# LIFOSA AB
# FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 31 DECEMBER 2003

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**Auditor's Report**

**To the Shareholders of Lifosa AB**

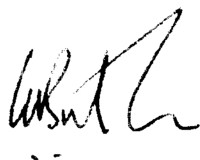
1. We have audited the accompanying balance sheets of Lifosa AB ("the Company") and its consolidated subsidiary (together "the Group") as at 31 December 2003 and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the financial statements of the Company and the Group give a true and fair view of their financial position as at 31 December 2003 and of the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

4. Without qualifying our opinion we draw attention to Note 1 to the financial statements, which indicates that the Company is experiencing financial difficulties and is undergoing a restructuring process, which is regulated by a restructuring plan. Furthermore, Note 20 to the financial statements discloses the fact that the Company was not in compliance with certain of the covenants set out in the restructuring plan as at 31 December 2003. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty, which may cast significant doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

On behalf of PricewaterhouseCoopers UAB



Christopher C. Butler
Partner

Vilnius, Republic of Lithuania
22 April 2004

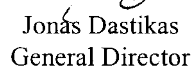
(All tabular amounts are in LTL '000 unless otherwise stated)

**INCOME STATEMENT**

| | | Year ended 31 December | | | |
|---|---|---|---|---|---|
| | | | 2003 | | 2002 |
| | Notes | Group | Company | Group | Company |
| Sales | 2 | 414,358 | 414,358 | 367,558 | 367,558 |
| Cost of sales | 3 | (404,077) | (404,077) | (357,052) | (357,052) |
| Gross profit | | 10,281 | 10,281 | 10,506 | 10,506 |
| Other operating income, net | 4 | 5,274 | 2,906 | 13,647 | 9,995 |
| Distribution costs | 5 | (16,454) | (16,999) | (13,514) | (13,514) |
| Administrative expenses | 6 | (14,904) | (11,545) | (21,719) | (18,403) |
| Loss from operations | | (15,803) | (15,357) | (11,080) | (11,416) |
| Finance income, net | 7 | 23,463 | 23,531 | 28,510 | 28,668 |
| Share of results of subsidiary and associate before tax | 8 | 256 | (258) | 494 | 672 |
| Profit before tax | | 7,916 | 7,916 | 17,924 | 17,924 |
| Income tax expense | 9 | (17) | (17) | (93) | (93) |
| Net profit | | 7,899 | 7,899 | 17,831 | 17,831 |
| Earnings per share (LTL per share) | 10 | 0.81 | 0.81 | 1.82 | 1.82 |

The accounting policies and the notes on pages 9 to 30 form an integral part of these financial statements.

The financial statements on pages 5 to 30 were approved by the General Director and Finance Director on 22 April 2004.



Jonas Dastikas
General Director

Regvita Ivanovienė
Finance Director

(All tabular amounts are in LTL '000 unless otherwise stated)

## BALANCE SHEET

| | | As at 31 December | | | |
|---|---|---|---|---|---|
| | | 2003 | | 2002 | |
| | Notes | Group | Company | Group | Company |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 11 | 225,014 | 222,647 | 243,647 | 240,892 |
| Intangible assets | | 88 | 88 | 78 | 69 |
| Investments in subsidiaries and associates | 12 | 14,549 | 17,368 | 15,567 | 18,917 |
| | | 239,651 | 240,103 | 259,292 | 259,878 |
| **Current assets** | | | | | |
| Inventories | 13 | 48,081 | 48,007 | 22,162 | 22,093 |
| Trade accounts receivable | 14 | 4,409 | 3,950 | 25,303 | 24,653 |
| Other receivables, prepayments and deferred charges | 15 | 8,394 | 8,141 | 11,059 | 10,784 |
| Cash and cash equivalents | 16 | 266 | 169 | 1,020 | 805 |
| | | 61,150 | 60,267 | 59,544 | 58,335 |
| **Total assets** | | 300,801 | 300,370 | 318,836 | 318,213 |
| **SHAREHOLDERS' EQUITY** | | | | | |
| Ordinary shares | 17 | 97,894 | 97,894 | 220,800 | 220,800 |
| Share premium | | 80 | 80 | 80 | 80 |
| Treasury shares | | - | - | (13,548) | (13,548) |
| Legal reserve | 18 | 4,793 | 4,793 | 4,793 | 4,793 |
| Retained earnings | | (10,213) | (10,213) | (127,470) | (127,470) |
| **Total shareholders' equity** | | 92,554 | 92,554 | 84,655 | 84,655 |
| **LIABILITIES** | | | | | |
| **Non-current liabilities** | | | | | |
| Borrowings | 19 | 1,616 | 1,303 | 2,121 | 1,666 |
| Restructured liabilities | 20 | 62,510 | 62,510 | 164,335 | 165,143 |
| | | 64,126 | 63,813 | 166,456 | 166,809 |
| **Current liabilities** | | | | | |
| Trade and other payables | 21 | 64,080 | 63,967 | 40,798 | 39,837 |
| Borrowings | 19 | 269 | 127 | 474 | 158 |
| Restructured liabilities | 20 | 79,772 | 79,909 | 26,453 | 26,754 |
| | | 144,121 | 144,003 | 67,725 | 66,749 |
| **Total liabilities** | | 208,247 | 207,816 | 234,181 | 233,558 |
| **Total shareholders' equity and liabilities** | | 300,801 | 300,370 | 318,836 | 318,213 |

The accounting policies and the notes on pages 9 to 30 form an integral part of these financial statements.

The financial statements on pages 5 to 30 were approved by the General Director and Finance Director on 22 April 2004.

Jonas Dastikas
General Director

Regvita Ivanovienė
Finance Director

(All tabular amounts are in LTL '000 unless otherwise stated)

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

**Company**

| | Notes | Share capital | Share premium | Treasury shares | Legal reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| **Balance at 1 December 2002** | | 220,800 | 80 | (13,548) | 4,793 | (145,301) | 66,824 |
| Net profit for the year | | - | - | - | - | 17,831 | 17,831 |
| **Balance at 31 December 2002** | 17 | 220,800 | 80 | (13,548) | 4,793 | (127,470) | 84,655 |
| Reduction of share capital | | (122,906) | - | 13,548 | - | 109,358 | - |
| Net profit for the year | | - | - | - | - | 7,899 | 7,899 |
| **Balance at 31 December 2003** | 17 | 97,894 | 80 | - | 4,793 | (10,213) | 92,554 |

As at 31 December 2003 the shareholders' equity for the Group was the same as the shareholders' equity for the Company.

The accounting policies and the notes on pages 9 to 30 form an integral part of these financial statements.

