

**LIFOSA AB
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004**

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Auditor's Report

To the Shareholders of Lifosa AB

1. We have audited the accompanying balance sheet of Lifosa AB ("the Company") as at 31 December 2004 and the related consolidated and Company stand alone statements of income, cash flows, and changes in shareholders' equity respectively 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 give a true and fair view of the financial position of the Company as at 31 December 2004 and of the consolidated and stand alone results of the 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 accounting policy A of these financial statements in which the basis of their preparation is discussed. The Company disposed of its only subsidiary within the reporting period and the Group as defined by IAS 27.4 no longer existed at the end of the reporting period and no consolidated balance sheet has been prepared. The results of the operations and cash flows for the Group have been consolidated up to the moment of disposal.

On behalf of PricewaterhouseCoopers UAB



Christopher C. Butler
Partner

Vilnius, Republic of Lithuania
13 April 2005

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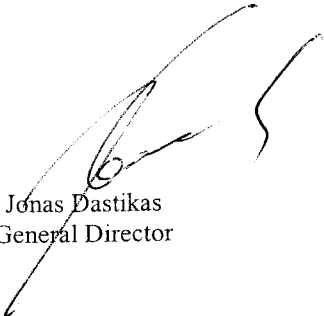
(All tabular amounts are in LTL thousand unless otherwise stated)

THE GROUP AND COMPANY INCOME STATEMENT

	Notes	Year ended 31 December			
		2004		2003	
		Group	Company	Group	Company
Sales	2	511,037	511,037	414,358	414,358
Cost of sales	3	(427,457)	(427,457)	(407,436)	(407,436)
Gross profit		83,580	83,580	6,922	6,922
Distribution costs	4	(35,300)	(35,300)	(16,454)	(16,999)
Administrative expenses	5	(12,510)	(12,065)	(14,307)	(10,948)
Other operating income, net	6	4,560	4,668	8,036	5,668
Profit (loss) from operations		40,330	40,883	(15,803)	(15,357)
Finance income (expenses), net	8	(5,432)	(5,401)	23,463	23,531
Gain on sale of discontinuing operation	26	11,283	11,283	-	-
Share of results of subsidiary and associate before tax	9	(373)	(957)	256	(258)
Profit before tax		45,808	45,808	7,916	7,916
Income tax	10	4,500	4,500	(17)	(17)
Net profit		50,308	50,308	7,899	7,899
Basic and diluted earnings per share (LTL per share)	11	4.72	4.72	0.38	0.38

The accounting policies and the notes on pages 8 to 26 form an integral part of these financial statements.

The financial statements on pages 4 to 26 were approved by the General Director and Finance Director on 13 April 2005.


Jonas Dastikas
General Director


Regvita Ivanovienė
Finance Director

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(All tabular amounts are in LTL thousand unless otherwise stated)

THE GROUP AND COMPANY BALANCE SHEET

		As at 31 December		
		2004	2003	
	Notes	Company	Group	Company
ASSETS				
Non-current assets				
Property, plant and equipment	12	203,489	225,014	222,647
Intangible assets		202	88	88
Investments in subsidiary and associate	13	-	14,549	17,368
Deferred tax asset	10	4,500	-	-
Non-current receivables	14	5,069	-	-
		<u>213,260</u>	<u>239,651</u>	<u>240,103</u>
Current assets				
Inventories	15	34,466	48,081	48,007
Trade accounts receivable	16	28,881	4,409	3,950
Other receivables, prepayments and deferred charges	17	17,779	8,394	8,141
Cash and cash equivalents	18	8,217	266	169
		<u>89,343</u>	<u>61,150</u>	<u>60,267</u>
Total assets		<u>302,603</u>	<u>300,801</u>	<u>300,370</u>
SHAREHOLDERS' EQUITY				
Ordinary shares	19	210,206	97,894	97,894
Share premium		80	80	80
Legal reserve	20	4,793	4,793	4,793
Retained earnings		40,095	(10,213)	(10,213)
Total shareholders' equity		<u>255,174</u>	<u>92,554</u>	<u>92,554</u>
LIABILITIES				
Non-current liabilities				
Borrowings	21	12,997	1,616	1,303
Restructured liabilities	21	-	62,510	62,510
		<u>12,997</u>	<u>64,126</u>	<u>63,813</u>
Current liabilities				
Trade and other payables	22	27,221	64,080	63,967
Borrowings	21	7,211	269	127
Restructured liabilities	21	-	79,772	79,909
		<u>34,432</u>	<u>144,121</u>	<u>144,003</u>
Total liabilities		<u>47,429</u>	<u>208,247</u>	<u>207,816</u>
Total shareholders' equity and liabilities		<u>302,603</u>	<u>300,801</u>	<u>300,370</u>

The accounting policies and the notes on pages 8 to 26 form an integral part of these financial statements.

