LIFOSA AB
FINANCIAL STATEMENTS, ANNUAL REPORT AND INDEPENDENT AUDITOR'S REPORT
31 DECEMBER 2006

Contents

Page

INDEPENDENT AUDITOR'S REPORT....3

FINANCIAL STATEMENTS....5

Income Statement....5

Balance Sheet....6

Statement of Changes in Shareholders' Equity....7

Cash Flow Statement....8

General Information....9

Significant Accounting policies....9

Financial risk management....15

Critical accounting estimates and judgements....16

Notes to the Financial Statements....17

ANNUAL REPORT....27

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers UAB
J. Jasinskio 16B
LT-01112 Vilnius
Lithuania
Telephone +370 (5) 239 2300
Facsimile +370 (5) 239 2301
E-mail vilnius@lt.pwc.com
www.pwc.com/lt

Translation note

This version of our report is a translation from the original, which was prepared in Lithuanian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent auditor's report

To the Shareholders of Lifosa AB

Report on the Financial Statements

We have audited the accompanying financial statements of Lifosa AB ("the Company") set out on pages 5 - 26 which comprise the balance sheet as of 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. Except as discussed below, we conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PRICEWATERHOUSECOOPERS

Basis for Qualified Opinion

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.

Qualified Opinion

In our opinion, except for the effect of such adjustments, if any, which might have been necessary to reflect the matters described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of Lifosa AB as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the Annual Report for the year ended 31 December 2006 set out on pages 27 - 36 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2006.

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Partner

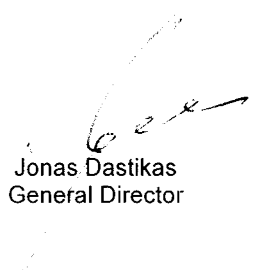
Ona Armalienė
Auditor's Certificate No.000008

Vilnius, Republic of Lithuania
11 April 2007

INCOME STATEMENT

	Notes	Year ended 31 December 2006	2005
Sales	1	682,466	603,865
Cost of sales		(574,753)	(455,315)
Gross profit		**107,713**	**148,550**
Selling and distribution costs	2	(29,369)	(33,563)
Administrative expenses	3	(23,766)	(25,130)
Net foreign exchange gain/(loss)	5	(10,860)	5,126
Other income/gains	6	544	175
Operating profit		**44,262**	**95,158**
Interest income on short-term cash deposits		1,267	774
Finance costs	7	-	(780)
Finance income/(costs) net		1,267	(6)
Profit before tax		**45,529**	**95,152**
Income tax	8	(8,309)	(13,636)
Net profit		**37,220**	**81,516**
Basic and diluted earnings per share (LTL per share)	9	1.77	3.88

The financial statements on pages 5 to 26 were approved by the General Director and Finance Director on 11 April 2006.



Jonas Dastikas
General Director

Regvita Ivanovienė
Finance Director

The accounting policies and the notes on pages 9 to 26 form an integral part of these financial statements.

BALANCE SHEET

	Notes	As at 31 December 2006	2005
ASSETS			
Non-current assets			
Property, plant and equipment	11	234,919	215,585
Intangible assets	10	295	275
Deferred tax asset	8	1,804	1,058
Other receivables	12	11,621	7,460
		248,639	224,378
Current assets			
Inventories	13	48,757	68,282
Trade and other receivables	14	112,965	93,459
Income tax prepayment		812	-
Financial assets at fair value through profit or loss	15	287	14,698
Cash and cash equivalents	16	24,736	11,113
		187,557	187,552
Total assets		**436,196**	**411,930**
EQUITY			
Share capital	17	210,206	210,206
Share premium		80	80
Legal reserve		10,873	6,798
Retained earnings		170,623	137,478
Total equity		**391,782**	**354,562**
LIABILITIES			
Current liabilities			
Income tax liabilities		4,600	10,194
Trade and other payables	19	35,722	47,174
Grants	18	4,092	-
Total liabilities		**44,414**	**57,368**
Total equity and liabilities		**436,196**	**411,930**