(All tabular amounts are in LTL '000 unless otherwise stated)

## CASH FLOW STATEMENT

| | | Year ended 31 December | | | |
|---|---|---|---|---|---|
| | | 2003 | | 2002 | |
| | Notes | Group | Company | Group | Company |
| **Cash flows from operating activities** | | | | | |
| Cash generated from operations | 23 | 35,314 | 35,030 | 64,882 | 64,322 |
| Interest paid | | (7,061) | (6,984) | (7,602) | (7,420) |
| Tax paid | | - | - | (118) | - |
| **Net cash from operating activities** | | 28,253 | 28,046 | 57,162 | 56,902 |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | | (9,328) | (9,289) | (9,048) | (8,726) |
| Proceeds from sale of PPE | | 2,740 | 2,710 | 521 | 53 |
| **Net cash used in investing activities** | | (6,588) | (6,579) | (8,527) | (8,673) |
| **Cash flows from financing activities** | | | | | |
| Repayment of restructured liabilities | | (21,709) | (21,709) | (6,720) | (6,720) |
| Repayments of borrowings | | - | - | (39,612) | (39,612) |
| Finance lease principal payments | | (710) | (394) | (1,476) | (1,188) |
| **Net cash used in financing activities** | | (22,419) | (22,103) | (47,808) | (47,520) |
| Effects of exchange rate changes | | - | - | 20 | - |
| **Net (decrease)/increase in cash and cash equivalents** | | (754) | (636) | 847 | 709 |
| **Movement in cash and cash equivalents** | | | | | |
| At beginning of year | | 1,020 | 805 | 173 | 96 |
| Net (decrease)/increase | | (754) | (636) | 847 | 709 |
| Cash and cash equivalents at end of year | 16 | 266 | 169 | 1,020 | 805 |

The accounting policies and the notes on pages 9 to 30 form an integral part of these financial statements.

## GENERAL INFORMATION

Lifosa AB (further "the Company"), formerly Fostra AB, was originally established as Kėdainiai State Chemical Plant in 1963. In 1995, Kėdainiai State Chemical Plant was reorganised into a state-owned joint stock company and registered as Fostra AB, following the partial privatisation of the Company during 1991-1994. The Company is domiciled in Kėdainiai. The address of its registered office is as follows:

Juodkiškio 50
LT-57502 Kėdainiai
Lithuania

The Company's shares are listed on the Current trading list of the National Stock Exchange. The Company's principal activity is production of phosphate fertilisers, mainly diammonium phosphate (DAP).

As at 31 December 2003 the main shareholders of the Company were as follows:

| *Shareholder* | *Number of shares* | *Percentage of shares* |
|---|---|---|
| Eolian Trading Limited | 8,923,214 | 91.2% |
| Other shareholders (less than 1%) | 866,176 | 8.8% |
| | 9,789,390 | 100% |

The average number of staff employed by the Company in 2003 totalled 1,067 (2002 – 1,059).

The consolidated Group (further "the Group") consists of the Company and its wholly owned subsidiary Transfosa UAB. The subsidiary undertaking is incorporated in Lithuania and provides stevedoring and polluted water cleaning services at the seaport of Klaipėda.

The average number of staff employed by the Group in 2003 totalled 1,139 (2002 – 1,138).

## ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

### A Basis of preparation

These financial statements of the Group have been prepared in accordance and comply with International Financial Reporting Standards (IFRS).

The financial statements are prepared under the historical cost convention.

The preparation of financial statements in accordance with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

### B Group accounting

*(1) Subsidiaries*

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date that control ceases. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered.

*(2) Associates*

Investments in associates are accounted for by the equity method of accounting. Under this method the company's share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movement in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

## ACCOUNTING POLICIES (continued)

### C Foreign currency translation

*(1) Measurement currency*

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency"). The amounts shown in these financial statements are presented in the local currency, Litas (LTL).

At the beginning of the year, the Litas was pegged to the US Dollar (USD) at a rate of LTL 4 = USD 1. On 1 February 2002, the Litas was re-pegged to the Euro (EUR) at a rate of LTL 3.4528 = EUR 1.

*(2) Transactions and balances*

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

### D Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation.

Depreciation is calculated on the straight-line method to write-off the cost of each asset to their residual values over their estimated useful life as follows:

| | |
|---|---|
| Buildings | 40 years |
| Plant and machinery | 10-25 years |
| Vehicles | 4-10 years |
| Other property, plant and equipment | 5-8 years |

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

When property is retired or otherwise disposed, the cost and related depreciation are removed from the financial statements and any related gains or losses are included in the income statement. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

### E Intangible assets

Intangible assets expected to provide economic benefit to the Group in future periods are valued at acquisition cost less subsequent amortisation. Amortisation is calculated on the straight-line method over the estimated useful life of an asset. The amortisation period for computer software has been set at 3 years.

## ACCOUNTING POLICIES (continued)

### F Impairment of long lived assets

Property, plant and equipment and other non-current assets, including intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

### G Investments in subsidiaries

Investments in subsidiaries that are included in the separate financial statements of the Company are accounted for using equity method. Equity accounting involves recognising in the income statement the Company's share of the subsidiaries' results for the period. If under equity method, the Company's share of losses of a subsidiary equals or exceeds the acquisition costs of an investment, the investment in the balance sheet is reported at nil value. Additional losses are provided for to the extent that the Company has incurred obligations or made payments on behalf of the subsidiary to satisfy its obligations. The provision for additional losses is accounted for within share of net result before tax of a subsidiary in the income statement.

### H Leases

*(1) A Group company is the lessee*

Leases of property, plant and equipment where the Group company assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant interest rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance charge is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leasing contracts are depreciated over the shorter of the useful life of the asset or the lease term.

Leases where a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

*(2) A Group company is the lessor*

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income is recognised on a straight-line basis over the lease term.

### I Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

## ACCOUNTING POLICIES (continued)

### J Trade receivables

Trade receivables are carried at original invoice amount less a provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount. Bad debts are written off during the year in which they are identified.

### K Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, and deposits held at call with banks.

### L Share capital

*(1) Legal reserve*

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfer of not less than 5% of net profit, calculated in accordance with Lithuanian accounting legislation, is compulsory until the reserve reaches 10% of the share capital. The legal reserve cannot be distributed as dividends and is formed to cover future losses.

*(2) Treasury shares*

Where the Company or its subsidiaries purchase the Company's equity share capital, the consideration paid including any attributable incremental external costs net of income taxes is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in the shareholders' equity.

### M Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

### N Deferred income taxes

Income tax charge is based on income for the year and considers deferred taxation. Income tax is calculated based on Lithuanian tax legislation. The current income tax is 15% on taxable income.

Deferred profit tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax. Where an overall deferred taxation asset arises, this is only recognised to the extent that its recoverability can be foreseen by the management as being probable.

### O Provisions

Provisions are recognised when the Group has a present obligation which will require an outflow of resources to settle the obligation and a reliable estimate of the amount of the obligation can be made.

