

**LIFOSA AB  
FINANCIAL STATEMENTS, PERFORMANCE REPORT  
AND AUDITOR'S REPORT  
31 DECEMBER 2005**

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**LIFOSA AB  
FINANCIAL STATEMENTS  
31 DECEMBER 2005**

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**AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF LIFOSA AB**

The accounting policies and the notes on pages 8 to 30 form an integral part of these financial statements.

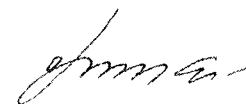
**AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF LIFOSA AB**

1. We have audited the accompanying balance sheet of Lifosa AB ("the Company") as at 31 December 2005 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements set out on pages 4 - 30 and the performance report set out on pages 31-32 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit and to assess whether the information disclosed in the performance report is consistent with the financial statements.
2. Except as explained in paragraph 3, we conducted our audit in accordance with International Standards on Auditing. 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. Our work with respect to the performance report was limited to checking it within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.
3. Certain items of property, plant and equipment are accounted for at a historical cost less subsequent depreciation as adjusted for indexation, using the indexation rates set by the Government of the Republic of Lithuania in 1992-1995. Those certain items of property, plant and equipment and share capital of the Company have not been stated in terms of a measuring unit current as at the time (i.e. restated by using a general price index to reflect changes in purchasing power) as required by IAS 29 'Financial Reporting in Hyperinflationary Economies'. It has not been possible to estimate the financial effects of this non-compliance.
4. In our opinion, except for the effect of such adjustments, if any, which might have been necessary to reflect the matters described in the paragraph 3, the financial statements give a true and fair view of the financial position of Company as at 31 December 2005 and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.
5. In addition, in our opinion, except for the effect of such adjustments, if any, which might have been necessary to reflect the matters described in the paragraph 3, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2005 and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.
6. We did not identify material inconsistencies in the performance report with the audited financial statements.

On behalf of PricewaterhouseCoopers UAB



Christopher C. Butler  
Partner



Ona Armalienė  
Auditor's Certificate No.000008


Vilnius, Republic of Lithuania  
14 April 2006

**LIFOSA AB**  
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**INCOME STATEMENT**

	Notes	Year ended 31 December	
		2005	2004 Restated
Sales	1	603,865	524,618
Cost of sales		(455,315)	(434,399)
<b>Gross profit</b>		<b>148,550</b>	<b>90,219</b>
Selling and distribution costs	2	(33,563)	(35,300)
Administrative expenses	3	(25,130)	(17,344)
Other (losses)/gains – net	5	5,289	9,234
<b>Operating profit</b>		<b>95,146</b>	<b>46,809</b>
Finance income	6	786	32
Finance expenses	7	(780)	(5,494)
Share of loss of associate		-	(373)
<b>Profit before tax</b>		<b>95,152</b>	<b>40,974</b>
Income tax	8	(13,636)	4,500
<b>Net profit</b>		<b>81,516</b>	<b>45,474</b>
Basic and diluted earnings per share (LTL per share)	9	3.88	4.27

The financial statements on pages 4 to 30 were approved by the General Director and Finance Director on 14 April 2006.

  
Jonas Dastikas  
General Director

  
Regvita Ivanovienė  
Finance Director

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**BALANCE SHEET**

		<b>As at 31 December</b>	
	<b>Notes</b>	<b>2005</b>	<b>2004</b>
			<b>Restated</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	219,105	221,361
Intangible assets	10	275	202
Deferred tax asset	8	1,058	4,500
Other receivables	12	3,940	5,069
		224,378	231,132
<b>Current assets</b>			
Inventories	13	68,282	34,466
Trade and other receivables	14	93,459	46,660
Financial assets at fair value through profit or loss	15	14,698	-
Cash and cash equivalents	16	11,113	8,217
		187,552	89,343
<b>Total assets</b>		<b>411,930</b>	<b>320,475</b>
<b>EQUITY</b>			
Share capital	17	210,206	210,206
Share premium		80	80
Legal reserve		6,798	4,793
Retained earnings		137,478	57,967
<b>Total equity</b>		<b>354,562</b>	<b>273,046</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	18	-	12,997
		-	12,997
<b>Current liabilities</b>			
Income tax liabilities		10,194	-
Borrowings	18	-	7,211
Trade and other payables	19	47,174	27,221
		57,368	34,432
<b>Total liabilities</b>		<b>57,368</b>	<b>47,429</b>
<b>Total equity and liabilities</b>		<b>411,930</b>	<b>320,475</b>

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**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

	Notes	Share capital	Share premium	Legal reserve	Retained earnings	Total
<b>Balance as at 1 January 2004 previously reported</b>		97,894	80	4,793	(10,213)	92,554
Restatement of impairment for property, plant and equipment	B.2	-	-	-	22,706	22,706
<b>Balance as at 1 January 2004 (Restated)</b>		97,894	80	4,793	12,493	115,260
Increase of share capital		112,312	-	-	-	112,312
Net profit for the year		-	-	-	45,474	45,474
<b>Balance at 31 December 2004</b>	17	210,206	80	4,793	57,967	273,046
Transfer to legal reserve		-	-	2,005	(2,005)	-
Net profit for the year		-	-	-	81,516	81,516
<b>Balance at 31 December 2005</b>	17	210,206	80	6,798	137,478	354,562

**LIFOSA AB**  
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**CASH FLOW STATEMENT**

	Notes	Year ended 31 December	
		2005	2004
<b>Cash flows from operating activities</b>			
Cash generated from operations	20	75,671	5,816
Interest paid		(780)	(2,580)
<b>Net cash from operating activities</b>		<b>74,891</b>	<b>3,236</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10,11	(22,957)	(10,207)
Proceeds from sale of property, plant and equipment		430	5,343
Sale of subsidiary and associate company		-	20,037
Purchase of securities	15	(29,260)	-
<b>Net cash (used in) investing activities</b>		<b>(51,787)</b>	<b>15,173</b>
<b>Cash flows from financing activities</b>			
Repayments of borrowings	18	(20,093)	(10,331)
Finance lease principal payments	18	(115)	(127)
<b>Net cash used in financing activities</b>		<b>(20,208)</b>	<b>(10,458)</b>
<b>Net increase in cash and cash equivalents</b>		<b>2,896</b>	<b>7,951</b>
<b>Movement in cash and cash equivalents</b>			
At beginning of year		8,217	266
Net (decrease)/increase		2,896	7,951
<b>Cash and cash equivalents at end of year</b>	<b>16</b>	<b>11,113</b>	<b>8,217</b>



