying value of LTL 1,313 as of 31 December 2008 100% allowance was accounted for.

18 Cash and cash equivalents

	2008	2007
Cash at bank	1,674,842	3,977,330
Cash on hand	460	7,230
	1,675,302	3,984,560

The accounts of the Group in foreign currency and Litas up to LTL 12,375 thousand (up to LTL 10,000 in 2007) are pledged as a collateral for bank loans (Note 23).

19 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 2008 and 2007 the Company was in compliance with this requirement.

20 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. According to the Lithuanian legislation the Company transferred LTL 400 thousand to the legal reserve and as at 31 December 2008 and 2007 the legal reserve was fully formed. The shareholders of the Company will approve the transfer in the following General Shareholders' Meeting.

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 2008 other distributable reserves amounted to LTL 4,512 thousand (in 2007 – LTL 34,088 thousand) and comprised a reserve for investments (in 2007 - LTL 23,648 thousand designated for investments, LTL 90 thousand charity and support, LTL 350 thousand for social and cultural needs and LTL 10,000 thousand other distributable reserves).

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.

21 Grants and subsidies

Balance as at 31 December 2006	10,358,600
Received during the year	345,280
Balance as at 31 December 2007	10,703,880
Received during the year	-
Balance as at 31 December 2008	10,703,880
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
Amortisation during the year	1,014,205
Accumulated amortisation as at 31 December 2008	8,703,169
Net book value as at 31 December 2008	**2,000,711**
Net book value as at 31 December 2007	**3,014,916**

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.

22 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 2008 can be specified as follows:

	2008
As at 1 January	4,533,650
Charge for the year	6,097,826
Utilized	(5,159,236)
Foreign currency exchange effect	(133,159)
As at 31 December	5,339,081

Warranty provisions are accounted for as at 31 December as:

	2008
- non-current	2,462,603
- current	2,876,478

	2007
- non-current	1,892,800
- current	2,640,850

23 Borrowings

	31 December 2008	31 December 2007
Non-current borrowings		
Bank borrowings secured by the Group's assets	200,000	-
	200,000	-
Current borrowings		
Factoring liabilities	10,851,922	18,277,198
Current borrowings with variable interest rate	16,162,652	31,900,584
Convertible bonds	17,475,240	-
Current borrowings with fixed interest rate	6,713,379	-
Overdraft	6,772,713	-
	57,975,906	50,177,782
	58,175,906	50,177,782

Non-current borrowings bear 6-month VILIBOR + 1.9% annual interest rate. The maturity term of the loan is 18 August 2010.

Factoring with recourse is denominated in LTL, EUR or USD for the defined customers and can not exceed LTL 19,900 thousand. The maturity of the factoring agreement is 27 February 2010 with the respective currency (LTL, EUR or USD) 6-month LIBOR + 1.5% annual interest rate. Borrowings with variable interest rate bears 6-month EUR LIBOR + 1.3% - 2.9% annual interest rate. Borrowings with fixed interest rate bears 14 - 16% annual interest rate.

On 5 April 2008 the Company issued 200,000 convertible bonds with the par value of LTL 100 each. The yield of the convertible bonds is 14% from the convertible bonds emission price. As of 31 December 2008 accrued interest of convertible bonds amounts to LTL 1,805 thousand and are accounted for in other current payables caption. The interest is paid on the maturity of convertible bonds – on 6 April 2009. One convertible bond on its maturity date could be exchanged to 18 ordinary shares.

The credit limit is denominated in RUB and granted till 24 April 2009 and could not exceed RUB 94 million (equivalent to LTL 7,834 as of 31 December 2008). As of 31 December 2008 the Group utilised RUB 81,269 thousand (equivalent to LTL 6,773 thousand). The utilised credit limit bears 14% annual interest rate.

At 31 December 2008, buildings with the carrying amount of LTL 24,421 thousand (2007 – LTL 32,460 thousand), machinery and equipment with the net book value of LTL 12,717 thousand (2007 – LTL 19,639 thousand), inventories with the net book value of LTL 26,300 thousand (2007 – LTL 19,300 thousand), cash inflows into the bank accounts up to LTL 12,375 thousand (2007 – LTL 10,000 thousand) and the major part of OOO Techprominvest shares are pledged as a collateral for loans from banks.

As of 31 December 2008 and 2007 the Group was in default of certain loan covenants for loans amounting to LTL 16,163 thousand as at 31 December 2008 (as at 31 December 2007 – LTL 23,623 thousand). During 2008 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 2008 and 2007 are accounted for under the current liabilities caption. As of the date of release 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:

	2008	2007
Borrowings denominated in:		
EUR	20,339,015	19,197,912
USD	4,135,108	7,914,180
LTL	26,929,070	23,065,690
RUB	6,772,713	-
	58,175,906	50,177,782

As at 31 December 2008 the Group had unused funds in credit lines and overdrafts amounting to LTL 1,061 thousand (LTL 466 thousand as at 31 December 2007).

24 Financial lease obligations

Principal amounts of financial lease payables at the 31 December 2008 and 2007 are denominated in Euros.