## ACCOUNTING POLICIES (continued)

### P Revenue recognition

Revenue comprises the invoiced value for the sale of goods and services net of value-added tax, rebates and discounts, and after eliminating sales within the Group. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer. Revenue from rendering of services is recognised upon completion of services.

Revenue on sales under the exclusive distributorship agreement is adjusted for subsequent price corrections as advised by the distributor, if appropriate. An accrual is established for subsequent price corrections as at the end of the reporting period based on management estimate. Difference between the actual sales price and the estimate established is recorded as adjustment to revenue in the period when the sales transaction is completed and actual sales price advised by the distributor.

### Q Segment reporting

The Company and the Group operate in one core business segment only. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

### R Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are calculated by dividing the net profit for the period by the weighted average number of ordinary shares outstanding during the period adjusted for the effects of all potentially dilutive shares.

### S Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

## FINANCIAL RISK MANAGEMENT

The principal financial risk management policies of the Company (and the Group) are set out below:

### Liquidity risk

The Group is exposed to liquidity risk due to different maturity profiles of receivables and payables. Following the restructuring of a significant portion of liabilities in 2002, which included extended repayment schedules, liquidity risk management of the Company focuses on matching cash inflows and outflows related to current receivables and payables, capital investments as well as accumulating sufficient amounts of liquid funds to make the regular payments as they fall due according to the schedule of restructured liabilities.

### Foreign exchange risk

The Group's foreign exchange risk management is based on matching the expected cash flows in principal currencies. The majority of business transactions carried out by the Company, including sales of production and purchases of raw materials, are denominated in US dollars (USD). Foreign exchange risk exposures arising from operations are hedged by way of maintaining borrowings denominated in USD.

The foreign exchange position of the Company (and the Group) is disclosed in Note 26.

### Fair value estimation

The face values less any estimated credit adjustments for financial liabilities are assumed to approximate their fair values.

(All tabular amounts are in LTL '000 unless otherwise stated)

# NOTES TO THE FINANCIAL STATEMENTS

## 1 RESTRUCTURING PROCESS

*Background*

The Company suffered recurring losses from operations for several consecutive years, resulting in the inability to meet liabilities to its creditors as they fall due, deterioration in the key financial ratios and non-compliance with debt covenants. Management of the Company took a decision to apply for protection from the creditors and submitted an application to the court in order to commence the restructuring process to restore solvency and prevent bankruptcy. As stipulated by the Law on the Restructuring of Enterprises, the first meeting of the creditors was held on 20 March 2002, where the outline of the restructuring plan was presented. One of the principal provisions of the restructuring plan was the acquisition of a majority shareholding in and control of the Company by one of the Company's creditors, MDM Group (Russia), represented by Eolian Trading Limited ("Eolian").

On 4 April 2002, following the application for restructuring submitted by the head of administration of the Company, Panevėžys District Court issued a ruling initiating restructuring proceedings in respect of the Company. The restructuring plan was approved by the court on 2 August 2002 and constitutes the principle document for the restructuring of the Company during the period from July 2002 to 31 December 2005. The restructuring plan includes specific measures and implementation procedures that are determined by the Law on Restructuring of Enterprises. Among other measures, the restructuring plan encompasses long term restructuring of debts, reduction of interest rates, subordination of financing, entering into a long term raw material supply and sales agreement, etc.

Despite the provisions of Article 14(2) of the Law on Restructuring of Enterprises providing that claims of secured creditors shall be satisfied before all other creditors, if mortgaged assets are not sold during the restructuring period, all secured creditors (Vilniaus Bankas AB, Latvijas Unibanka A/S, Indutech S.p.a., Cargill B.V., Cargill Incorporated) agreed to make a concession to the Company by accepting a schedule of debt repayment comparable to other creditors with certain exceptions. All restructured principal debts are interest bearing.

*Share sale and purchase agreement*

On 10 April 2002, a Share sale and purchase agreement in respect of the shares of the Company was signed between Eolian (the Buyer) and Cargill Holdings Denmark Aps, Indutech S.p.a., Groupe Participations Financieries GPF B.V., Mr. Pierre Sicouri and Mr. Danas Tvarijonavičius (the Sellers). According to the agreement Eolian acquired 79% of the Company's ordinary shares from the Sellers after the restructuring plan was approved by the Court.

*Debt assignments and novations*

Eolian signed agreements with major suppliers regarding the assignment of a certain part of the Company's debt that was due to each supplier on 23 May 2002. According to the agreements, following the approval of the restructuring plan, a certain part of the debt of each creditor was assigned to Eolian, which paid for such assignment directly to each creditor. After those claims had been assigned, Eolian became a creditor of the Company for such amount. According to the assignment agreements, such debts to Eolian will be repayable in two annual instalments in December 2006 and 2007. The Company shall repay the assigned debts only after full repayment of all restructured debts and interest thereon as provided in this restructuring plan.

## 1 RESTRUCTURING PROCESS (continued)

Furthermore, the Company, Eolian and Indutech S.p.a. signed a novation deed, according to which Indutech S.p.a. novated all of its rights, benefits and obligations to Eolian with effect from the date of approval of the restructuring plan by the Court. After novation of the debts, Eolian became entitled to the same rights throughout the restructuring process, as Indutech S.p.a. would have had.

*Exclusive distribution agreement*

On 10 April 2002, a long-term distribution agreement was signed with Cargill BV within the framework of restructuring of the Company. According to the agreement Cargill BV is granted exclusive distributorship rights for all phosphate based products worldwide, excluding the Baltic States for the period of 6 years (optional extension for 2 years) commencing upon the approval of the restructuring plan by the court and transfer of the Company's shares to Eolian. The Company undertakes to provide Cargill BV or any other nominated Cargill company with an agreed quantity of phosphate based products annually and pay a commission fee at a variable rate of 3 to 5.5% of prices determined upon FAS/FOB Klaipėda basis.

A restriction has been put in place over termination or material change of the exclusive distribution agreement during the restructuring period.

*Long-term raw material supply agreement*

A long-term raw material supply agreement was signed with MGM Group company GMF Trading Limited (UK), the principal supplier of Kovdor phosphate rock to the Company. Under the agreement, GMF Trading Limited is committed to supply 900,000 metric tones of Kovdor and Kirov phosphate rock annually. Rock phosphate pricing is based on the agreed pricing formula and determined on a monthly basis.

If GMF Trading Limited fails to supply 900,000 metric tones of phosphate rock annually as committed, then, subject to the terms and conditions of the above sales agreement, GMF shall convert USD 180,000 of the trade credit due from the Company to GMF for each undelivered 10,000 metric tones of phosphate rock per annum into a subordinated loan to the Company. The subordinated loan will be repayable only after full repayment of all restructured debts and interest thereon as provided in the restructuring plan.