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THE GROUP AND COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Company

	Notes	Share capital	Share premium	Treasury shares	Legal reserve	Retained earnings	Total
Balance at 1 January 2003		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	19	97,894	80	-	4,793	(10,213)	92,554
Increase of share capital		112,312	-	-	-	-	112,312
Net profit for the year		-	-	-	-	50,308	50,308
Balance at 31 December 2004	19	210,206	80	-	4,793	40,095	255,174

As at 31 December 2004 (and 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 8 to 26 form an integral part of these financial statements.

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THE GROUP AND COMPANY CASH FLOW STATEMENT

	Notes	Year ended 31 December			
		2004		2003	
		Group	Company	Group	Company
Cash flows from operating activities					
Cash generated from operations	23	5,816	5,913	35,314	35,030
Interest paid		(2,580)	(2,580)	(7,061)	(6,984)
Net cash from operating activities		3,236	3,333	28,253	28,046
Cash flows from investing activities					
Purchase of property, plant and equipment		(10,207)	(10,207)	(9,328)	(9,289)
Proceeds from sale of PPE		5,343	5,343	2,740	2,710
Sale of subsidiary and associate company		20,037	20,037	-	-
Net cash from/(used in) investing activities		15,173	15,173	(6,588)	(6,579)
Cash flows from financing activities					
Repayment of restructured liabilities		(10,331)	(10,331)	(21,709)	(21,709)
Repayments of borrowings		-	-	-	-
Finance lease principal payments		(127)	(127)	(710)	(394)
Net cash used in financing activities		(10,458)	(10,458)	(22,419)	(22,103)
Net (decrease)/increase in cash and cash equivalents		7,951	8,048	(754)	(636)
Movement in cash and cash equivalents					
At beginning of year		266	169	1,020	805
Net (decrease)/increase		7,951	8,048	(754)	(636)
Cash and cash equivalents at end of year	18	8,217	8,217	266	169

The accounting policies and the notes on pages 8 to 26 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 the production of phosphate fertilisers, mainly diammonium phosphate (DAP). As at 31 December 2004 the main shareholders of the Company were as follows:

<i>Shareholder</i>	<i>Number of shares</i>	<i>Percentage of shares</i>
Eolian Trading Limited	19,160,229	91.1%
Boundary Layer Limited	994,159	4.7%
Other shareholders (less than 1%)	866,176	4.1%
	<u>21,020,564</u>	<u>100%</u>

The average number of staff employed by the Company in 2004 totalled 1,052 (2003 – 1,067).

As at 31 December 2003 the Company owned 100% of the share capital of Transfosa UAB. Transfosa UAB is incorporated in Lithuania and provides stevedoring and polluted water cleaning services at the seaport of Klaipėda. The investment in subsidiary undertaking was disposed as of 1 October 2004, from which date the Group ceased to exist. For the purposes of these financial statements the amounts in the statements of income and cash flow were consolidated to the date of disposal of the investment in the subsidiary.

In 2004, the Company also disposed of its investment in 49% of the share capital of Kemira-Lifosa UAB, a joint venture with Finnish Kemira Oy, which was reported in the financial statements as associate undertaking.

The average number of staff employed by the Group in 2004 totalled 1,124 (2003 – 1,139).

SIGNIFICANT 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 and the Company are prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements are prepared under the historical cost convention.

The preparation of financial statements in conformity 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.

These financial statements combine the consolidated financial statements for the Group up to the date of disposal of investment in subsidiary undertaking.

Implementation of new accounting policies as a result of new accounting standards, which came into effect as from 1 January 2005, will not have a significant effect on the figures of the Company and the consolidated figures of the Group as at 31 December 2004, disclosed in these financial statements.