**LIFOSA AB**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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*(All tabular amounts are in LTL thousand unless otherwise stated)*

**A. 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 of Lithuania. The Company's principal activity is the production of phosphate fertilisers, mainly diammonium phosphate (DAP). As at 31 December 2005 the main shareholders of the Company were as follows:

<i>Shareholder</i>	<i>Number of shares</i>	<i>Percentage of shares</i>
JSC Mineral Chemical Company "Eurochem"	19,160,229	91.15%
Eurochem A.M. Limited	767,250	3.65%
Sagitarius International Limited	226,909	1.08%
Other shareholders	866,176	4.12%
	<u>21,020,564</u>	<u>100%</u>

As at 31 December 2003 the Company owned 100% of the share capital of Transfosa UAB (subsidiary) and 49% of Kemira-Lifosa UAB (associate). Both, subsidiary and associate were disposed of in 2004. For the purposes of these financial statements the comparative amounts in the statements of income and cash flows were consolidated up to the date of disposal of the investment in subsidiary and associate.

The average number of staff employed by the Company in 2005 totalled 1,049 (2004 – 1,052).

**B. SIGNIFICANT ACCOUNTING POLICIES**

**B.1 Basis of preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards issued by the IASB. All International Financial Reporting Standards issued by the IASB and effective at the time of preparing these financial statements have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of the International Accounting Standard IAS 39 "Financial Instruments: Recognition and Measurement". Following recommendations from the Accounting Regulatory Committee, the Commission adopted the Regulations 2086/2004 and 1864/2005 requiring the use of IAS 39, excluding certain provisions on portfolio hedging of core deposits, by all listed companies from 1 January 2005.

The financial statements have been prepared under the historical cost convention, as modified by the indexation of certain property, plant and equipment (Note B.4), and financial assets at fair value through profit and loss.

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

**B.1 Basis of preparation (continued)**

Since the Company is not affected by the provisions regarding portfolio hedging that are not required by the EU-endorsed version of IAS 39, the accompanying financial statements comply with both International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards issued by the IASB.

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note D.

*Adoption of New or Revised Standards and Interpretations*

Certain new IFRSs became effective for the Company from 1 January 2005. Listed below are those new or amended standards or interpretations, which are or in the future could be relevant to the Company's operations and the nature of their impact on the Company's accounting policies.

All changes in accounting policies were applied retrospectively with adjustments made to retained earnings at 1 January 2004, unless otherwise described below.

IAS 1 (revised 2003) Presentation of Financial Statements  
IAS 2 (revised 2003) Inventories  
IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors  
IAS 10 (revised 2003) Events after the Balance Sheet Date  
IAS 16 (revised 2003) Property, Plant and Equipment  
IAS 17 (revised 2003) Leases  
IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates  
IAS 24 (revised 2003) Related Party Disclosures  
IAS 27 (revised 2003) Consolidated and Separate Financial Statements  
IAS 28 (revised 2003) Investments in Associates  
IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation  
IAS 33 (revised 2003) Earnings per Share  
IAS 36 (revised 2004) Impairment of Assets  
IAS 38 (revised 2004) Intangible Assets  
IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement  
IAS 40 (revised 2003) Investment Property  
IFRS 2 (issued 2004) Share-based Payments  
IFRS 3 (issued 2004) Business Combinations  
IFRS 4 (issued 2004) Insurance Contracts  
IFRS 5 (issued 2005) Non-current Assets Held for Sale and Discontinued Operations  
IFRIC 1 (issued 2004) Changes in Existing Decommissioning, Restoration and Similar Liabilities  
IFRIC 2 (issued 2004) Members' Shares in Co-operative Entities and Similar Instruments

The adoption of the above new or revised standards and interpretations had no material effect on the Company's policies or was not relevant to the Company's operations, except as follows:

- IAS 1 (revised 2003) has resulted in certain income statement reclassifications (Note B.2).
- IAS 24 (revised 2003) has affected the identification of related parties and some other related-party disclosures.

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

**B.1 Basis of preparation (continued)**

*Standards, interpretations and amendments to published standards that are not yet effective*

Implementation of new accounting policies as a result of new accounting standards and interpretations, which came into effect as from 1 January 2006, will not have a significant effect on the figures of the Company as at 31 December 2005, disclosed in these financial statements.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2006 or later periods which the Company has not early adopted as follows:

*(a) IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006)*

This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. The Company does not participate in any multi-employer plans. The Company is assessing the impact of changing the accounting policy adopted for recognition of actuarial gains and losses. The Company will apply this amendment from annual periods beginning 1 January 2006.

*(b) IAS 21 (Amendment), Net Investment in Foreign Operation (effective from 1 January 2006)*

This amendment requires foreign exchange gains and losses on quasi-equity intercompany loans to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Currently, such exchange differences are required to be recognised in consolidated profit or loss. It also extends the definition of 'net investment in a foreign operation' to include loans between sister companies. This amendment is not relevant to the Company. At the date of the issuance of these financial statements this amendment has not been yet adopted by the EU.

*(c) IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)*

The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect profit or loss. This amendment is not relevant to the Company's operations, as the Company does not have any intragroup transactions that would qualify as a hedged item in the financial statements as at 31 December 2005 and 2004.

*(d) IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006)*

This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Company's policy is not to voluntarily designate assets and liabilities as at fair value through profit and loss.

*(e) IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006)*

This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to IAS 39 and concluded that it is not relevant to the Company.

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**B.1 Basis of preparation (continued)**

*(f) IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)*

These amendments are not relevant to the Company's operations, as the Company does not carry out exploration for and evaluation of mineral resources.