No cancellation of or material change to the phosphate rock supply agreement between the Company and GMF is allowed throughout the restructuring period.

*Subordinated financing*

To provide the necessary finance to the Company, Eolian provided a subordinated loan of USD 800 thousand at the interest rate of 10% p.a. The loan is repayable in 2 annual instalments in December 2006 and December 2007. Interest accrued on the outstanding loan amount will be payable in five instalments every half a year commencing 31 December 2005. The subordinated loan agreement has a subordination clause included, which provides that any amounts due by the Company to its creditors under the restructuring plan shall be paid in full before any payments or repayments of subordinated loan, interest or any other amounts due to according to the subordinated loan agreement are made by the Company to Eolian.

(All tabular amounts are in LTL '000 unless otherwise stated)

## 1 RESTRUCTURING PROCESS (continued)

*Restrictions and covenants*

Under the restructuring plan, the Company shall maintain compliance with a set of restrictions and covenants over its operations and financial affairs. The overall responsibility for adherence to the provisions of the restructuring plan has been assigned to management of the Company. Reporting on the implementation of the restructuring plan is carried out in accordance with procedures set forth in the plan document.

Among other restrictive measures, the restructuring plan places further restrictions over sale, transfer, revaluation and write off of the Company's assets. All such transactions are subject to the approval by the creditors' committee. According to the provisions of the restructuring plan, there will be no pledge of assets, except for those that were pledged at the time of approval of the restructuring plan.

*Dividend payment policy*

The Company may not pay dividends or otherwise distribute profits to its shareholders throughout the restructuring period and until all the restructured debts and interest thereon have been repaid in full.

*Going concern and management plans to implement the restructuring plan*

Due to the sustained low profitability, limitations imposed on the activities of the Company by the restructuring process and non-compliance with certain covenants set out in the restructuring plan, there is significant doubt about the Company and the Group's ability to continue as a going concern. The applicability of the going concern assumption remains conditional upon the improvement in financial performance, implementation of the provisions of and compliance with the covenants set forth in the restructuring plan. Management of the Company believes that the Company will be able to meet the repayment plan set forth in the restructuring plan and the creditors will not seek any actions despite the non-compliance with certain covenants. In addition, Companies related to the MDM Group are the single largest creditor of the Company.

The repayment of restructuring debts and compliance with covenants during the year 2003 is disclosed in note 20.

(All tabular amounts are in LTL '000 unless otherwise stated)

## 2 SALES

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | **Group** | **Company** | **Group** | **Company** |
| Sales of diammonium phosphate (DAP) | 384,371 | 384,371 | 346,215 | 346,215 |
| Less: sales commissions to Cargill BV | (11,892) | (11,892) | (8,321) | (8,321) |
| Net sales of diammonium phosphate (DAP) | 372,479 | 372,479 | 337,894 | 337,894 |
| Sales of: | | | | |
| Di-calcium phosphate | 11,987 | 11,987 | 8,067 | 8,067 |
| Phosphoric acid | 10,213 | 10,213 | 11,999 | 11,999 |
| Mono-calcium phosphate | 9,920 | 9,920 | 288 | 288 |
| Aluminium fluoride | 7,083 | 7,083 | 5,492 | 5,492 |
| Sulphuric acid | 1,882 | 1,882 | 2,133 | 2,133 |
| Other products | 794 | 794 | 1,685 | 1,685 |
| | 414,358 | 414,358 | 367,558 | 367,558 |

The analysis of the Group's and the Company's sales revenue by geographical regions is provided below:

| | 2003 | 2002 |
|---|---|---|
| Lithuania | 54,865 | 67,753 |
| France | 55,761 | 26,168 |
| Belgium | 35,288 | 28 |
| Spain | 33,147 | 12,992 |
| Germany | 31,035 | 7,989 |
| The Netherlands (country of incorporation of major distributor) | 28,031 | 41,396 |
| Ireland | 25,781 | 1,185 |
| Turkey | 25,631 | 37,546 |
| Poland | 21,320 | 19,610 |
| Italy | 17,296 | 26,213 |
| Pakistan | 15,425 | 49,765 |
| Great Britain | 12,184 | 11,874 |
| Czech Republic | 9,835 | 11,506 |
| Other countries | 48,759 | 53,533 |
| | 414,358 | 367,558 |

The Company has granted Cargill BV (the Netherlands) the exclusive distribution rights over its production worldwide except for Lithuania, Latvia and Estonia.

## 3 COST OF SALES

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | **Group** | **Company** | **Group** | **Company** |
| Costs of diammonium phosphate (DAP) | 370,079 | 370,079 | 339,829 | 339,829 |
| Costs of di-calcium phosphate | 9,953 | 9,953 | 4,642 | 4,642 |
| Costs of phosphoric acid | 7,823 | 7,823 | 7,676 | 7,676 |
| Costs of aluminium fluoride | 7,381 | 7,381 | 2,412 | 2,412 |
| Cost of mono-calcium phosphate | 6,934 | 6,934 | 117 | 117 |
| Costs of sulphuric acid | 1,113 | 1,113 | 973 | 973 |
| Costs of other products | 794 | 794 | 1,403 | 1,403 |
| | 404,077 | 404,077 | 357,052 | 357,052 |

(All tabular amounts are in LTL '000 unless otherwise stated)

## 4 OTHER OPERATING INCOME, NET

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| Revenues on sales of heat, electricity, gas and water | 5,955 | 5,955 | 5,582 | 5,582 |
| Stevedoring, polluted water cleansing and waste collection services | 1,810 | - | 3,478 | - |
| Sales of raw materials | 748 | 730 | 639 | 639 |
| Revenues on assets rent | 506 | 109 | 1,534 | 1,375 |
| Loss on sale of property, plant and equipment | (2,433) | (2,459) | - | - |
| Other revenues/(expenses) | (1,312) | (1,429) | 2,414 | 2,399 |
| | 5,274 | 2,906 | 13,647 | 9,995 |

## 5 DISTRIBUTION COSTS

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| Transportation costs | 9,720 | 9,720 | 7,943 | 7,943 |
| Loading and forwarding costs | 5,774 | 6,290 | 4,433 | 4,433 |
| Other distribution costs | 960 | 989 | 1,138 | 1,138 |
| | 16,454 | 16,999 | 13,514 | 13,514 |