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

Future minimal lease payments under the above-mentioned financial lease contracts as at 31 December 2008 are as follows:

	2008	2007
Within one year	925,627	994,064
From one to five years	1,791,054	2,747,158
Total financial lease obligations	2,716,681	3,741,222
Interest	(181,965)	(318,290)
Present value of financial lease obligations	2,534,716	3,422,932
Financial lease obligations are accounted for as:		
- current	828,516	858,239
- non-current	1,706,200	2,564,693

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:

	As at 31 December 2008	As at 31 December 2007
Machinery and equipment	2,461,796	4,446,602
Vehicles	72,920	333,851
	2,534,716	4,780,453

25 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 2008 the lease expenses of the Group amounted to LTL 605 thousand (LTL 329 thousand in 2007).

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

	2008	2007
Within one year	604,855	115,938
From one to five years	559,057	473,684
After five years	18,006,858	3,843,400
	19,170,770	4,433,022
Denominated in:		
- LTL	15,791,287	114,084
- RUB	3,379,483	4,318,938

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.

26 Other current liabilities

	2008	2007
Salaries and related taxes payable	1,758,925	4,664,559
Vacation reserve	1,089,906	2,611,863
Other taxes payable	2,677,754	2,598,300
Accrued bonuses	-	300,000
Other payables and accrued expenses	2,322,336	160,800
	7,848,921	10,335,522

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.

27 Basic and diluted earnings (loss) per share

	2008		2007	
	Number of shares	**In turnover / 366 (days)**	**Number of shares**	**In turnover / 365 (days)**
Shares issued on 1 January	23,827,365	254	23,070,405	17
Increase of share capital (11 September 2008)	4,000,000	-	756,960	-
Shares issued on 31 December	27,827,365	112	23,827,365	348
Weighted average of shares in issue	25,120,043	366	23,792,109	365
Net result for the year, attributable to the shareholders of the parent company, LTL	(24,099,292)		(11,722,883)	
Basic and diluted earnings (loss) per share, LTL	(0.96)		(0.49)	

28 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:

	2008		2007	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Cash and cash equivalents	1,675,302	1,675,302	3,984,560	3,984,560
Receivables	42,403,659	42,403,659	54,805,976	54,805,976
Derivative financial instruments	233,992	233,992	587,526	587,526
Financial liabilities				
Fixed rate borrowings	30,961,332	30,961,332	18,277,198	18,258,844
Floating rate borrowings	27,214,574	27,214,574	31,900,585	31,900,585
Obligations under financial lease	2,534,716	2,534,716	3,422,932	3,422,932
Other financial liabilities	52,773,169	52,773,169	87,564,447	87,564,447

28 Financial instruments (cont'd)

Fair value of financial instruments (cont'd)

As of 31 December 2007 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. As of 31 December 2008 the market value of the current borrowings bearing fixed interest rates approximates to the fair value as fixed interest rates (14 – 16%) are close to 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 2008 and 2007.

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

	2008	2007
Financial assets available for sale	738,510	571,021
Loans and receivables	1,154,668	441,780

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

29 Capital and risk management

Credit risk

The Group has no significant concentration of trading counterparties. The two main customers of the Group – OOO Electrolux Home Products Corp.N.V. and Rikol TOV. – as at 31 December 2008 account for approximately 10.65% (13.56% as at 31 December 2007) of the total Group's trade receivables. The maximum exposure of the credit as at 31 December 2008 and 2007 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;
- other criteria.

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

29 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 2008 and 2007 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.

	Increase/ decrease of basic points	Effect on the profit before tax
2008		
EUR	+ 10	(228,737)
LTL	+ 10	(27,405)
USD	+ 10	(41,351)
EUR	- 20	457,475
LTL	- 20	54,809
USD	- 20	82,702
2007		
EUR	+ 10	(153,235)
LTL	+ 10	(200,000)
EUR	- 20	306,470
LTL	- 20	400,000

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.

29 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 2008 and 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
Interest bearing loans, financial lease and borrowings	16,809,366	17,131,232	24,863,824	1,906,200	-	60,710,622
Interest payable	-	249,517	136,991	94,910	-	481,418
Trade and other payables	30,530,228	22,242,943	-	-	-	52,773,171
Other financial liabilities	-	719,120	2,157,359	2,462,603	-	5,339,082
Balance as at 31 December 2008	**47,339,594**	**40,342,812**	**27,158,174**	**4,463,713**	**-**	**119,304,293**
Interest bearing loans, financial lease and borrowings	3,623,014	46,789,612	623,395	2,564,693	-	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**

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 31).

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 borrowings and purchases are denominated in other foreign currencies.

To reduce the effect of foreign currency exchange fluctuation, the Group uses derivative financial instruments which help to manage foreign currency exchange risk. In 2008 the Company arranged the foreign currency forwards and foreign currency exchange options contracts with a bank for USD 13,740 thousand translation at a fixed rate, amount of USD 8,823 thousand were executed in 2008, not executed contracts were transferred to the year 2009. As at 31 December 2008 derivative financial instruments were revalued at the fair value. Derivative financial instruments are designated to hedge cash inflows from sales in USD.