*(g) IFRS 6, Exploration for and Evaluation of Mineral Resource (effective from 1 January 2006)*

IFRS 6 is not relevant to the Company's operations.

*(h) IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)*

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Company is assessing the impact of IFRS 7 and the amendment to IAS 1. The Company will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

*(i) IFRIC 4, Determining whether an Arrangement Contains a Lease (effective from 1 January 2006)*

IFRIC 4, Determining whether an Arrangement Contains a Lease (effective from 1 January 2006) IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Implementation of IFRIC 4 is not expected to change the accounting for any of the Company's current arrangements.

*(j) IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006)*

The Company does not have interests in decommissioning, restoration and environmental rehabilitation funds, therefore IFRIC 5 is not relevant to the Company's operations.

*(k) IFRIC 6, Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment (effective for periods beginning on or after 1 December 2005, that is from 1 January 2006).*

IFRIC 6 is not relevant to the Company's operations.

*(l) IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007)*

The Interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29. This new interpretation is not relevant to the Company. At the date of the issuance of these financial statements this amendment has not been yet adopted by the EU.

*(m) IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007).*

The issue addressed in the Interpretation is whether IFRS 2 applies to transactions in which the entity cannot identify specifically some or all of the goods or services received. It not applicable to the Company since there are no share-base payments. At the date of the issuance of these financial statements this amendment has not been yet adopted by the EU.

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

**B.1 Basis of preparation (continued)**

*(n) IFRIC 9, Reassessment of Embedded Derivatives (effective for periods beginning on or after 1 June 2006).*

The Interpretation applies to all embedded derivatives under IAS 39 'Financial Instruments: Recognition and Measurement' and clarifies certain aspects of their treatment. The Company is assessing the impact of this amendment. At the date of the issuance of these financial statements this amendment has not been yet adopted by the EU.

**B.2 Reclassifications and prior year restatements**

During 2005, management changed some of its accounting policies or adopted new IFRS accounting policies and restated the Company's prior year financial statements retrospectively. Management takes view that reclassifications and restatements provide reliable and more relevant information. The effect of restatement on 2004 financial statements of the Company is summarised below.

Income statement	Note	As at 31 December 2004	
		Previously reported	Restated
Sales	a)	511,037	524,618
Cost of sales	b)	(427,457)	(434,399)
Administrative expenses	c)	(12,510)	(17,344)
Other (losses)/gains – net	d)	4,560	9,234
Finance expenses	e)	5,851	(5,494)
Net profit	f)	50,308	45,474
Earnings per share	g)	4.72	4.27

Balance sheet		As at 31 December 2004	
		Previously reported	Restated
Property, plant and equipment	h)	203,489	221,361
Total equity	i)	255,174	273,046

a) Sales changed due to:

- reclassification of revenue from sales of raw materials and services from other losses/gains –net (initially "other operating income, net") amounting to LTL 13,352 thousand;
- reclassification of fines received from finance expenses (initially "finance income(expenses), net") amounting to LTL 229 thousand;

b) cost of sales changed due to:

- reclassification of cost of sales of raw materials and services from other losses/gains – net (initially "other operating income, net") amounting to LTL 6,942 thousand;

c) and f) administrative expenses have been restated by LTL 4,834 thousand due to retrospective recognition of impairment reversal of property plant and equipment (Note h) below);

d) other (losses)/gains – net were adjusted due to reclassification of sales and cost of sales of raw materials and services as described in a) and b) above and due to reclassification of gain on sale of subsidiary and associate amounting to LTL 11,283 thousand from finance costs (initially "finance income (expenses), net") and due to reclassification of net loss on foreign exchange transactions from finance expenses (initially "finance income(expenses), net") amounting to LTL 199;

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

**B.2 Reclassifications and prior year restatements (continued)**

e) Finance costs were adjusted by amounts described in a), b) and d) above;

g) Earnings per share have been adjusted due to retrospective recognition of impairment reversal as described in c) and f) above;

h) Property, plant and equipment was restated due to retrospective recognition of impairment reversal of property plant and equipment amounting to LTL 17,872 thousand. This impairment was initially recognised in 2001 (LTL 4,834 thousand out of the initial impairment of LTL 22,706 thousand was reversed in 2004), and should have been reversed in 2002 as there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. In 2002, a valuation of the Company's property, plant and equipment was performed by independent certified valuers American Appraisal (AAR) Inc. Based on the results of that valuation, fair value of property plant and equipment was higher than the carrying amounts of property, plant and equipment before impairment.

i) Total equity was restated due to amount described in h). Retained earning as at 1 January 2004 were adjusted due to amounts described in h) and c,f) above.

**B.3 Foreign currency translation**

*(a) Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in Litas (LTL), which is the Company's functional and presentation currency.

Litas is pegged to the Euro at an exchange rate of LTL 3.4528 = EUR 1.

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional 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 at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

**B.4 Property, plant and equipment**

Property, plant and equipment acquired on or after 1 January 1996 is stated at historical cost less accumulated depreciation. Property, plant and equipment acquired before 1 January 1996 is stated at historical cost less accumulated depreciation as adjusted for indexation, using indexation rates set by the Lithuanian Government for the different asset categories. Four revaluations of property, plant and equipment were performed during the period between 1 January 1992 and 31 December 1995.

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

**B.4 Property, plant and equipment (continued)**

Indexation rates used for the revaluations were as follows (depending upon the date of acquisition and type of asset):

<b>Revaluation</b>	<b>The range of indices for PP&amp;E revaluation</b>
Revaluation effective 1 January 1992	2.2 times
Revaluation effective 1 July 1992	2-5 times
Revaluation effective 15 April 1994	1.4-14 times
Revaluation effective 31 December 1995	1.2-1.7 times

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	40 years
Plant & machinery	10-25 years
Motor vehicles	4-10 years
Equipment and other property, plant and equipment	5-8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note B.6).

Construction in progress is transferred to appropriate groups of property, plant and equipment when it is completed and available for its intended use.