## 6 ADMINISTRATIVE EXPENSES

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| Taxes other than income tax | 5,968 | 5,839 | 4,156 | 4,004 |
| Payroll expenses | 4,657 | 4,174 | 5,632 | 4,924 |
| Depreciation and amortisation | 3,308 | 2,797 | 3,567 | 2,939 |
| Provision and write-off of doubtful receivables | 2,671 | 2,622 | (1,498) | (1,520) |
| Social security expenses | 1,508 | 1,351 | 1,801 | 1,582 |
| Professional services | 1,152 | 583 | 1,808 | 1,788 |
| Security expenses | 756 | 667 | 719 | 630 |
| Telecommunication | 531 | 518 | 990 | 697 |
| Fees and fines | 517 | 510 | 1,256 | 1,221 |
| Insurance expenses | 276 | 238 | 1,244 | 1,190 |
| Change in provision for impairment | (6,872) | (7,301) | 122 | - |
| Impairment of investments | - | - | (1,765) | (1,765) |
| Other administrative expenses | 3,372 | 2,487 | 3,687 | 2,713 |
| | 14,904 | 11,545 | 21,719 | 18,403 |

## 7 FINANCE INCOME, NET

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| Net gain on foreign exchange transactions | 29,962 | 29,977 | 34,934 | 34,956 |
| Interest expenses for restructured liabilities | (6,182) | (6,199) | (2,749) | (2,749) |
| Interest expenses for other liabilities | (116) | (39) | (2,484) | (2,383) |
| Other finance costs | (201) | (208) | (1,191) | (1,156) |
| | 23,463 | 23,531 | 28,510 | 28,668 |

(All tabular amounts are in LTL '000 unless otherwise stated)

## 8 SHARE OF RESULT OF SUBSIDIARIES AND ASSOCIATES BEFORE TAX

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| Transfosa UAB | - | (514) | - | 85 |
| Kemira-Lifosa UAB | 256 | 256 | 494 | 494 |
| | 256 | (258) | 494 | 579 |

In the financial statements for the year ended 31 December 2002 the Company reversed the impairment provision of LTL 1,765 thousand, established for the investment in Transfosa UAB in the prior periods. The effect of reversal was accounted for and disclosed under administrative expenses (Note 6).

## 9 INCOME TAX

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| Current tax charge | 17 | - | 93 | - |
| Deferred tax charge (Note 22) | - | - | - | - |
| Share of tax of subsidiary and associate | - | 17 | - | 93 |
| | 17 | 17 | 93 | 93 |

The tax amount on the Company's (and the Group's) profit before taxes differs from theoretical amount, which would arise when applying a basic tax rate as follows:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| Profit before tax | 7,916 | 7,916 | 17,924 | 17,924 |
| Tax calculated at a rate of 15% | 1,187 | 1,187 | 2,689 | 2,689 |
| Income not subject to tax | (1,753) | (1,676) | (5,346) | (5,278) |
| Expenses not deductible for tax purposes | 1,734 | 1,657 | 2,665 | 2,597 |
| Utilisation of previously unrecognised tax losses | (1,151) | (1,151) | - | - |
| Valuation provision for tax losses | - | - | 85 | 85 |
| | 17 | 17 | 93 | 93 |

Transfer of taxable losses between the group companies is not available under Lithuanian legislation on taxation. Each company within the Group is assessed on its taxable result for taxation purposes. Tax losses are carried forward 5 years.

The expiry profile of taxable losses carried forward is as follows:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| 2005 | 32,715 | 32,715 | 40,388 | 40,388 |
| 2006 | 41,463 | 41,463 | 41,463 | 41,463 |
| 2007 | 4,195 | 4,195 | 4,195 | 4,195 |
| | 78,373 | 78,373 | 86,046 | 86,046 |

(All tabular amounts are in LTL '000 unless otherwise stated)

## 10 EARNINGS PER SHARE

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| Net profit (loss) attributable to shareholders | 7,899 | 7,899 | 17,831 | 17,831 |
| Weighted average number of ordinary shares in issue, less treasury shares (thousands) | 9,789 | 9,789 | 9,784 | 9,784 |
| Earnings per share (LTL per share) | 0.81 | 0.81 | 1.82 | 1.82 |

In 2003, the Company decreased its share capital, by cancelling treasury shares and setting off retained losses, as disclosed in Note 17. The Group and the Company do not have dilutive potential ordinary shares, therefore the diluted earnings per share are the same as basic earnings per share.

## 11 PROPERTY, PLANT AND EQUIPMENT

In 2002, the Group performed a valuation of property, plant and equipment in order to determine the appropriateness of the carrying values of property, plant and equipment. The independent certified valuers American Appraisal (AAR) Inc carried out the valuation. Based on the results of the above-mentioned valuation, the carrying amounts of indexed property, plant and equipment items as at 31 December 2003 are not materially different from those that would arise if a revaluation had been carried out in accordance with the International Accounting Standard No. 16 *Property, Plant and Equipment.*

| GROUP | Buildings | Plant and machinery | Vehicles and equipment | Other tangible assets | Construction in progress | Total |
|---|---|---|---|---|---|---|
| At 31 December 2002 | | | | | | |
| Cost | 169,370 | 312,311 | 25,257 | 5,508 | 22,061 | 534,507 |
| Accumulated depreciation | (68,178) | (174,871) | (13,650) | (3,449) | - | (260,148) |
| Provisions for impairment | (11,533) | (12,605) | - | - | (6,574) | (30,712) |
| Net book amount | 89,659 | 124,835 | 11,607 | 2,059 | 15,487 | 243,647 |
| Year ended 31 December 2003 | | | | | | |
| Opening net book amount | 89,659 | 124,835 | 11,607 | 2,059 | 15,487 | 243,647 |
| Additions | - | 6,403 | 186 | 279 | 2,996 | 9,864 |
| Disposals | (2,635) | (1,255) | (1,239) | (44) | - | (5,173) |
| Write-offs | - | (429) | (8) | (211) | (213) | (861) |
| Reclassifications | 5,609 | 14,019 | - | - | (19,628) | - |
| Change in provision for impairment | 5,933 | (2,153) | - | - | 3,092 | 6,872 |
| Depreciation charge | (4,623) | (20,306) | (3,771) | (635) | - | (29,335) |
| Closing net book amount | 93,943 | 121,114 | 6,775 | 1,448 | 1,734 | 225,014 |
| At 31 December 2003 | | | | | | |
| Cost | 169,036 | 324,714 | 22,848 | 5,203 | 5,094 | 526,895 |
| Accumulated depreciation | (69,493) | (188,842) | (16,073) | (3,755) | - | (278,163) |
| Provisions for impairment | (5,600) | (14,758) | - | - | (3,360) | (23,718) |
| Net book amount | 93,943 | 121,114 | 6,775 | 1,448 | 1,734 | 225,014 |

(All tabular amounts are in LTL '000 unless otherwise stated)