The accounting policies and the notes on pages 9 to 26 form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Notes	Share capital	Share premium	Legal reserve	Retained earnings	Total
Balance as at 1 January 2005		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
Balance at 31 December 2005	17	210,206	80	6,798	137,478	354,562
Transfer to legal reserve		-	-	4,075	(4,075)	-
Net profit for the year		-	-	-	37,220	37,220
Balance at 31 December 2006	17	210,206	80	10,873	170,623	391,782

The accounting policies and the notes on pages 9 to 26 form an integral part of these financial statements.

CASH FLOW STATEMENT

	Notes	Year ended 31 December 2006	2005
Cash flows from operating activities			
Cash generated from operations	20	56,985	73,034
Interest paid		-	(780)
Income tax paid		(15,461)	-
Net cash from operating activities		41,524	72,254
Cash flows from investing activities			
Purchase of property, plant and equipment	10,11	(46,956)	(22,957)
Proceeds from sale of property, plant and equipment		225	430
Proceeds from sale of associate company		3,152	2,637
Purchase of securities	15	(287)	(14,543)
Loan granted to related party		-	(14,717)
Sale of securities		14,698	-
Net cash (used in) investing activities		(29,168)	(49,150)
Cash flows from financing activities			
Repayments of borrowings		-	(20,093)
Interest income from short term deposits		1,267	
Finance lease principal payments		-	(115)
Net cash from/(used in) financing activities		1,267	(20,208)
Net increase in cash and cash equivalents		13,623	2,896
Movement in cash and cash equivalents			
At beginning of year		11,113	8,217
Net increase		13,623	2,896
Cash and cash equivalents at end of year	16	24,736	11,113

The accounting policies and the notes on pages 9 to 26 form an integral part of these financial statements.

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 2006 (and 2005) the main shareholders of the Company were as follows:

Shareholder	*Number of shares*	*Percentage of shares*
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%
	21,020,564	100%

The average number of staff employed by the Company in 2006 totalled 1,038 (2005 – 1,049).

B. SIGNIFICANT ACCOUNTING POLICIES

B.1 Basis of preparation

The financial statements of the Company are prepared in accordance with International Financial Reporting Standards as adopted by the EU. 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.

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

Standards, amendments and interpretations effective in 2006 but not relevant

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Company's operations:

- IAS 19 (Amendment), Employee Benefits;
- IAS 21 (Amendment), Net Investment in a Foreign Operation;
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 (Amendment), The Fair Value Option;
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRIC 4, Determining whether an Arrangement contains a Lease; and
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment;

Standards, amendments to standards and interpretations to existing standards that have been issued but are not effective for 2006 and have not been early adopted

- IFRS 7, Financial Instruments: disclosure and the complementary Amendments to IAS 1, Presentation of Financial Statements – Capital disclosure (effective for annual periods beginning on or after 1 January 2007), were not applied in the Company for 2006. The Company will apply the standards for annual period beginning on 1 January 2007.
- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). Management have not yet started its assessment of the impact of IFRS 8 on the Company's operations.
- IAS 23, Borrowing costs (Amendment, effective date for periods beginning on or after 1 January 2009). The amended IAS 23 relates to the accounting treatment for borrowing costs incurred that relate to assets that take a substantial period of time to get ready for use or sale, removing the option of immediately recognising such costs as an expense through profit and loss and requiring them now to be capitalised. According to the Company's management, this amendment does not impact the Company's operations as it does not have borrowings.
- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). IFRIC 7 provides guidance on how to apply requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional Currency, when the economy was not hyperinflationary in the prior period. As the Company's functional currency is not a Currency of a hyperinflationary economy, IFRIC 7 is not relevant to the Company's operations;
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. The Company has not issued any equity instruments therefore IFRIC 8 is not relevant to the Company's operations.
- IFRIC 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. Management believes that IFRIC 9 is not relevant to the Company's operations.
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Company does not have investments in equity or financial instruments carried at cost, therefore IFRIC 10 is not relevant to the Company's operations.
- IFRIC 11, IFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). Management do not expect this interpretation to be relevant to the Company.
- IFRIC 12 Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008). Management do not expect this interpretation to be relevant to the Company.