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 determined by comparing proceeds with carrying amount and are included in operating profit.

**B.5 Intangible assets**

Software assets expected to provide economic benefit to the Company in future periods are valued at acquisition cost less subsequent amortisation. Software is amortised on the straight-line basis over the useful life of 3 years.

**B.6 Impairment of non-financial assets**

Assets that are subject to amortisation and depreciation are reviewed for impairment 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 asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell 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 (cash-generating units).

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**B.7 Financial assets**

The Company classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

*(a) Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. The management's policy is not to voluntarily designate financial assets as at fair value through profit and loss.

*(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet.

Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising, from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement within 'Other (losses)/gains – net', in the period in which they arise.

The fair value of quoted investments are based on current bid prices.

**B.8 Inventories**

Inventories are stated at the lower of cost or net realisable value. Cost is determined by 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 indirect production overheads, 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.

**B.9 Trade and other amounts receivable**

Amounts receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of amounts receivables is established when there is objective evidence that the Company 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 asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within 'administrative expenses'. Bad debts are written off during the year in which they are identified as irrecoverable.



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**B.10 Cash and cash equivalents**

Cash and cash equivalents are carried at nominal value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and held on call at bank.

**B.11 Share capital**

Ordinary shares are stated at their par value. Consideration received for the shares sold in excess over their par value is shown as share premium. Incremental external costs directly attributable to the issue of new shares are accounted for as a deduction from share premium.

**B.12 Legal reserve**

Legal reserve is compulsory under the Lithuanian regulatory legislation. Annual transfers of 5 per cent of net result are required until the reserve reaches 10 per cent of share capital. The legal reserve cannot be used for payment of dividends and it is established to cover future losses only.

**B.13 Borrowings**

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

**B.14 Income tax and deferred income tax**

Profit is taxable at a 15 per cent (2004: 15 per cent) set in accordance with Lithuanian regulatory legislation on taxation.

According to the newly adopted Lithuanian Provisional Law on Social Tax, social tax at the rate of 4 per cent for 2006 and at a rate of 3 per cent for 2007 should be paid on taxable income earned during 2006 and 2007 respectively (in addition to 15% profit tax rate).

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. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised.

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**B.15 Leases – where the Company is the lessee**

*(a) Finance lease*

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in long-term payables except for instalments due within 12 months which are included in current liabilities. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

*(b) Operating lease*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

**B.16 Employee benefits**

*(a) Social security contributions*

The Company 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 Company 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. Social security contributions are recognised as expenses on an accrual basis and included in payroll expenses.

*(b) 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 Company 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.

*(c) Bonus plans*

The Company recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

**B.17 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminated sales within the Company. Revenue from sales of goods is recognised only when all significant risks and benefits arising from ownership of goods is transferred to the customer.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

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**B.18 Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

**B.19 Earnings per share**

Basic earnings per share are calculated by dividing net profit attributed to shareholders from average weighted number of ordinary registered shares in issue, excluding ordinary registered shares purchased by the Company and held as treasury shares.

**B.20 Segment reporting**

The Company's single business segment is production of mineral fertilizers, therefore, information on key business segment is not presented. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

**B.21 Emission rights**

The Company participates in a carbon dioxide cap and trade scheme. It is set a target to reduce its emissions of carbon dioxide to a specified level (the cap). The Company is issued allowances equal in number to its cap by the Government. Allowances are issued free of charge. The Company measures both emission allowances and government grant at cost, i.e. zero. As actual emissions are made, a liability is recognised for the obligation to deliver allowances. Liabilities to be settled using allowances on hand are measured at the carrying amount of those allowances. Any excess emissions are measured at the market value of allowances at the period end. Surplus of emission allowances, if any, can be traded on the market. Revenues from sale of surplus allowances are recognised on actual trade date.

**C. Financial risk management**

*(a) Financial risk factors*

The Company's activities are exposed to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

Market risk: foreign exchange risk

The Company'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).

Credit risk

The Company has no significant concentrations of credit risk. The Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

Liquidity risk

The Company 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.

Interest rate risk

The Company has no significant interest-bearing assets and no interest bearing liabilities. The Company's policy is to maintain a diversified debt portfolio. Split between fixed and floating interest rate depends on the actual situation in the market.

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**C. Financial risk management (continued)**

*(b) Fair value estimation*

The nominal value less impairment provision of trade receivables and the nominal value of accounts payable is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

**D. Critical accounting estimates and judgments**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*Impairment provision for accounts receivable*

Impairment provision for accounts receivable was determined based on the management's estimates on recoverability and timing relating to the amounts that will not be collectable according to the original terms of receivables. This determination requires significant judgement. Judgement is exercised based on significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. Current estimates of the Company could change significantly as a result of change in situation in the market and the economy as a whole. Recoverability rate also highly depends on success rate and actions employed relating to recovery of significantly overdue amounts receivable.

*Estimates of useful lives of property, plant and equipment*

The Company has old buildings and machinery, where the useful lives are estimated based on the projected product lifecycles. However, economic useful lives may differ from the currently estimated as a result of technical innovations and competitors actions.

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**NOTES TO THE FINANCIAL STATEMENTS**

**1. Segment reporting**

*Primary reporting format – business segments*

The Company's single business segment is production of mineral fertilizers.

*Secondary reporting format – geographical segments*

All the Company's assets are located in Lithuania. The Company's sales by markets can be analysed as follows:

	Sales		Total assets		Capital expenditure	
	2005	2004	2005	2004	2005	2004
Turkey	92,264	64,251	-	-	-	-
Lithuania	75,095	68,545	411,930	320,475	23,429	10,248
France	69,795	47,603	-	-	-	-
Germany	68,868	57,119	-	-	-	-
The Netherlands	61,911	37,816	-	-	-	-
Ireland	35,966	31,689	-	-	-	-
Pakistan	33,067	36,380	-	-	-	-
Poland	29,174	20,109	-	-	-	-
Czech Republic	22,836	13,076	-	-	-	-
Belgium	18,282	27,122	-	-	-	-
Spain	16,588	31,721	-	-	-	-
Italy	10,846	25,715	-	-	-	-
Great Britain	8,960	9,740	-	-	-	-
Other countries	60,213	53,732	-	-	-	-
	<b>603,865</b>	<b>524,618</b>	<b>411,930</b>	<b>320,475</b>	<b>23,429</b>	<b>10,248</b>

Sales are allocated based on the country in which the customers are located.