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.

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).

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.

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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.

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 the 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.

J Trade receivables

Trade receivables are carried at original invoice amount less 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 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.

M Borrowings

Borrowings are recognised initially at the issue 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 Income tax

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 rate is 15% on taxable income.

Deferred income tax is provided in full, using the liability method, on 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 in the financial statements 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 legal or constructive obligation as a result of past events, which will require an outflow of resources to settle the obligation and a reliable estimate of the amount of the obligation can be made.

P Revenue recognition

Revenue from the sale of goods is recognised net off value-added tax, rebates and discounts 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.

Q Employee benefits

(1) Social security contributions

The Group pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

(2) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value. Termination benefits are included within staff costs in the income statement and within other liabilities in the balance sheet

R 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.

S 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.

T 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. 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.

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.

Fair value estimation

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

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NOTES TO THE FINANCIAL STATEMENTS

1 RESTRUCTURING PROCESS

As at 31 December 2003, the Company was undergoing a restructuring process, which was regulated by a restructuring plan. The restructuring process was enforced by the court ruling as of 2 August 2002 as a result of financial difficulties experienced by the Company during 2001 – 2002. Among other measures, the restructuring plan encompassed long term restructuring of debts, reduction of interest rates, subordination of financing, entering into a long term raw material supply agreement and agreement with Cargill BV regarding exclusive distribution rights over the Company's production worldwide except for Lithuania, Latvia and Estonia.

In 2004, Boundary Layer Limited and Vilniaus bankas AB, representing the majority of the creditors and shareholders of the Company, applied to Panevezys district court, which took a decision to terminate the restructuring process effective from 15 July 2004. Following the removal of restrictions imposed by the restructuring plan, the Company signed a term loan agreement with Vilniaus bankas AB on 28 September 2004 for USD 8,128 thousand repayable in quarterly installments with a final repayment due on 31 December 2007. All the borrowings from Boundary Layer Limited are subordinate to the above debt to Vilniaus bankas AB. As part of further recovery efforts, the Company issued 11,231,174 ordinary shares, which were fully subscribed by Boundary Layer Limited and paid by way of capitalising borrowings from Boundary Layer Limited to the Company. The new issue of shares was registered on 6 December 2004.

The above arrangements have effectively completed the restructuring process and provided the Company with long term funding to facilitate further recovery efforts.

2 SALES

	2004		2003	
	Group	Company	Group	Company
Sales of diammonium phosphate (DAP)	458,649	458,649	384,371	384,371
Less: sales commissions to Cargill Crop Nutrition	(10,189)	(10,189)	(11,892)	(11,892)
Net sales of diammonium phosphate (DAP)	448,460	448,460	372,479	372,479
<i>Sales of:</i>				
Mono-calcium phosphate	23,022	23,022	9,920	9,920
Aluminium fluoride	11,963	11,963	7,083	7,083
Phosphoric acid	10,870	10,870	10,213	10,213
Mono-di-calcium phosphate	8,585	8,585	-	-
Di-calcium phosphate	6,424	6,424	11,987	11,987
Sulphuric acid	1,713	1,713	1,882	1,882
Mono-potassium phosphate	-	-	794	794
	511,037	511,037	414,358	414,358

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

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NOTES TO THE FINANCIAL STATEMENTS (continued)

2 SALES (continued)

	<u>2004</u>	<u>2003</u>
Lithuania	54,964	54,865
France	47,603	55,761
Belgium	27,122	35,288
Spain	31,721	33,147
Germany	57,119	31,035
The Netherlands	37,816	28,031
Ireland	31,689	25,781
Turkey	64,251	25,631
Poland	20,109	21,320
Italy	25,715	17,296
Pakistan	36,380	15,425
Great Britain	9,740	12,184
Czech Republic	13,076	9,835
Other countries	53,732	48,759
	<u>511,037</u>	<u>414,358</u>

The Company terminated the exclusive distribution rights over its production worldwide except for Lithuania, Latvia and Estonia with Cargill BV (the Netherlands) from 1 July 2004. The agreement regarding exclusive distribution rights was entered into as part of the restructuring process to improve sales and provided that Cargill BV will purchase the guaranteed amount of the Company's production. The above agreement was terminated following the completion of the restructuring process (Note 1).