## 11 PROPERTY, PLANT AND EQUIPMENT (continued)

| COMPANY | Buildings | Plant and machinery | Vehicles and equipment | Other tangible assets | Construction in progress | Total |
|---|---|---|---|---|---|---|
| At 31 December 2002 | | | | | | |
| Cost | 168,446 | 311,327 | 22,599 | 5,508 | 21,939 | 529,819 |
| Accumulated depreciation | (68,044) | (174,503) | (12,341) | (3,449) | - | (258,337) |
| Provisions for impairment | (11,533) | (12,605) | - | - | (6,452) | (30,590) |
| Net book amount | 88,869 | 124,219 | 10,258 | 2,059 | 15,487 | 240,892 |
| Year ended 31 December 2003 | | | | | | |
| Opening net book amount | 88,869 | 124,219 | 10,258 | 2,059 | 15,487 | 240,892 |
| Additions | - | 6,346 | 100 | 279 | 2,522 | 9,247 |
| Disposals | (2,635) | (1,255) | (1,235) | (44) | - | (5,169) |
| Write-offs | - | (429) | (8) | (211) | (213) | (861) |
| Reclassifications | 5,609 | 14,019 | - | - | (19,628) | - |
| Change in provision for impairment | 5,933 | (2,153) | - | - | 3,521 | 7,301 |
| Depreciation charge | (4,591) | (20,254) | (3,283) | (635) | - | (28,763) |
| Closing net book amount | 93,185 | 120,493 | 5,832 | 1,448 | 1,689 | 222,647 |
| At 31 December 2003 | | | | | | |
| Cost | 168,112 | 323,673 | 20,183 | 5,203 | 4,620 | 521,791 |
| Accumulated depreciation | (69,327) | (188,422) | (14,351) | (3,755) | - | (275,855) |
| Provisions for impairment | (5,600) | (14,758) | - | - | (2,931) | (23,289) |
| Net book amount | 93,185 | 120,493 | 5,832 | 1,448 | 1,689 | 222,647 |

Provisions for impairment of buildings and construction progress of LTL 9,454 thousand were reversed during 2003 following a reassessment of the carrying value of certain properties.

A provision for impairment of LTL 2,153 thousand was accounted for in respect of plant and machinery, which the Company's plans to dispose of and has signed preliminary agreements. The net book value of these items of property, plant and equipment after providing for impairment totalled LTL 736 thousand as at 31 December 2003.

Leased assets included in the table above, where the Group and the Company is a lessee under a finance lease arrangements, comprise vehicles, and plant and machinery:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| Cost: capitalised finance leases | 25,355 | 23,699 | 25,561 | 23,748 |
| Accumulated depreciation | (16,360) | (15,201) | (12,817) | (11,878) |
| Net book amount | 8,995 | 8,498 | 12,744 | 11,870 |

(All tabular amounts are in LTL '000 unless otherwise stated)

## 11 PROPERTY, PLANT AND EQUIPMENT (continued)

In addition, the Company acted as lessor for certain of its property, plant and equipment, where the net book value of these assets was equal to LTL 1,526 thousand (2002 – LTL 8,046 thousand), annual revenues of LTL 109 thousand were earned and depreciation expenses of LTL 96 thousand were incurred (2002 – revenues earned amounted to LTL 1,201 thousand and depreciation expenses incurred – LTL 1,403 thousand).

Bank borrowings are secured over properties to the net book value of LTL 203,294 thousand (2002: LTL 224,472 thousand).

## 12 INVESTMENTS

| | Votes held | 2003 | | 2002 | |
|---|---|---|---|---|---|
| | | Group | Company | Group | Company |
| Transfosa UAB | 100% | - | 2,819 | - | 3,350 |
| Kemira-Lifosa UAB | 49% | 14,539 | 14,539 | 14,283 | 14,283 |
| Oberta UAB (liquidated in 2003) | 100% | - | - | 1,274 | 1,274 |
| Other | - | 10 | 10 | 10 | 10 |
| | | 14,549 | 17,368 | 15,567 | 18,917 |

The subsidiary and associate are incorporated and operate in Lithuania.

The Company pledged 70% of its shareholding in Transfosa UAB and 100% of the shareholding in Kemira-Lifosa UAB to secure the repayment of restructured liabilities. The pledge values of these shares as of 31 December 2003 were equal to LTL 8 thousand and LTL 1,940 thousand, respectively.

Oberta UAB, a dormant subsidiary, was liquidated on 5 May 2003. This company was excluded from consolidation as of 31 December 2002 and accounted for under the equity method until the moment of liquidation.

## 13 INVENTORIES

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| Finished goods | 14,316 | 14,316 | 8,233 | 8,233 |
| Semi-manufactures | 2,361 | 2,361 | 2,025 | 2,025 |
| Work in progress | 778 | 778 | 818 | 818 |
| Raw materials and supplies | 30,626 | 30,552 | 11,086 | 11,017 |
| | 48,081 | 48,007 | 22,162 | 22,093 |

The Company pledged certain of its inventories over the restructured liabilities due to Cargill BV. The net book value of pledged inventory as of 31 December 2003 was equal to LTL 2,568 thousand (2002: LTL 2,687 thousand).

In addition, 4,000 metric tones of di-ammonium phosphate (DAP), totalling to the net book value of LTL 1,880 thousand (2002: LTL 1,795 thousand) were pledged to secure the repayment of restructured liabilities of LTL 2,230 thousand (same as in 2002) as of 31 December 2003.

(All tabular amounts are in LTL '000 unless otherwise stated)

## 14 TRADE RECEIVABLES

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | **Group** | **Company** | **Group** | **Company** |
| Trade receivable from Cargill BV | 1,288 | 1,288 | 21,751 | 21,751 |
| Other trade receivables, gross | 3,221 | 2,713 | 3,877 | 3,205 |
| Provision for doubtful debts | (100) | (51) | (325) | (303) |
| | 4,409 | 3,950 | 25,303 | 24,653 |

During the year 2003 the Company wrote off LTL 2,874 thousand (2002: LTL 4,382 thousand) of receivables that had previously been fully provided for.

## 15 OTHER RECEIVABLES, PREPAYMENTS AND DEFERRED CHARGES

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | **Group** | **Company** | **Group** | **Company** |
| VAT receivable | 4,827 | 4,827 | 5,692 | 5,560 |
| Prepayments to suppliers and other receivables | 3,318 | 3,074 | 4,872 | 4,754 |
| Accrued revenues and deferred charges | 249 | 240 | 495 | 470 |
| | 8,394 | 8,141 | 11,059 | 10,784 |

The Company pays certain of its suppliers of raw materials and services in advance. The prepayments balance comprises amounts paid to the suppliers of sulphur, stevedoring services and equipment used in production process.

## 16 CASH

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | **Group** | **Company** | **Group** | **Company** |
| Cash in bank | 254 | 161 | 1,005 | 800 |
| Cash on hand | 12 | 8 | 15 | 5 |
| | 266 | 169 | 1,020 | 805 |

The current balance and future cash inflow into the bank accounts of the Company is pledged to secure the repayment of restructured liabilities.