Analysis of sales by category:

	2005	2004
Sales of goods	582,996	511,037
Sales of raw materials	10,418	2,464
Services rendered	10,194	10,888
Other	257	229
	<b>603,865</b>	<b>524,618</b>

**2. SELLING AND DISTRIBUTION COSTS**

	2005	2004
Shipping costs	16,350	17,441
Transportation costs	9,732	9,426
Loading and forwarding costs	6,465	6,173
Inspecting and certification costs	857	1,033
Other distribution expenses	159	1,227
	<b>33,563</b>	<b>35,300</b>

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**3. ADMINISTRATIVE EXPENSES**

	<b>2005</b>	<b>2004</b>
Employee benefits	6,881	4,689
Tax (other than income tax)	3,456	3,684
Social insurance	2,194	1,522
Insurance	1,456	576
Depreciation and amortization	1,038	1,508
Security	662	561
Professional services	446	426
Telecommunications	385	504
Impairment (reversal of impairment) of accounts receivable	65	(1,781)
Change in provision for impairment	-	(585)
Assets write-off expenses	105	3,041
Other administrative expenses	8,442	3,199
	<u>25,130</u>	<u>17,344</u>

**4. EXPENSES BY NATURE**

	<b>2005</b>	<b>2004</b>
Raw materials and consumables used	393,838	351,199
Employee benefits	41,842	30,170
Transportation services	33,563	38,123
Depreciation and amortisation	25,346	27,519
Repair and maintenance	13,448	8,012
Energy and fuel	10,982	7,184
Taxes (other than income tax)	3,456	4,595
Security	662	561
Consulting expenses	457	323
Telecommunication and IT maintenance expenses	385	420
Marketing	140	47
Change in finished goods, semi-manufactures and work in progress	(22,011)	4,117
Other	11,900	14,773
	<u>514,008</u>	<u>487,043</u>

Employee benefits consist of LTL 29,050 thousand (2004 – LTL 22,932 thousand) salary expenses, LTL 9,069 thousand (2004 – LTL 7,104 thousand) social security expenses and LTL 3,723 thousand (2004 – LTL 134 thousand) bonuses and other payments.

**5. OTHER (LOSSES)/GAINS - NET**

	<b>2005</b>	<b>2004</b>
Gain on sale of investments into subsidiaries and associates	-	11,283
Net gain/(loss) on sales of property, plant and equipment	163	(1,850)
Net gain/(loss) from foreign currency transactions	5,126	(199)
	<u>5,289</u>	<u>9,234</u>

**6. FINANCE INCOME**

	<b>2005</b>	<b>2004</b>
Interest income on cash deposits	786	32

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**7. FINANCE EXPENSES**

	<b>2005</b>	<b>2004</b>
Interest expenses for borrowings and lease liabilities	780	5,494

**8. INCOME TAX**

	<b>2005</b>	<b>2004</b>
Current tax for the year	10,194	-
Deferred tax (credit)	3,442	(4,500)
	<u>13,636</u>	<u>(4,500)</u>

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

	<b>2005</b>	<b>2004</b>
Profit before tax	95,152	40,974
Tax calculated at a rate of 15%	14,273	6,146
Income not subject to tax	(641)	(4,293)
Expenses not deductible for tax purposes	4	903
Utilisation of previously unrecognised tax losses	-	(7,256)
Tax charge/(credit)	<u>13,636</u>	<u>(4,500)</u>

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**8. INCOME TAX (CONTINUED)**

The movement in deferred tax assets during the period is as follows:

**Deferred tax assets**

	Tax losses	Financial tax losses	Accruals	Total
<b>At 1 January 2004</b>	11,756	388	361	12,505
To be credited/(charged) to net profit	(7,256)	605	(94)	(6,745)
<b>At 31 December 2004</b>	4,500	993	267	5,760
To be credited/(charged) to net profit	(4,500)	(30)	791	(3,739)
<b>At 31 December 2005</b>	-	963	1,058	2,021

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

As at 31 December 2003 the Company did not recognise any deferred tax asset due to uncertainty of its recoverability.

As at 31 December 2004 the Company recognised deferred tax asset amounting to LTL 4,500 thousand out of LTL 5,760 thousand due to uncertainty of its recoverability.

As at 31 December 2005 the Company did not recognise deferred tax asset on tax financial losses (from disposal of associate and subsidiary) because it does not expect to earn sufficient profit from financing/investing activities and the loss from financial activities could only be used to offset profit from financing/investing activities as defined by the Profit tax law of the Republic of Lithuania.

Recognised deferred tax asset on accruals is expected to be realised during the year 2006.

**9. EARNINGS PER SHARE**

	2005	2004
Net profit attributable to shareholders	81,516	45,474
Weighted average number of ordinary shares in issue, (thousands)	21,021	10,649
Earnings per share (LTL per share)	3.88	4.27

In 2004, the Company increased its share capital, by issuing 11,231,174 ordinary shares, as further disclosed in Note 17. 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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<b>10. INTANGIBLE ASSETS</b>	<b>Software</b>
<b>At 31 December 2003</b>	
Cost	155
Accumulated amortisation	(66)
Net book amount	<u>89</u>
<b>Year ended 31 December 2004</b>	
Opening net book amount	89
Additions	155
Disposals and write-offs	-
Amortisation charge	(42)
Closing net book amount	<u>202</u>
<b>At 31 December 2004</b>	
Cost	265
Accumulated amortization	(63)
Net book amount	<u>202</u>
<b>Year ended 31 December 2005</b>	
Opening net book amount	202
Additions	155
Disposals and write-offs	-
Amortisation charge	(82)
Closing net book amount	<u>275</u>
<b>At 31 December 2005</b>	
Cost	420
Accumulated amortisation	(145)
Net book amount	<u>275</u>