3 COST OF SALES

	<u>2004</u>		<u>2003</u>	
	Group	Company	Group	Company
<i>Costs of:</i>				
Diammonium phosphate (DAP)	373,096	373,096	373,438	373,438
Mono-calcium phosphate	17,561	17,561	6,934	6,934
Aluminium fluoride	14,095	14,095	7,381	7,381
Phosphoric acid	8,778	8,778	7,823	7,823
Mono-di-calcium phosphate	7,532	7,532	-	-
Di-calcium phosphate	5,337	5,337	9,953	9,953
Sulphuric acid	1,058	1,058	1,113	1,113
Mono-potassium phosphate	-	-	794	794
	<u>427,457</u>	<u>427,457</u>	<u>407,436</u>	<u>407,436</u>

4 DISTRIBUTION COSTS

	<u>2004</u>		<u>2003</u>	
	Group	Company	Group	Company
Transportation costs	27,900	27,900	9,720	9,720
Loading and forwarding costs	6,173	6,173	5,774	6,290
Other distribution costs	1,227	1,227	960	989
	<u>35,300</u>	<u>35,300</u>	<u>16,454</u>	<u>16,999</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

5 ADMINISTRATIVE EXPENSES

	2004		2003	
	Group	Company	Group	Company
Taxes other than income tax	3,684	3,684	5,561	5,432
Payroll expenses	4,689	4,388	4,657	4,174
Assets write-off expenses	3,041	3,041	1,300	1,300
Depreciation and amortisation	1,508	1,470	3,308	2,797
Social security expenses	1,522	1,416	1,508	1,351
Insurance expenses	576	576	276	238
Security expenses	561	561	756	667
Telecommunication	504	504	531	518
Professional services	426	426	1,152	583
Provision and write-off of doubtful receivables	(1,678)	(1,678)	(227)	(276)
Change in provision for impairment	(4,834)	(4,834)	(8,386)	(8,815)
Other administrative expenses	2,511	2,511	3,871	2,979
	12,510	12,065	14,307	10,948

6 OTHER OPERATING INCOME, NET

	2004		2003	
	Group	Company	Group	Company
Revenues on sales of heat, electricity, gas and water	6,001	6,001	5,955	5,955
Sales of raw materials	979	979	748	730
Stevedoring, polluted water cleansing and waste collection services	235	-	1,810	-
Revenues on assets rent	187	187	506	109
Other (expenses)/income, net	(992)	(649)	1,384	1,267
Loss on sale of property, plant and equipment	(1,850)	(1,850)	(2,367)	(2,393)
	4,560	4,668	8,036	5,668

7 EMPLOYEE BENEFIT EXPENSES

	2004		2003	
	Group	Company	Group	Company
Payroll	23,233	22,932	22,176	21,693
Social security contributions	7,210	7,104	6,879	6,722
Other payments	134	134	103	103
	30,577	30,170	29,158	28,518

Employee benefit expense of the Group of LTL 30,577 thousand (2003 – LTL 29,158 thousand) is reported in the income statement for the year ended 31 December 2004 (2003) as follows: LTL 24,366 thousand (2003 – LTL 22,993 thousand) is included in the cost of sales, LTL 6,211 thousand (2003 – LTL 6,165 thousand) is included in administrative expenses.

Employee benefit expense of the Company of LTL 30,170 thousand (2003 – LTL 28,518 thousand) is reported in the income statement for the year ended 31 December 2004 (2003) as follows: LTL 24,366 thousand (2003 – LTL 22,993 thousand) is included in the cost of sales, LTL 5,804 thousand (2003 – LTL 5,525 thousand) is included in administrative expenses.