## 17 SHARE CAPITAL

Authorised share capital was comprised of 9,789,390 ordinary shares with a par value of LTL 10 each as at 31 December 2003 (2002: 11,040,000 ordinary shares, with a par value of LTL 20 each). During the year the Company's management has taken a decision to decrease the share capital by cancelling 1,250,610 treasury shares, which were held by the Company as at 31 December 2002. Additionally, the par value of each share in issue was decreased from LTL 20 to LTL 10 per share. All changes related to the reduction of share capital were registered in State Company Register Centre on 21 August 2003. As of 31 December 2003 all ordinary shares were registered and fully paid.

## 18 LEGAL RESERVE

Legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net profits calculated in accordance with Lithuanian regulatory legislation on accounting are compulsory until the reserve reaches 10% of the share capital.

(All tabular amounts are in LTL '000 unless otherwise stated)

## 19 BORROWINGS

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | **Group** | **Company** | **Group** | **Company** |
| Current finance lease liabilities | 269 | 127 | 474 | 158 |
| **Non-current** | | | | |
| Subordinated loan | 1,188 | 1,188 | 1,424 | 1,424 |
| Finance lease liabilities | 428 | 115 | 697 | 242 |
| | 1,616 | 1,303 | 2,121 | 1,666 |
| | 1,885 | 1,430 | 2,595 | 1,824 |

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. The maturity of finance lease liabilities (minimum lease payments) is as follows:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | **Group** | **Company** | **Group** | **Company** |
| Not later than 1 year | 499 | 149 | 589 | 197 |
| Later than 1 year and not later than 5 year | 268 | 121 | 766 | 269 |
| | 767 | 270 | 1,355 | 466 |
| Future finance charges on finance leases | (70) | (28) | (184) | (66) |
| Present value of finance lease liabilities | 697 | 242 | 1,171 | 400 |

The present value of finance lease liabilities is as follows:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | **Group** | **Company** | **Group** | **Company** |
| Not later than 1 year | 269 | 127 | 474 | 158 |
| Later than 1 year and not later than 5 year | 428 | 115 | 697 | 242 |
| | 697 | 242 | 1,171 | 400 |

Average weighted interest rate payable for lease liabilities as at 31 December 2003 was equal to annual 11.7% (2002:12.5%).

Subordinated loan of USD 800 thousand (LTL 2,210 thousand) was provided by Eolian, as it is further disclosed in Note 1. The amount of USD 430 thousand (LTL 1,188 thousand), (2002: LTL 1,424 thousand) is accounted for under non-current borrowings. The balance of USD 370 thousand (LTL 1,022 thousand), (2002: LTL 1,225 thousand) is reported under non-current restructured liabilities as it was applied by Eolian to settle the restructured liabilities of other creditors.

Lease liabilities with a net present value of LTL 5,533 thousand as at 31 December 2003 (2002: LTL 6,372 thousand) were included within restructured liabilities balance in the note 20. This balance is subject to the interest rate applied to all restructured liabilities. Amount of LTL 3,337 thousand should be repaid in one-year time and the rest will be repayable as defined by the restructuring plan, which does not last more than 5 years.

(All tabular amounts are in LTL '000 unless otherwise stated)

## 20 RESTRUCTURED LIABILITIES

The restructured liabilities amounted to LTL 142,282 thousand (2002: LTL 190,788 thousand) for the Group and LTL 142,419 thousand (2002: LTL 191,897 thousand) for the Company as at 31 December 2003. The restructured liabilities represent amounts due to the creditors of the Company, which are to be settled in accordance with the terms defined by the Creditors' Committee as set forth in the debt repayment schedule to the restructuring plan. Further information on the restructuring process is provided in Note 1.

The restructured liabilities include LTL 1,022 thousand (2002: LTL 1,225 thousand) of subordinated loan from Eolian as at 31 December 2003. The balance of USD 430 thousand (LTL 1,188 thousand) subordinated loan is accounted for under Borrowings (Note 19).

In 2003, the Company repaid LTL 21,140 thousand (2002: LTL 6,720 thousand) of restructured liabilities. Interest expenses incurred on restructured liabilities are disclosed in note 7.

Under the restructuring plan, the Company shall maintain compliance with a set of restrictions and covenants over its operations and financial affairs. The Company was not in compliance with certain of the covenants set out in the restructuring plan during the year ended 31 December 2003. The restructuring plan does not provide for any specific actions to be taken by the creditors in the event of non-compliance. Management of the Company took steps to notify the creditors of the situation and believe that no punitive action will be taken by the creditors regarding non-compliance with covenants as the payment terms for restructured liabilities are met by the Company.

The interest repricing dates for restructured liabilities are set on 1 January 2004 and 1 July 2004. The interest rate is defined as follows:

| **Year** | |
|---|---|
| 2003 | 6 months LIBOR+2.2 percentage points |
| 2004 and 2005 | 6 months LIBOR+3.2 percentage points |

## 21 TRADE AND OTHER PAYABLES

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | **Group** | **Company** | **Group** | **Company** |
| Trade payables | 56,852 | 57,011 | 34,437 | 34,019 |
| Salaries and social security payable | 1,539 | 1,539 | 1,860 | 1,745 |
| Other taxes payable | 1,039 | 1,039 | 1,157 | 1,097 |
| Amounts received in advance | 838 | 838 | 229 | 229 |
| VAT payable | 808 | 718 | 1,337 | 1,197 |
| Other payables and accrued charges | 3,004 | 2,822 | 1,778 | 1,550 |
| | 64,080 | 63,967 | 40,798 | 39,837 |

(All tabular amounts are in LTL '000 unless otherwise stated)

## 22 DEFERRED INCOME TAXES

The movement in deferred tax assets and liabilities (prior to offsetting of balance within the same tax jurisdiction) during the period is as follows:

**Deferred tax assets – GROUP**

| | Tax losses | Provision for inventory | Provision for impairment of PPE | Invest-ment | Other | Total |
|---|---|---|---|---|---|---|
| At 31 December 2002 | | | | | | |
| Deferred tax assets before valuation allowance | 12,907 | 1,280 | 4,589 | 3,684 | 37 | 22,497 |
| Valuation allowance | (12,907) | (1,280) | (4,589) | (3,684) | (37) | (22,497) |
| Deferred tax assets, net | - | - | - | - | - | - |
| Year ended 31 December 2003 | | | | | | |
| Charged (credited) to net profit | (1,151) | (892) | (1,013) | 39 | 324 | (2,693) |
| Increase/(decrease) in provision | 1,151 | 892 | 1,013 | (39) | (324) | 2,693 |
| Deferred tax assets, net | - | - | - | - | - | - |
| At 31 December 2003 | | | | | | |
| Deferred tax assets, gross | 11,756 | 388 | 3,576 | 3,723 | 361 | 19,804 |
| Valuation allowance | (11,756) | (388) | (3,576) | (3,723) | (361) | (19,804) |
| Deferred tax assets, net | - | - | - | - | - | - |