IFRIC 10, 11, 12 revised IAS 23 and IFRS 8 have not been yet endorsed by the EU.

B.2 Reclassifications and prior year restatements

During 2006, management changed its accounting policy on prepayments for property, plant and equipment objects classification. The effect of restatement on 2005 financial statements of the Company is presented below.

Balance sheet	As at 31 December 2005 Previously reported	Restated
Property, plant and equipment	219,105	215,585
Other receivables (non-current)	3,940	7,460

The above balances were restated due to reclassification of prepayments for property, plant and equipment objects from PPE to trade and non-current other receivables balances.

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.

Since 2 February 2002 the exchange rate of the Litas was pegged to Euro at a rate of 3.4528 LTL = 1 EUR.

(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.

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

Revaluation	The range of indices for PP&E revaluation
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).

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.

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.

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 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

B.14 Income tax

In accordance with the Lithuanian Law on Corporate Profit Tax, the current income tax rate is 15% on taxable income. Expenses related to taxation charges and included in these financial statements are based on calculations made by the management in accordance with Lithuanian regulatory legislation on taxes. Income tax rate valid for 2005 and 2006 is 15%.

According to the 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. 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.

The principal temporary differences arise from accrued charges. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax. 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.

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 Operating lease – where the Company is the lessor

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

B.17 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.18 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.

B.19 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.20 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.21 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Company's single business segment is production of mineral fertilizers, therefore, information on key business segments 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.22 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.

B.23 Grants

Grants are recognised where there is reasonable assurance that the grant will be received and the Company will comply with all conditions established.

Grants relating to purchase of property, plant and equipment are included in current liabilities and are credited to the income statement on a straight-line basis over the depreciation period of the related assets.

C. Financial risk management

(a) Financial risk factors
The Company's activities are exposed to a variety of financial risks. 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.

(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.

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	
	2006	2005	2006	2005	2006	2005
Turkey	78,723	92,264		-		-
Lithuania	70,054	75,095	436,196	411,930	45,442	19,755
France	56,525	69,795	-	-	-	-
Germany	43,693	68,868	-	-	-	-
The Netherlands	50,681	61,911	-	-	-	-
Ireland	28,886	35,966	-	-	-	-
Pakistan	58,766	33,067	-	-	-	-
Poland	45,844	29,174	-	-	-	-
Czech Republic	17,917	22,836	-	-	-	-
Kenya	17,557	-	-	-	-	-
Romania	13,200	-	-	-	-	-
Hungary	17,793	-	-	-	-	-
Ethiopia	52,746	-	-	-	-	-
India	23,895	-	-	-	-	-
Uruguay	17,683	-	-	-	-	-
Spain	13,395	16,588	-	-	-	-
Great Britain	10,326	8,960	-	-	-	-
Italy	7,237	10,846	-	-	-	-
Other countries	57,545	78,495	-	-	-	-
	682,466	603,865	436,196	411,930	45,442	19,755

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

Analysis of sales by category:

	2006	2005
Sales of goods	664,741	582,996
Sales of raw materials	5,267	10,418
Services rendered	12,303	10,194
Other	155	257
	682,466	603,865

2. SELLING AND DISTRIBUTION COSTS

	2006	2005
Shipping costs	8,082	16,350
Transportation costs	13,036	9,732
Loading and forwarding costs	7,247	6,465
Inspecting and certification costs	899	857
Other distribution expenses	105	159
	29,369	33,563