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(All tabular amounts are in LTL thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 FINANCE INCOME (EXPENSES), NET

	2004		2003	
	Group	Company	Group	Company
Net (loss) gain on foreign exchange transactions	(199)	(199)	29,962	29,977
Interest expenses for restructured liabilities	(5,487)	(5,487)	(6,182)	(6,199)
Interest expenses for other liabilities	(8)	(8)	(116)	(39)
Other finance income (expenses)	262	293	(201)	(208)
	<u>(5,432)</u>	<u>(5,401)</u>	<u>23,463</u>	<u>23,531</u>

9 SHARE OF RESULT OF SUBSIDIARIES AND ASSOCIATES BEFORE TAX

	2004		2003	
	Group	Company	Group	Company
Transfosa UAB	-	(584)	-	(514)
Kemira-Lifosa UAB	(373)	(373)	256	256
	<u>(373)</u>	<u>(957)</u>	<u>256</u>	<u>(258)</u>

10 INCOME TAX

	2004		2003	
	Group	Company	Group	Company
Current tax for the year (see below)	-	-	17	-
Deferred tax (credit) (see below)	(4,500)	(4,500)	-	-
Share of tax of subsidiary and associate	-	-	-	17
	<u>(4,500)</u>	<u>(4,500)</u>	<u>17</u>	<u>17</u>

The tax on the Company's and the Group's profit before tax differs from the theoretical amount that would arise when using the basic tax rate as follows:

	2004		2003	
	Group	Company	Group	Company
Profit before tax	45,808	45,808	7,916	7,916
Tax calculated at a rate of 15%	6,871	6,871	1,187	1,187
Income not subject to tax	(3,215)	(3,215)	(1,753)	(1,676)
Expenses not deductible for tax purposes	903	903	1,734	1,657
Utilisation of previously unrecognised tax losses	(4,559)	(4,559)	(1,151)	(1,151)
Change in valuation provision for tax losses	(4,500)	(4,500)	-	-
Tax (credit)/charge	<u>(4,500)</u>	<u>(4,500)</u>	<u>17</u>	<u>17</u>

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:

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NOTES TO THE FINANCIAL STATEMENTS (continued)

10 INCOME TAX (continued)

	2004		2003	
	Company	Group	Company	Group
2005	-	32,715	32,715	
2006	31,601	41,463	41,463	
2007	565	4,195	4,195	
	32,166	78,373	78,373	

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

	Tax losses	Tax loss on finance activities	Provision for inventory	Provision for PPE impairment	Provision for investment	Other	Total
At 1 January 2004							
Deferred tax assets, gross	11,756	-	388	3,493	3,723	361	19,721
Valuation allowance	(11,756)	-	(388)	(3,493)	(3,723)	(361)	(19,721)
Deferred tax assets, net	-	-	-	-	-	-	-
Year ended 31 December 2004							
Credited/(charged) to net profit	(4,559)	963	(358)	(1,325)	(3,723)	(94)	(9,096)
Decrease/(increase) in provision	9,059	(963)	358	1,325	3,723	94	13,596
Deferred tax assets, net	4,500	-	-	-	-	-	4,500
At 31 December 2004							
Deferred tax assets, gross	7,197	963	30	2,168	-	267	10,625
Valuation allowance	(2,697)	(963)	(30)	(2,168)	-	(267)	(6,125)
Deferred tax assets, net	4,500	-	-	-	-	-	4,500

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through future taxable profits is probable.

11 EARNINGS PER SHARE

	2004		2003	
	Group	Company	Group	Company
Net profit attributable to shareholders	50,308	50,308	7,899	7,899
Weighted average number of ordinary shares in issue, (thousands)	10,649	10,649	21,021	21,021
Earnings per share (LTL per share)	4.72	4.72	0.38	0.38

In 2004, the Company increased its share capital, by issuing 11,231,174 ordinary shares, as further disclosed in Note 19 *Share capital*. 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.

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(All tabular amounts are in LTL thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 PROPERTY, PLANT AND EQUIPMENT

GROUP	Buildings	Plant and machinery	Vehicles and equipment	Other tangible assets	Construction in progress	Total
At 31 December 2003						
Cost	169,036	324,714	22,848	5,203	5,094	526,895
Accumulated depreciation and impairment	(75,093)	(203,600)	(16,073)	(3,755)	(3,360)	(301,881)
Net book amount	93,943	121,114	6,775	1,448	1,734	225,014

COMPANY	Buildings	Plant and machinery	Vehicles and equipment	Other tangible assets	Construction in progress	Total
At 31 December 2003						
Cost	168,112	323,673	20,183	5,203	4,620	521,791
Accumulated depreciation and impairment	(74,927)	(203,180)	(14,351)	(3,755)	(2,931)	(299,144)
Net book amount	93,185	120,493	5,832	1,448	1,689	222,647