**Deferred tax assets – COMPANY**

| | Tax losses | Provision for inventory | Provision for impairment of PPE | Invest-ment | Other | Total |
|---|---|---|---|---|---|---|
| At 1 January 2003 | | | | | | |
| Deferred tax assets before valuation allowance | 12,907 | 1,280 | 4,589 | 3,684 | - | 22,460 |
| Valuation allowance | (12,907) | (1,280) | (4,589) | (3,684) | - | (22,460) |
| Deferred tax assets, net | - | - | - | - | - | - |
| Year ended 31 December 2003 | | | | | | |
| Charged (credited) to net profit | (1,151) | (892) | (1,096) | 39 | 300 | (2,801) |
| Increase/(decrease) in provision | 1,151 | 892 | 1,096 | (39) | (300) | 2,801 |
| Deferred tax assets, net | - | - | - | - | - | - |

(All tabular amounts are in LTL '000 unless otherwise stated)

## 22 DEFERRED INCOME TAXES (continued)

**Deferred tax assets – COMPANY**

| | Tax losses | Provision for inventory | Provision for impairment of PPE | Invest-ment | Other | Total |
|---|---|---|---|---|---|---|
| At 31 December 2003 | | | | | | |
| Deferred tax assets, gross | 11,756 | 388 | 3,493 | 3,723 | 300 | 19,659 |
| Valuation allowance | (11,756) | (388) | (3,493) | (3,723) | (300) | (19,659) |
| Deferred tax assets, net | - | - | - | - | - | - |

The utilisation of deferred tax assets arising on tax losses is dependent on future taxable profits. The provision for deferred tax assets recognised on tax losses was established as the estimate of probable taxable profits to be earned during the period until expiry of taxable loss may not be established reliably.

## 23 CASH GENERATED FROM OPERATIONS

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| Profit before tax | 7,916 | 7,916 | 17,924 | 17,924 |
| Adjustments for: | | | | |
| Depreciation and amortisation (Note 11) | 29,358 | 28,786 | 31,362 | 30,758 |
| Write-off of inventory | 536 | 536 | 524 | 524 |
| Financial interest | 6,298 | 6,238 | 5,171 | 5,171 |
| Write-off of and provision for doubtful accounts receivable | 2,671 | 2,622 | 22 | - |
| (Profit)/loss on disposal of property, plant and equipment, net | 2,433 | 2,459 | (3) | - |
| Write-off of property, plant and equipment (Note 11) | 861 | 861 | 908 | 908 |
| Impairment of property, plant and equipment | (6,872) | (7,301) | 122 | - |
| Unrealised foreign exchange gain | (27,460) | (27,460) | (13,311) | (13,311) |
| Share of result before tax of subsidiaries (Note 8) | (256) | 258 | (2,259) | (2,344) |
| Changes in working capital: | | | | |
| – trade and other receivables | 20,888 | 20,724 | (25,289) | (24,912) |
| – payables | 25,396 | 25,841 | 55,757 | 55,620 |
| – inventories | (26,455) | (26,450) | (6,046) | (6,016) |
| Cash generated from operations | 35,314 | 35,030 | 64,882 | 64,322 |

## 24 RELATED PARTY TRANSACTIONS

The Company (and the Group) is controlled by Eolian Trading Limited (incorporated in Cyprus), which owns 91.2% of the Company's shares. The ultimate parent of the Group is MDM Group (incorporated in Russia). Other related parties are companies of MDM Group, other shareholders and related companies, the subsidiary and associate companies, management of the Company and the Group.

(All tabular amounts are in LTL '000 unless otherwise stated)

## 24 RELATED PARTY TRANSACTIONS (continued)

The following transactions were carried out with related parties:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | **Sales** | **Purchases** | **Sales** | **Purchases** |
| Cargill BV and related companies | 339,838 | - | 212,982 | - |
| Kemira-Lifosa UAB | 39,434 | 209 | 32,459 | 55 |
| Mirintex Trading A.G. | 6,504 | - | - | - |
| Transfosa UAB | 590 | 31 | 2,807 | 4,704 |
| Cumberland Sound Limited | 97 | 39,060 | - | - |
| GMF Trading Limited | - | 221,908 | - | 197,884 |
| Indutech S.p.a. | - | - | - | 3,351 |
| | 386,463 | 261,208 | 248,248 | 205,994 |

Sales to Cargill BV and related companies are priced based on market prices.

According to the long-term raw material supply agreement signed with GMF Trading Limited (UK), rock phosphate pricing is based on the market price as determined on a periodic basis. The purchases of rock phosphate account for the significant proportion of total purchases from related parties.

The following balances were outstanding with related parties:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | **Receivables** | **Payables** | **Receivables** | **Payables** |
| Cargill BV and related companies | 1,288 | 1,827 | 21,751 | 7,011 |
| Mirintex Trading A.G. | 722 | - | - | - |
| Kemira-Lifosa UAB | 640 | - | 726 | - |
| Boundary Layer Limited | - | 93,535 | - | 121,821 |
| Cumberland Sound Limited | - | 20,554 | - | - |
| GMF Trading Limited | - | 16,558 | - | - |
| Eolian Trading Limited | - | 1,188 | - | 1,424 |
| Transfosa UAB | - | 474 | - | 1,109 |
| | 2,650 | 134,136 | 22,477 | 131,365 |

## 25 CONTINGENCIES AND COMMITMENTS

As at 31 December 2003 the Company was involved in a dispute with local tax authorities regarding the payment of VAT on exported goods. Tax authorities imposed additional VAT of LTL 1,240 thousand on goods exported by the Company as a result of tax investigation. The Company paid the amount of tax imposed and the charge was accounted for under administrative expenses as non-income tax expenses. In addition, VAT of LTL 1,240 thousand was treated as tax non-deductible expenses for income tax purposes. The management of the Company believe that the amount will be recovered following the completion of legal procedures.

## 26 FOREIGN EXCHANGE RISK

As at 31 December 2003 the Company's (and the Group's) accounts receivable denominated in USD amounted to equivalent of LTL 6,478 thousand (2002: LTL 26,486 thousand) whilst liabilities position of USD was equal to equivalent of LTL 166,453 thousand (2002: LTL 178,170 thousand).

(All tabular amounts are in LTL '000 unless otherwise stated)

## 27 POST BALANCE SHEET EVENTS

In 2003, management of the Company announced of its intention to dispose of investment in the wholly owned subsidiary company Transfosa UAB. As at the date of signing these financial statements the final outcome of the sales process has not been known yet.