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**11. PROPERTY, PLANT AND EQUIPMENT**

	<b>Buildings</b>	<b>Plant and machinery</b>	<b>Vehicles and equipment</b>	<b>Other tangible assets</b>	<b>Construction in progress</b>	<b>Total</b>
<b>At 31 December 2003</b>						
Cost	168,112	323,673	20,183	5,203	4,620	521,791
Accumulated depreciation and impairment	(69,327)	(189,005)	(14,351)	(3,755)	-	(276,438)
Net book amount	<u>98,785</u>	<u>134,668</u>	<u>5,832</u>	<u>1,448</u>	<u>4,620</u>	<u>245,353</u>
<b>Year ended 31 December 2004</b>						
Opening net book amount	98,785	134,668	5,832	1,448	4,620	245,353
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)	
Impairment charge	-	585	-	-	-	585
Depreciation charge	(4,539)	(19,113)	(2,694)	(1,131)	-	(27,477)
Closing net book amount	<u>94,764</u>	<u>119,923</u>	<u>2,094</u>	<u>4,107</u>	<u>473</u>	<u>221,361</u>
<b>At 31 December 2004</b>						
Cost	171,223	330,881	13,699	12,331	473	528,607
Accumulated depreciation and impairment	(76,459)	(210,958)	(11,605)	(8,224)	-	(307,246)
Net book amount	<u>94,764</u>	<u>119,923</u>	<u>2,094</u>	<u>4,107</u>	<u>473</u>	<u>221,361</u>
<b>Year ended 31 December 2005</b>						
Opening net book amount	94,764	119,923	2,094	4,107	473	221,361
Additions	2,421	7,032	162	223	13,437	23,275
Disposals and write-offs	(62)	(32)	(160)	(13)	-	(267)
Reclassifications		7,268			(7,268)	
Depreciation charge	(4,582)	(18,948)	(570)	(1,164)	-	(25,264)
Closing net book amount	<u>92,541</u>	<u>115,243</u>	<u>1,526</u>	<u>3,153</u>	<u>6,642</u>	<u>219,105</u>
<b>At 31 December 2005</b>						
Cost	170,888	330,073	11,619	11,634	6,642	530,856
Accumulated depreciation and impairment	(78,347)	(214,830)	(10,093)	(8,481)	-	(311,751)
Net book amount	<u>92,541</u>	<u>115,243</u>	<u>1,526</u>	<u>3,153</u>	<u>6,642</u>	<u>219,105</u>

The land is rented by the Company from the Government of the Republic of Lithuania under 99 years lease agreement signed in 1997. The rental payment for the land amounted to LTL 309 thousand in 2005 (2004 – LTL 344 thousand).

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**11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

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

	2005	2004
Cost: capitalised finance leases	-	940
Accumulated depreciation	-	(367)
Net book amount	-	573

In addition, the Company was a lessor for certain of its property, plant and equipment, and the net book value of these assets was equal to LTL 1,334 thousand (2004 - LTL 1,142 thousand), annual revenues of LTL 134 thousand (2004 - LTL 187 thousand) were earned and depreciation expenses of LTL 150 thousand (2004 - LTL 62 thousand) were incurred.

**12. OTHER RECEIVABLES**

LTL 2,910 thousand (2004 - LTL 5,069 thousand) of non-current receivables represents non-current part of the debt of Kemira Growhow Oy, for the shares of associate Kemira-Lifosa UAB disposed by the Company in August 2004. The current portion of this debt, of LTL 3,151 (2004 - LTL 2,619 thousand), is included within "Trade and other receivables" balance.

The debt is denominated in US dollars, effective interest rate is US LIBOR + 1%. The shares of Kemira-Lifosa UAB were pledged to ensure the repayment of the debt to the Company.

LTL 1,030 thousand (2004 - 0) of non-current receivables stands for long term cash deposit to secure contingent liability to clean the factory's environment under the order of the Ministry of Environment of the Republic of Lithuania if activities of the Company are ceased (Note 22).

**13. INVENTORIES**

	2005	2004
Finished goods	33,961	13,434
Raw materials and supplies	30,942	18,661
Work in progress	2,607	669
Semi-manufactures	772	1,702
	68,282	34,466

**14. TRADE AND OTHER RECEIVABLES**

	2005	2004
Other trade receivables, gross	59,586	30,635
Provision for impairment of trade receivable	(1,819)	(1,754)
VAT tax receivable	11,828	8,833
Short term loan	14,562	-
Prepayments made to suppliers	3,296	7,854
Other receivables	6,006	1,092
	93,459	46,660

The short term loan amounting to LTL 14,562 thousand represents loan to related party Eurochem-trading under the agreement dated 23 December 2005. The loan is provided for three months period with the interest rate of 3,8%. The debt is denominated in US dollars. No assets are pledged to secure the loan.

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**15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

Financial assets at fair value through profit or loss consist of debt securities denominated in US dollars acquired on 21 September 2005 and held for trading. The Company disposed the securities in January 2006 with minor loss.

**16. CASH AND CASH EQUIVALENTS**

	<b>2005</b>	<b>2004</b>
Cash in bank	11,105	1,471
Cash in transit	-	6,742
Cash on hand	8	4
	<u>11,113</u>	<u>8,217</u>

**17. SHARE CAPITAL**

Authorised share capital comprised 21,020,564 ordinary shares with a par value of LTL 10 each as at 31 December 2005. No changes in the share capital took place during the year 2005.

**18. BORROWINGS**

	<b>2005</b>	<b>2004</b>
<i>Current</i>		
Current part of bank borrowings	-	7,096
Current finance lease liabilities	-	115
	<u>-</u>	<u>7,211</u>
<i>Non-current</i>		
Bank borrowings	-	12,997
	<u>-</u>	<u>20,208</u>

As at 31 December 2004 the current and non-current bank borrowings comprise loan facility provided by Vilniaus bankas AB with the initial maturity date of 31 December 2007 and interest rate of 3 month LIBOR plus 2.2%. 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%. The whole amount of the loan was returned in 2005.