Year ended 31 December 2004

Opening net book amount	93,185	120,493	5,832	1,448	1,689	222,647
Additions	73	2,552	34	175	7,259	10,093
Disposals and write-offs	(96)	(3,189)	(1,078)	(32)	(2,798)	(7,193)
Reclassifications	541	4,420	-	3,647	(8,608)	
Change in provision for impairment	-	2,488	-	-	2,931	5,419
Depreciation charge	(4,539)	(19,113)	(2,694)	(1,131)	-	(27,477)
Closing net book amount	89,164	107,651	2,094	4,107	473	203,489

At 31 December 2004

Cost	168,623	318,609	13,699	12,331	473	513,735
Accumulated depreciation and impairment	(79,459)	(210,958)	(11,605)	(8,224)	-	(310,246)
Net book amount	89,164	107,651	2,094	4,107	473	203,489

Provisions for impairment of plant and machinery and construction in progress of LTL 5,419 thousand were reversed during 2004 following the retirement of certain assets and reassessment of provision for impairment of certain properties.

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:

	2004		2003	
	Company	Group	Company	Group
Cost: capitalised finance leases	940	25,355	23,699	
Accumulated depreciation	(367)	(16,360)	(15,201)	
Net book amount	573	8,995	8,498	

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NOTES TO THE FINANCIAL STATEMENTS (continued)

12 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 1,142 thousand (2003 – LTL 1,526 thousand), annual revenues of LTL 187 thousand were earned and depreciation expenses of LTL 62 thousand were incurred (2003 – revenues earned amounted to LTL 109 thousand and depreciation expenses incurred – LTL 96 thousand).

Bank borrowings are secured over properties to the net book value of LTL 114,505 thousand (2003: LTL 203,294 thousand).

13 INVESTMENTS IN SUBSIDIARY AND ASSOCIATE

	Voting rights held	2004		2003
		Company	Group	Company
Transfosa UAB	100%	-	-	2,819
Kemira-Lifosa UAB	49%	-	14,539	14,539
Oberta UAB (liquidated in 2003)	100%	-	-	-
Other	-	-	10	10
		-	14,549	17,368

In August 2004, the Company fully disposed of its shares of associate company Kemira-Lifosa UAB. In September 2004, the Company fully disposed of its shares of subsidiary company Transfosa UAB. For further details on sale of investment in subsidiary undertaking refer to Note 26 *Discontinued operations*. Until the moment of disposal, the subsidiary and associate were incorporated and operated in Lithuania.

14 NON-CURRENT RECEIVABLES

Non-current receivables represent non-current part of the debt of Kemira Growhow Oy, for the purchase of shares in associate Kemira-Lifosa UAB in August 2004. The current portion of this debt, of LTL 2,619 thousand as at 31 December 2004, is included within "Other receivables" balance. The shares of Kemira-Lifosa UAB were pledged to ensure the repayment of the debt to the Company.

15 INVENTORIES

	2004		2003
	Company	Group	Company
Finished goods	13,434	14,316	14,316
Semi-manufactures	1,702	2,361	2,361
Work in progress	669	778	778
Raw materials and supplies	18,661	30,626	30,552
	34,466	48,081	48,007

16 TRADE RECEIVABLES

	2004		2003
	Company	Group	Company
Trade receivable from Cargill BV	-	1,288	1,288
Other trade receivables, gross	28,881	3,221	2,713
Provision for doubtful debts	-	(100)	(51)
	28,881	4,409	3,950

During the year 2004, the Company wrote off LTL 1,729 thousand (2003: LTL 2,874 thousand) of receivables that had previously been fully provided for.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

17 OTHER RECEIVABLES, PREPAYMENTS AND DEFERRED CHARGES

	2004		2003
	Company	Group	Company
VAT receivable	8,833	4,827	4,827
Prepayments to suppliers and other receivables	7,854	3,318	3,074
Accrued revenues and deferred charges	1,092	249	240
	<u>17,779</u>	<u>8,394</u>	<u>8,141</u>

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.

18 CASH AND CASH EQUIVALENTS

	2004		2003
	Company	Group	Company
Cash in bank	1,471	254	161
Cash in transit	6,742	-	-
Cash on hand	4	12	8
	<u>8,217</u>	<u>266</u>	<u>169</u>

The future cash inflow into the bank accounts of the Company is pledged to secure the repayment of loans to banks.