3. ADMINISTRATIVE EXPENSES

	2006	2005
Employee benefits	9,922	6,881
Social insurance	3,193	2,194
Tax (other than income tax)	1,772	3,456
Depreciation and amortization	1,095	1,038
Insurance	883	1,456
Security	693	662
Telecommunications	423	385
Other administrative expenses	5,785	9,058
	23,766	25,130

4. EXPENSES BY NATURE

	2006	2005
Raw materials and consumables used	456,569	393,838
Employee benefits	48,904	41,842
Transportation services	29,369	33,563
Depreciation and amortisation	26,060	25,346
Change in finished goods, semi-manufactures and work in progress	20,172	(22,011)
Repair and maintenance	14,044	13,448
Energy and fuel	11,511	10,982
Taxes (other than income tax)	1,772	3,456
Consulting expenses	1,634	457
Security	693	662
Telecommunication and IT maintenance expenses	505	385
Marketing	197	140
Other	16,458	11,900
	627,888	514,008

Employee benefits consist of LTL 31,833 thousand (2005 – LTL 29,050 thousand) salary expenses, LTL 10,708 thousand (2005 – LTL 9,069 thousand) social security expenses and LTL 6,363 thousand (2005 – LTL 3,723 thousand) bonuses and other payments.

5. NET FOREIGN EXCHANGE GAIN/LOSS

Net foreign exchange gain and loss resulted from significant fluctuations of exchange rate of functional currency of the Company – Lithuanian litas and the main trading currency of the Company – US dollar.

6. OTHER INCOME/GAINS

	2006	2005
Interest income for short-term loan	527	12
Gain on sales of property, plant and equipment	17	163
	544	175

7. FINANCE EXPENSES

	2006	2005
Interest expenses for borrowings and lease liabilities	-	780

8. INCOME TAX

	2006	2005
Current tax for the year	9,055	10,194
Deferred tax (credit)	(746)	3,442
	8,309	13,636

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:

	2006	2005
Profit before tax	45,530	95,152
Tax calculated at a rate of 19% (year 2005: 15%)	8,651	14,273
Income not subject to tax	(442)	(641)
Expenses not deductible for tax purposes	101	4
Tax charge/(credit)	8,309	13,636

8. INCOME TAX (CONTINUED)

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

Deferred tax assets

	Tax losses	Accruals	Total
At 1 January 2005	4,500	267	4,767
To be credited/(charged) to net profit	(4,500)	791	(3,709)
At 31 December 2005	-	1,058	1,058
To be credited/(charged) to net profit	-	746	746
At 31 December 2006	-	1,804	1,804

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 2006 the Company did not recognise deferred tax asset on tax financial losses (from disposal of associate and subsidiary) amounting to LTL 963 thousand because it does not expect no 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 (vacation and bonus reserves) is expected to be realised during the year 2007.

9. EARNINGS PER SHARE

	2006	2005
Net profit attributable to shareholders	37,220	81,516
Weighted average number of ordinary shares in issue, (thousands)	21,021	21,021
Earnings per share (LTL per share)	1.77	3.88

10. INTANGIBLE ASSETS

	Software
At 31 December 2004	
Cost	265
Accumulated amortization	(63)
Net book amount	202
Year ended 31 December 2005	
Opening net book amount	202
Additions	155
Disposals and write-offs	-
Amortisation charge	(82)
Closing net book amount	275
At 31 December 2005	
Cost	420
Accumulated amortisation	(145)
Net book amount	275
Year ended 31 December 2006	
Opening net book amount	275
Additions	183
Disposals and write-offs	(71)
Amortisation charge	(92)
Closing net book amount	295
At 31 December 2006	
Cost	600
Accumulated amortisation	(305)
Net book amount	295