The table below summarises the maturity profile of the Group's derivative financial instruments as at 31 December 2008 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	-	(7,710,436)	(4,307,175)	-	-	(12,017,611)
Contractual amounts receivable	-	8,125,097	4,357,486	-	-	12,482,583
Total undiscounted financial asset (liabilities)	-	414,661	50,311	-	-	464,972

As of 31 December 2008 the Group had unexecuted derivative financial instruments in amount of USD 4,917 thousand.

29 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 2008 and 2007 were as follows (LTL):

	2008		2007	
	Assets	**Liabilities**	**Assets**	**Liabilities**
LTL	6,414,163	54,698,235	9,949,209	55,292,716
EUR	17,414,448	51,866,954	21,336,892	75,710,558
USD	8,387,742	4,706,664	12,782,919	8,582,314
RUB	14,457,999	13,041,532	16,549,408	10,484,268
Other	62,598	36,072	45,871	108,913
Total	46,736,950	124,349,457	60,664,299	150,178,769

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)		
2008	+ 5%	184
	- 5%	(184)
2007	+ 5%	(1,220)
	- 5%	1,151
2008	+ 10%	368
	- 10%	(368)
2007	+ 10%	(2,456)
	- 10%	2,194
LTL/RUB, EUR/RUB exchange rate increase (decrease)		
2008	+ 5%	(2,458)
	- 5%	2,458
2007	+ 5%	5,506
	- 5%	(5,506)
2008	+ 10%	(4,916)
	- 10%	4,916
2007	+ 10%	(11,013)
	- 10%	11,013)

29 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, 4,000,000 ordinary shares with the nominal value of LTL 1 each were issued in 2008 for LTL 2.5 each. Funds from the issue were used to finance working capital (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 2008 and 2007 the Company complied with this requirement. There were no other significant externally imposed capital requirements on the Group.

30 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 2008 and 2007 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);
AB Kauno Duona (same controlling shareholder);
UAB Meditus (same controlling shareholder).

2008	**Transaction type**	**Purchases**	**Sales**	**Receivables**	**Payables**
UAB Baltijos Polistirenas	Raw materials and consumables	3,712,781	2,821	-	375,517
UAB Astmaris	Materials	8,462,171	-	-	1,272,617
		12,174,952	2,821	-	1,648,134

30 Related party transactions (cont'd)

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
		11,776,823	-	-	1,767,536

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 2008 and 2007 the Group had not recorded any impairment of receivables from related parties.

Financial and investment transactions with the related parties:

	2008			2007		
	Loans received	Repayment of loans	Interest paid	Loans granted	Repayment of loans granted	Interests received
UAB Hermis Capital	29,300,000	23,586,621	87,109	12,500,000	12,500,000	42,011
UAB Genčių Nafta	8,750,000	8,750,000	190,137	3,500,000	3,500,000	37,178
UAB Kauno Duona	1,100,000	1,100,000	33,659	-	-	-
UAB Baltijos polistirenas	3,000,000	3,000,000	-	-	-	-
UAB Meditus	6,000,000	5,000,000	-	-	-	-
	48,150,000	41,436,621	310,905	16,000,000	16,000,000	79,189

Remuneration of the management and other payments

Remuneration of the Company's and subsidiaries' management amounted to LTL 2,906 thousand and LTL 1,146 thousand, respectively, in 2008 (LTL 2,256 thousand and LTL 827 thousand in 2007, respectively). In 2008 loan has been granted to one member of the management, as of 31 December 2008 it was not fully repaid. Except for the mentioned loan, in 2008 and 2007 the management of the Group did not receive any other loans, guarantees; no other payments were made or accrued or property transfers.

31 Subsequent events

As of 29 January 2009 due to the world economic crisis and especially unfavourable effect on the Group's activities, the management of the Group has made decision to terminate the production activities of the subsidiary OOO Techprominvest for the indefinite period and the Company has decreased the scope of its activities significantly. There is uncertainty regarding the renewal of OOO Techprominvest activities as of the date of these financial statements.

On 2 March 2009 the Group and AB SEB Bankas signed an agreement regarding the repayment of EUR 3,004 thousand (equivalent to LTL 10,372 thousand) credit limit by setting new repayment maturity. The credit limit will have to be repaid till 15 April 2009.

On 13 February 2009 the Group and Swedbank, AB signed an agreement regarding the repayment of credit amounting to EUR 1,699 thousand (equivalent to LTL 5,866 thousand) by setting new repayment maturity. Maturity of the loan is 15 August 2009.

As of 23 March 2009 AB DnB NORD Bankas has changed the factoring agreement No. 6 by decreasing the limit of the factoring to LTL 10,000 thousand.

As of 23 February 2009 the shareholders of the Company decided to issue 75,000 units convertible bonds with the par value of EUR 100 (equivalent to LTL 345) each. The annual interest rate is 18% which is paid by one payment on the maturity of the convertible bonds, the bonds expire in 367 days. Bonds can be converted to ordinary shares, the ratio of the conversion with ordinary shares is 1 : 345.