19 SHARE CAPITAL

Authorised share capital comprised 21,020,564 ordinary shares with a par value of LTL 10 each as at 31 December 2004 (2003: 9,789,390 ordinary shares with a par value of LTL 10 each). During 2004 the shareholders resolved to increase the share capital by capitalising debts of the creditor Boundary Layer Limited of LTL 112,312 thousand. The increase of share capital was registered in the Legal Entities Register on 3 December 2004. Afterwards, Boundary Layer Limited transferred its share of the Company's shareholding to related party Eolian Trading Limited. As of 31 December 2004 all ordinary shares were registered and fully paid.

20 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.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

21 BORROWINGS AND RESTRUCTURED LIABILITIES

	<u>2004</u>	<u>2003</u>	
	Company	Group	Company
<i>Current</i>			
Current part of bank borrowings	7,096	-	-
Current finance lease liabilities	115	269	127
Current part of restructured liabilities	-	79,772	79,909
	<u>7,211</u>	<u>80,041</u>	<u>80,036</u>
<i>Non-current</i>			
Bank borrowings	12,997	-	-
Restructured liabilities	-	62,510	62,510
Subordinated loan	-	1,188	1,188
Finance lease liabilities	-	428	115
	<u>12,997</u>	<u>64,126</u>	<u>63,813</u>
	<u>20,208</u>	<u>144,167</u>	<u>143,849</u>

The current and non-current bank borrowings comprise term loan facility provided by Vilniaus bankas AB. The loan matures on 31 December 2007, interest is charged at annual interest rate of 3 month LIBOR plus 2.2% margin. As at 31 December 2004, part of the loan repayable in 2005 was classified under current borrowings. The interest rate payable on this loan as at 31 December 2004 was 5.05%.

As at 31 December 2003, the restructured liabilities, with a total balance of LTL 142,419 thousand represented amounts due to the creditors of the Company, which were 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. As discussed in Note 19 *Share capital* and Note 1 *Restructuring process*, the restructuring plan was terminated following the court decision and restructured liabilities refinanced by bank loan and subordinate loan provided by the shareholder. The subordinate loan was subsequently capitalised as payment in kind for the issue of shares as discussed in Note 19.

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:

	<u>2004</u>	<u>2003</u>	
	Company	Group	Company
Not later than 1 year	121	494	149
Later than 1 year and not later than 5 year	-	273	121
	<u>121</u>	<u>767</u>	<u>270</u>
Future finance charges on finance leases	(6)	(70)	(28)
Present value of finance lease liabilities	<u>115</u>	<u>697</u>	<u>242</u>

The present value of finance lease liabilities is as follows:

	<u>2004</u>	<u>2003</u>	
	Company	Group	Company
Not later than 1 year	115	428	127
Later than 1 year and not later than 5 year	-	269	115
	<u>115</u>	<u>697</u>	<u>242</u>

Average weighted interest rate payable for lease liabilities as at 31 December 2004 was equal to annual 11.7% (2003: 11.7%).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

24 RELATED PARTY TRANSACTIONS (continued)

	2004		2003	
	Sales	Purchases	Sales	Purchases
Kemira-Lifosa UAB (8 months period)	32,601	303	39,434	209
Mirintex Trading A.G.	875	-	6,504	-
Transfosa UAB (9 months period)	665	556	590	31
Cumberland Sound Limited	56,767	218,049	97	39,060
Eurochem Trading GmbH	779	1,003	-	-
Cumberland Sound Limited	-	3,024	-	221,908
	91,687	222,935	46,625	261,208

Sales of goods and services to related companies are priced based on prevailing market prices.

According to the long-term raw material supply agreement signed with Cumberland Sound 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:

	2004		2003	
	Receivables and advances	Payables	Receivables and advances	Payables
Cumberland Sound Limited	21,180	3,018	-	20 554
Kemira-Lifosa UAB	3,227	-	640	-
Eurochem Trading GmbH	779	1,003	-	-
Transfosa UAB	228	-	-	474
Mirintex Trading A.G.	-	-	722	-
Boundary Layer Limited	-	-	-	43 011
GMF Trading Limited	-	-	-	16 558
Eolian Trading Limited	-	-	-	1 188
	25,414	4,021	1,362	81,785

During 2004 the Company accounted for LTL 913 thousand of payroll, compensation and leave payment expenses to management (2003 – LTL 891 thousand).