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:

	<b>2005</b>	<b>2004</b>
Not later than 1 year	-	121
Later than 1 year and not later than 5 year	-	-
		<u>121</u>
Future finance charges on finance leases	-	(6)
Present value of finance lease liabilities	<u>-</u>	<u>115</u>

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**18. BORROWINGS (CONTINUED)**

The present value of finance lease liabilities is as follows:

	<b>2005</b>	<b>2004</b>
Not later than 1 year	-	115
Later than 1 year and not later than 5 year	-	-
	<u>-</u>	<u>115</u>

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

**19. TRADE AND OTHER PAYABLES**

	<b>2005</b>	<b>2004</b>
Trade payables	28,139	13,617
VAT payable	7,216	3,561
Other payables and accrued charges	5,825	1,943
Amounts received in advance	3,557	4,507
Other taxes payable	1,371	1,924
Salaries and social security payable	1,066	1,669
	<u>47,174</u>	<u>27,221</u>

**20. CASH GENERATED FROM OPERATIONS**

	<b>2005</b>	<b>2004</b>
Profit before tax	95,152	40,974
Adjustments for:		
Depreciation and amortisation (Notes 10, 11)	25,346	27,519
Write-off of inventory	-	3,041
Financial interest	780	5,495
Write-off of and provision for impairment of trade receivables	65	(1,781)
Loss (profit) on disposal of property, plant and equipment, net	(163)	1,850
Unrealised foreign exchange loss/(gain)	(5,126)	199
Share of loss of subsidiaries	-	373
Gain on sale of subsidiary and associate	-	(11,066)
Changes in working capital:		
- trade and other receivables	(26,045)	(29,519)
- payables	19,480	(41,184)
- inventories	(33,818)	9,915
Cash generated from operations	<u>75,671</u>	<u>5,816</u>

No significant non-cash transactions during the year 2005 identified. Principal non-cash transaction during the year 2004 was an increase of share capital by capitalization of debts to Boundary Layer Limited amounting to LTL 112,312 thousand. Boundary Layer Limited transferred all its shareholding in Lifosa to JSC Mineral Chemical Company "Eurochem" in March 2005.

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	<b>2005</b>	<b>2004</b>
Net book value (Note 11)	267	7,193
Gains from sale of property, plant and equipment (Note 5)	163	(1,850)
	<u>430</u>	<u>5,343</u>

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**21. RELATED PARTY TRANSACTIONS**

The Company is controlled by Joint Stock Company "Mineral and Chemical Company "Eurochem" (Russia) (JSC MCC EuroChem), which owns 91.15% of shares of the Company. The ultimate beneficiaries of JSC MCC EuroChem, for 50% each, are Messrs. Andrey Melnichenko and Sergey Popov.

Other related parties are companies of Eurochem Group, management of the Company.

The following transactions were carried out with related parties:

	2005		2004	
	Sales	Purchases	Sales	Purchases
Kemira-Lifosa UAB (8 months period)	-	-	32,601	303
Mirintex Trading A.G.	-	-	875	-
Transfosa UAB (9 months period)	-	-	665	556
Cumberland Sound Limited	-	945	57,146	265,333
Eurochem Trading GmbH	158,905	238,026	779	-
Belorechenskoe minudobrenye	6,013	-	-	-
Harvester Shipmanagement Ltd	-	39,262	-	-
	<u>164,918</u>	<u>278,233</u>	<u>92,066</u>	<u>266,192</u>

Kemira-Lifosa UAB was associate Company of Lifosa AB disposed in year 2004. Transfosa UAB was 100% owned subsidiary of Lifosa AB also disposed in year 2004. Other related parties in the table above belong to Eurochem Group.

The Company did not have any transactions with the ultimate parent during 2004 and 2005.

The following balances were outstanding with related parties:

	2005		2004	
	Receivables and advances	Payables	Receivables and advances	Payables
Cumberland Sound Limited	-	-	24,157	-
Kemira-Lifosa UAB	-	-	3,227	-
Eurochem Trading GmbH	30,297	16,537	804	-
Transfosa UAB	-	-	228	-
Belorechenskoe minudobrenye	69	-	-	-
Harvester Shipmanagement Ltd	-	3,264	-	-
Eurochem A.M. Limited	14,562	-	-	-
	<u>44,928</u>	<u>19,801</u>	<u>28,416</u>	<u>-</u>

*Key management compensation*

During 2005 the Company accounted for LTL 1,640 thousand of payroll, compensation and leave payment expenses to management (2004 - LTL 913 thousand).

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**22. CONTINGENT LIABILITIES AND COMMITMENTS**

*Contingent liabilities*

The Company is producing excessive quantity of gypsum which is a waste product. The Ministry of Environmental Safety has made an assessment of the Company's liability for utilisation of its waste product in the amount of LTL 2,497 thousand and ordered to issue a guarantee for the full amount. The guarantee was issued by Vilniaus bankas and LTL 1,030 thousand of the Company's cash is under restriction by the bank (Note 12). As the date on which the obligation may become due cannot be reliably estimated, therefore no provision was recognised in these financial statements.

*Capital commitments*

Capital expenditure contracted for property, plant and equipment at the balance sheet date but not recognized in the financial statements was LTL 6,789 thousand (2004 - LTL 629 thousand).

*Contingent tax liabilities*

The tax authorities have not carried out full-scope tax audits at the Company since the year 2003. The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

*Emission allowances*

The Company participates in a carbon dioxide cap and trade scheme. In 2005 the Company was set a target by the Government to reduce its emissions of carbon dioxide to 57,793 tons (the cap) in 2005 - 2007. The Company is issued allowances equal in number to its cap by the Government. Allowances are issued free of charge. Allowances obtained at no cost are recorded at a zero basis by the Company. In 2005 actual emissions of the Company amounted to 7,782 tons. The market value of remaining unused allowances amounted to LTL 3,738 thousand as at 31 December 2005. The management believes that the actual emission of carbon dioxide will not exceed the allowances received therefore no accrual for additional costs was established in the financial statements for the year ended 31 December 2005.