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Vehicles and equipment	Other tangible assets	Construc -tion in progress	Total
At 31 December 2004						
Cost	171,223	330,881	13,699	12,331	473	528,607
Accumulated depreciation	(76,459)	(210,958)	(11,605)	(8,224)	-	(307,246)
Net book amount	94,764	119,923	2,094	4,107	473	221,361
Year ended 31 December 2005						
Opening net book amount	94,764	119,923	2,094	4,107	473	221,361
Additions	2,421	7,032	162	199	9,941	19,755
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	92,541	115,243	1,526	3,129	3,146	215,585
At 31 December 2005						
Cost	170,888	330,073	11,619	11,610	3,146	527,336
Accumulated depreciation	(78,347)	(214,830)	(10,093)	(8,481)	-	(311,751)
Net book amount	92,541	115,243	1,526	3,129	3,146	215,585
Year ended 31 December 2006						
Opening net book amount	92,541	115,243	1,526	3,129	3,146	215,585
Additions	3,096	10,404	4,944	1,024	25,974	45,442
Disposals and write-offs	(94)	-	-	(43)	-	(137)
Reclassifications	199	7,922	-	51	(8,172)	-
Depreciation charge	(4,620)	(19,702)	(477)	(1,172)	-	(25,971)
Closing net book amount	91,122	113,867	5,993	2,989	20,948	234,919
At 31 December 2006						
Cost	174,059	342,163	16,549	12,065	20,948	565,784
Accumulated depreciation	(82,937)	(228,296)	(10,556)	(9,076)	-	(330,865)
Net book amount	91,122	113,867	5,993	2,989	20,948	234,919

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 298 thousand in 2006 (2005 – LTL 309 thousand).

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 1,307 thousand (2005 – LTL 1,334 thousand), annual revenues of LTL 163 thousand (2005 - LTL 134 thousand) were earned and depreciation expenses of LTL 177 thousand (2005 - LTL 150 thousand) were incurred.

12. OTHER RECEIVABLES

LTL 2,497 thousand (2005 - 1,030) 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). LTL 9,124 thousand (2005 – 3,520) stands for prepayments for fixed assets and construction in progress.
As at 31 December 2005 LTL 2,910 thousand of non-current receivables from Kemira Growhow Oy for shares of associate company Kemira Lifosa UAB that was sold in year 2004 was also included in other non-current receivables. The amount was transferred to Trade and other receivables as at 31 December 2006.

13. INVENTORIES

	2006	2005
Finished goods	13,242	33,961
Raw materials and supplies	32,059	30,942
Work in progress	1,533	2,607
Semi-manufactures	1,923	772
	48,757	68,282

14. TRADE AND OTHER RECEIVABLES

	2006	2005
Trade receivables, gross	73,270	59,586
Provision for impairment of trade receivable	(601)	(1,819)
VAT tax receivable	11,685	11,828
Short term loan	13,669	14,562
Prepayments made to suppliers	6,884	3,296
Grants receivable	4,092	-
Other receivables	3,966	6,006
	112,965	93,459

The short term loan amounting to LTL 13,669 thousand represents loan to related party Eurochem-trading under the agreement dated 23 December 2005. The loan is denominated in US dollars. Under updated terms of agreement in December 2006, the loan is provided until 31 December 2007 with interest rate of 5.3%.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss consist of short term money market investments under the agreement with SEB VB, signed in December 2006.

16. CASH AND CASH EQUIVALENTS

	2006	2005
Cash in bank	24,717	11,105
Cash on hand	19	8
	24,736	11,113

17. SHARE CAPITAL

Authorised share capital comprised 21,020,564 ordinary shares with a par value of LTL 10 each as at 31 December 2006 (the same as at 31 December 2005). No changes in the share capital took place during the year 2006.

18. GRANTS

Under the order of Minister of Economics, dated 24 November 2006, the Company obtained the right to receive grant amounting to LTL 6,000 thousand from structural funds of the EU for compensation of expenses on the project: "The usage of current and regenerating sources of energy of sulphur acid department for production of electrical power". The project started on 1st July 2006 and is estimated to be finished on 1st August 2007. The Company accounted for grant receivable amount under accounts receivable and grant under liabilities to the extent of costs incurred to 31 December 2006. The Company did not receive any part of the Grant at the balance sheet date.