25 DISCONTINUED OPERATIONS

The subsidiary undertaking Transfosa UAB was fully disposed of in September 2004 following the decision of the management board of the Company as of 20 January 2004 and was reported in these financial statements as discontinuing operation. Income from operations, operating expenses, cash flows and net assets of the stevedoring, polluted water cleansing and waste collection services segment were as follows:

	9 months to 30 September 2004	Year to 31 December 2003
Net sales	208	2,684
Loss on financial operations	(30)	(69)
Operating expenses	(445)	(3,406)
Net other gains (loss)	(316)	277
Loss before tax	(584)	(514)
Income tax	-	(17)
Net loss	(584)	(531)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

24 RELATED PARTY TRANSACTIONS (continued)

	2004		2003	
	Sales	Purchases	Sales	Purchases
Kemira-Lifosa UAB (8 months period)	32,601	303	39,434	209
Mirintex Trading A.G.	875	-	6,504	-
Transfosa UAB (9 months period)	665	556	590	31
Cumberland Sound Limited	57,146	256,614	97	39,060
Eurochem Trading GmbH	779	-	-	-
Cumberland Sound Limited	-	8,719	-	221,908
	92,066	266,192	46,625	261,208

Sales of goods and services to related companies are priced based on prevailing 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:

	2004		2003	
	Receivables and advances	Payables	Receivables and advances	Payables
Cumberland Sound Limited	24,157	-	-	20,554
Kemira-Lifosa UAB	3,227	-	640	-
Eurochem Trading GmbH	804	-	-	-
Transfosa UAB	228	-	-	474
Mirintex Trading A.G.	-	-	722	-
Boundary Layer Limited	-	-	-	43,011
GMF Trading Limited	-	-	-	16,558
Eolian Trading Limited	-	-	-	1,188
	28,416	-	1,362	81,785

During 2004 the Company accounted for LTL 913 thousand of payroll, compensation and leave payment expenses to management (2003 – LTL 891 thousand).

25 DISCONTINUED OPERATIONS

The subsidiary undertaking Transfosa UAB was fully disposed of in September 2004 following the decision of the management board of the Company as of 20 January 2004 and was reported in these financial statements as discontinuing operation. Income from operations, operating expenses, cash flows and net assets of the stevedoring, polluted water cleansing and waste collection services segment were as follows:

	9 months to 30 September 2004	Year to 31 December 2003
Net sales	208	2,684
Loss on financial operations	(30)	(69)
Operating expenses	(445)	(3,406)
Net other gains (loss)	(316)	277
Loss before tax	(583)	(514)
Income tax	-	(17)
Net loss	(583)	(531)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

25 DISCONTINUED OPERATIONS (continued)

	9 months to 30 September 2004	Year to 31 December 2003
Operating activities cash flows	158	202
Investment activities cash flows	-	(19)
Financial activities cash flows	(231)	(301)
Total	<u>(73)</u>	<u>(118)</u>
	30 September 2004	2003
Inventory	103	74
Receivables	630	1,194
Intangible assets and property, plant and equipment	2,502	2,367
Other assets	25	97
Total assets	3,260	3,732
Total liabilities	(930)	(913)
Net assets	<u>2,330</u>	<u>2,819</u>
Gain on sale was calculated as follows:		
Net assets sold	2,330	
Sales proceeds	13,613	
Gain on sale	11,283	
Taxation	-	
Gain on sale after tax	<u>11,283</u>	
Net cash flow from sales was calculated as follows:		
Sales proceeds	13,613	
Less: cash held by the subsidiary company	-	
Net cash inflow from sale	<u>13,613</u>	

The subsidiary undertaking was sold to Klaipėdos Jūros Krovinių Kompanija (KLASCO) AB, a stevedoring company incorporated in Lithuania.

26 POST BALANCE SHEET EVENTS

The Company's majority shareholder Eolian Trading Limited transferred its part of the Company's shares, totalling to 91.1% of the share capital to related party MCC Eurochem on 30 March 2005.