**THE COMPANY'S PERFORMANCE REPORT FOR 2005**

In 2005, the Company's operations were focused on its principal production activities, improvement of environmental issues and quality of products, as well as satisfaction of customer needs. Good performance results were mainly achieved due to sufficient demand for phosphate fertilizers, high prices of diammonium phosphate and other phosphate products on global markets, a stable supply of raw materials, and fulfilment of target budget costs. The level of prices of diammonium phosphate was predetermined by several significant factors: interruptions in production and supply in USA due to tornadoes, a greater demand in India, high price of core raw materials, insufficiently strong dollar, stable prices and understocking of grain.

Sales increased by 15 per cent and sales revenue amounted to LTL 603,865 thousand (2004: LTL 524,618 thousand). Increase in sales resulted mainly from higher sales of core products and higher profit margin on products as compared to 2004. Similarly as on year by year basis, scheduled repair works were performed in the 2nd quarter of the year, which accordingly reduced production and sales volumes.

Cost of sales increased by 5 per cent as a result of higher prices of core raw materials and payroll-related expenses. In 2005, average annual rate of exchange of the dollar was 2.774 litas to the US dollar as compared to 2.78 litas to the US dollar in 2004, and it actually had no impact on growth in prices of raw materials and local energy. High prices of gas on global markets continued affecting the price of ammonia, which remained at the level of the year 2004.

Selling and distribution expenses decreased by 5 per cent as compared to 2004. Selling expenses fell down due to trade without intermediaries. In addition, as a result of optimisation of logistics flows on a route Klaipėda-Kėdainiai-Klaipėda, transportation costs per conditional tonne were reduced. Imported raw materials and consumables accounted for 99 per cent of total imports of Lifosa in 2005.

Administrative expenses increased by 45 per cent due to accrued payroll reserves at the end of 2005, and reversal of bad debt reserves in 2004, as a result of which total expenses for 2004 were reduced.

Interest expenses decreased by 86 per cent to LTL 780 thousand (2004: LTL 5,494 thousand), during the year borrowings from SEB Vilnius Bankas were repaid to the bank. Foreign exchange effect was insignificant. Foreign exchange gain was obtained due to a strengthening US dollar against the euro throughout 2005, and increasing value of current assets denominated in the US dollars. The US dollar positive effect was amortised by increase in trade payables denominated in this currency and forward foreign exchange transactions conducted over the year.

In 2005, accumulated loss for the previous period was realised, and total income tax expenses amounted to LTL 13,636 thousand. LTL 4,500 of the charge stands for realized deferred income tax asset that was recognized in 2004.

During the reporting year, EBITDA increased by LTL 46,164 thousand and amounted to LTL 120,492 thousand, which is more by 62 per cent as compared to 2004 (2004: LTL 74,328 thousand). Net profit margin increased by 4.83 per cent up to 13.50 per cent (2004: 8.67 per cent). Total liquidity ratio increased by up to 3.27 times (2004: 2.59), and with adequate working capital the Company was able to provide its customers with more favourable settlement terms and conditions. The Company's total assets increased by LTL 91,455 thousand and amounted to LTL 411,930 thousand (2004: LTL 320,475 thousand).

Investments in property, plant and equipment amounted to LTL 23,275 thousand (2004: LTL 10,093 thousand). The funds were used for renovation and reconstruction of depreciated assets, as well as for realisation of fast-return projects for modernisation of production. Depreciation and amortisation expenses for 2005 amounted to LTL 25,346 thousand, which is less by 8 per cent or LTL 2,173 thousand as compared to 2004 (2004: LTL 27,519 thousand). CO2 emission allowances granted to the Company were recognised at acquisition cost, i.e. a zero value. In 2006 it is intended to sell the quantities not utilised.



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At the end of 2005, the Company had 1,051 employees (2004: 1,049). During the previous year, average number of employees on the list was 1,049 (2004: 1,052).

During the reporting year, 2,206 tonnes (2004: 1,809 tonnes) of pollutants were emitted to atmosphere and 691 tonnes (2004: 867 tonnes) of pollutants were emitted to water. No environmental violations were identified, and no fines or additional taxes were imposed. The main pollutant emitted to atmosphere was sulphur dioxide accounting for 81 per cent of total emissions (2004: 78 per cent).

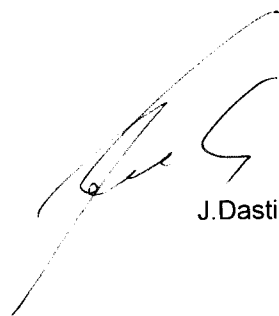
In 2005, 11 observations and claims were received in relation to quality of products, mostly due to packaging and inappropriate physical indicators. Quality fines amounted to LTL 10.5 thousand (2004: 3.2 thousand).

The Company's activities are concentrated in Kėdainiai, and it has a logistics unit in Klaipėda. During the reporting year, the Company had no subsidiaries, branches and representative offices, and neither acquired nor disposed of its own shares or the shares of other companies.

In 2006, the Company plans to use its production capacities at a maximum level, with the help of engineering and technological solutions improve mastering of phosphorus and aluminium raw materials, as well as reduce the consumption of energy resources. Several environmental measures will be implemented to minimize emissions to atmosphere of individual production units by 5 to 20 per cent. The Board suggests allocating LTL 36,712 thousand for investments in renovation of property, plant and equipment and modernisation of production process. More attention will be given to work safety requirements and further improvement of quality of work places.

Based on the forecasts of market analysts, economic assumptions and business experience, it is expected that in 2006 the prices of the Company's core product (diammonium phosphate) will not be significantly lower on global markets as compared to 2005. Due to the effect of gas prices, the price of ammonia and energy costs will remain quite high, and as a result of insufficient supply and increase of transportation prices, phosphate raw materials will become more expensive and payroll expenses will continue to increase. All these factors will affect the Company's profitability in 2006.

General Director



J.Dastikas