19. TRADE AND OTHER PAYABLES

	2006	2005
Trade payables	19,257	28,139
Import VAT payable	4,764	7,216
Other payables and accrued charges	9,678	5,825
Amounts received in advance	156	3,557
Other taxes payable	726	1,371
Salaries and social security payable	1,141	1,066
	35,722	47,174

20. CASH GENERATED FROM OPERATIONS

	2006	2005
Profit before tax	45,529	95,152
Adjustments for:		
Depreciation and amortisation (Notes 10, 11)	26,063	25,346
Write-off of inventory	-	-
Financial interest	(1,267)	780
Write-off of and provision for impairment of trade receivables	-	65
Loss (profit) on disposal of property, plant and equipment, net	(17)	(163)
Unrealised foreign exchange loss/(gain)	10,860	(5,126)
Changes in working capital:		
– trade and other receivables	(32,075)	(28,682)
– payables	(11,633)	19,480
– inventories	19,525	(33,818)
Cash generated from operations	56,985	73,034

No significant non-cash transactions during the year 2006 identified.

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

	2006	2005
Net book value (Note 11)	137	267
Gains from sale of property, plant and equipment (Note 5)	17	163
	154	430

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 and management of the Company.

The following transactions were carried out with related parties:

	2006		2005	
	Sales	**Purchases**	**Sales**	**Purchases**
Cumberland Sound Limited	-	-	-	945
Eurochem Trading GmbH	296,524	222,159	158,905	238,026
Belorechenskoe minudobrenye	-	-	6,013	-
Harvester Shipmanagement Ltd	-	39,609	-	39,262
	296,524	261,768	164,918	278,233

Related parties in the table above belong to the Eurochem Group. Nature of relationship between the related parties includes purchase of raw materials (Eurochem Trading GmbH and Belorechenskoe minudobrenye) and sale of production (Eurochem Trading GmbH).

The following balances were outstanding with related parties:

	2006		2005	
	Receivables and advances	**Payables**	**Receivables and advances**	**Payables**
Eurochem Trading Gmbh	63,690	4,017	30,297	16,537
Belorechenskoe minudobrenye	-	-	69	-
Harvester Shipmanagement Ltd	-	2,192	-	3,264
Eurochem A.M. Limited	13,669	-	14,562	-
	77,359	6,209	44,928	19,801

Receivables and advances balances include receivables for production sold (Eurochem Trading GmbH) and loan granted (Eurochem A.M. Limited). Payables balances include accounts payable for raw materials purchased.

Key management compensation
During 2006 the Company accounted for LTL 2,067 thousand (2005 - LTL 1,640 thousand) of employee benefit expenses, including LTL 968 thousand (2005 – LTL 643 thousand) of salary, LTL 415 thousand (2005 – LTL 412 thousand) of bonus and LTL 684 thousand (2005 – LTL 585 thousand) social security expenses. Average number of key management personnel amounted to 5 employees in both years.

22. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

The Company is producing excessive quantity of gypsum which is a waste product. According to the order of Minister of Environment the Company has prepared the plan for utilization of wastage products if the Company would cease its operations and made an assessment of liability for utilisation of its waste product in the amount of LTL 2,497 thousand. Based on the assessment a guarantee for the full amount was issued. The guarantee was issued by SEB VB and LTL 2,497 thousand of the Company's cash is under restriction by the bank (Note 12).

The outflow of the Company's resources is not probable and under the Company's control because it may happen only when the Company ceases its operations. Neither the management nor the shareholders intend to liquidate the Company, to cease treading or have no realistic alternative but to do so in the foreseeable future. Based on this no provision was recognized 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 4,710 thousand (2005 - LTL 6,789 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 2006 actual emissions of the Company amounted to 1,110 tons (2005 - 7,782 tons). The market value of remaining unused allowances amounted to LTL 629 thousand as at 31 December 2006 (2005 -LTL 3,738 thousand). 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 2006.

LIFOSA AB ANNUAL REPORT

The Annual Report of Lifosa AB (hereinafter "the Company") has been prepared in compliance with the requirements set forth in Article 24 of the Lithuanian Law on Financial Statements of Entities, and in accordance with the procedure set forth in Article 21 of the Lithuanian Law on Securities and Article 34 of the Lithuanian Law on Companies

Annex 1 (Disclosure form concerning the compliance with the Governance Code of the companies whose securities are traded on a regulated market) constitutes an integral part of the Annual Report.

1. **Objective overview of the Company's financial position, performance and development, description of its exposure to key risks and contingencies**

The Company is the only producer of phosphate fertilizers in Lithuania controlled by a Russian company MCC Eurochem, which directly holds 91.15 per cent of the Company's shares.

The Company's principal economic activities are as follows:

- Production of intermediary products – sulphuric acid, extractive phosphoric acid;
- Production of phosphate fodder – monocalcium, dicalcium, monodicalcium;
- Production of nitrogen-phosphate fertilizers - diammonium phosphate (DAP);
- Production of aluminium fluoride;
- Wholesale of the above-mentioned products;
- Electricity and heat energy generation using the heat derived during the technological production process of sulphuric acid, and sales of overstock.

Diammonium phosphate represents the major portion of production and sales since nitrogen-phosphate concentrate fertilizers are the most commonly used fertilizers in agriculture.

Throughout 2006, global production of phosphate fertilizers continued to grow along with growing prices and demand at worldwide level. During the last several years, a significant decrease was noted in stocks of grain cultures. As a result of increased revenues, higher demand for higher quality protein food products and increased number of local residents, limited area of cultivable land, growth in biofuel production, the global stocks of grain cultures decreased twice during the period from 1995 to 2006. A growing demand for food products and biofuel and limited stocks resulted in higher global prices of grain, which on turn increased the buying capacity of farmers. Demand for fertilizers on a global market increased on average by 2 per cent. Demand in individual regions depends on prices, types of crop production, policy of grants, weather and logistics conditions. Demand in Western Europe decreased and such decrease was compensated by growing demand in Central Europe. Demand for phosphate fertilizers in developing regions of the world increased. A significant growth of demand was noted in Asia, mostly in China, India, and Pakistan, as well as in Latin America, mostly in Brazil. The growth was noted in the Russian and African markets as well, however, in terms of quantity, they were lower. Demand in Asian region accounted for 50 per cent of total global demand for phosphate fertilizers, whereas demand in Europe, Baltic and CIS countries accounted for respectively 10 and 2 per cent of total global demand.

Trade in diammonium phosphate accounts for the major portion of global trade in phosphate fertilizers. In 2006, global trade volume remained at the same level as compared to 2005, i.e. 12 million tonnes of phosphoric products. There was a growth in phosphate fodder market, on average by 2.5 per cent per annum, whereas in Western Europe this market remained stable.

In 2006, the cyclical nature of the market had no effect on the price of diammonium phosphate, which remained at the same level as compared to 2005.

Throughout 2006, the Company consistently and successfully managed to strengthen its position on a global market, further implemented an active development strategy of sales of phosphoric fertilizers in the major regions of Europe, Asia, Africa, and America. In view of the market conditions and economic benefits, the production volume and sales of end products – diammonium phosphate and monocalcium phosphate – were increased in 2006.

The forecasts for the market of phosphate fertilizers in the near future are more optimistic. Considering the trends of growth of markets, it is forecasted that the growth rate of global demand for phosphate fertilizers will be on average 1.9 per cent per annum by the year 2015. The prices are expected to remain at the same level throughout 2007 and 2008; however, the new plants starting their operations in China, Morocco, and Saudi Arabia may affect global prices of phosphoric fertilizers. Market analysts forecast that the prices of raw materials will substantially remain at the level of 2006, and are tend to decrease in future:

- the price of ammonia is not expected to reach record level noted in 2006, and will gradually decrease by the year 2010;
- the price of sulphur down corrections noted at the end of 2006 will continue over the next several years;
- the prices of phosphate raw materials – phosphorite, apatite – which grew in 2005 and 2006, will continue to grow in 2007. Furtheron, the prices are not expected to grow by the year 2010.

In 2010, the plants of phosphoric acid and diammonium phosphate will start their operations in Saudi Arabia with expected production output of 2.9 million tonnes per annum, which will result in falling prices and a new crisis in the market of phosphoric fertilizers.

Description of the Company's exposure to key risks

Competition risk

As a result of new DAP plants currently constructed in Africa and Central East, the supply of phosphate products may increase significantly over the next 5 years. This would reduce the selling prices, besides, these regions have lower production costs. Consequently, this would reduce the profitability of the Company's products.

Unfavourable actions of competitors in Europe and a lower demand for DAP may result in lower revenues and reduced relative share of profits in the major market for the Company.

The Company continuously monitors its competitors, analyses information about the construction of new plants. The Company's strength lies in product quality, which meets the regulatory requirements of the European Union, diammonium phosphate is free of heavy metals and radioactive additions. The Company plans diversification of production, looks for new market segments for other types of phosphoric fertilizers. The Company's success factor is its ability to produce products that meet the needs of end-users.

Economic-social factor risk

DAP is a type of product which has a cyclical price nature with crises and risings repeating every 7 or 10 years. Due to fluctuations in the market, decrease in revenues and potential losses are probable (DAP accounts for approx. 80 per cent of products sold). It is important to note that business entities are almost incapable of making impact on the price of products during the crisis or growth periods. Moreover, due to the changes in lifestyles and habits of consumers and certain psychological factors, demand for phosphate fertilizers might decrease in Europe.

The Company manages the risk through operations on different markets and different seasons (trade activities in Europe start in August and end in April, in Asia – start in March and end in August, in Africa – start in January and end in August, in Central and South America – start in June and end in September). Sales channels are diversified. Growth is expected in demand for products (e.g. biofuel raw materials, genetically modified products) that will need fertilizers in future. Investments are made aimed at cost saving. During the period of market decline, this helps to ensure a relatively low cost of production.

Raw materials supply risk

The acquisition cost of raw materials represents the major portion of cost of production, therefore, due to a limited quantity of raw materials on the market and growing prices along with higher transportation costs, the cost of production constantly increases. Bad weather conditions and regional disturbances make supply of raw materials more complicated, interrupt production cycle, require larger reserves of raw materials, reduce turnover of raw materials, and increase warehousing costs and additional need for working capital.

The risk is managed through continuous monitoring of the market, making forecasts of changes in the prices of raw materials. The supply of core raw materials in ensured by the Company's shareholder MCC Eurochem. Purchases and transportation of raw materials are subject to regular scheduling. The procedures for selection and assessment of suppliers are in place. Several potential suppliers are selected for each type of raw materials.

Foreign exchange risk

Since trade in DAP is carried out in USD, there is a possible risk associated with unfavourable fluctuations in USD exchange rate against national currency. This risk is managed by matching currency positions of cash inflows and outflows, settlements for raw materials and transport services are made in USD. The Company's exposure to this risk is not significant since only 10 per cent of inflows denominated in US dollars need to be sold to meet current liabilities denominated in national currency.

2. Analysis of financial and non-financial performance, information on environmental and personnel-related issues.

During the reporting year, the Company's revenue amounted to LTL 682,466 thousand, which is more by 13 per cent or LTL 78,601 thousand as compared to LTL 603,865 thousand in 2005. Revenue from sales of products in 2006 amounted to LTL 664,741 thousand as compared to LTL 582,996 thousand in 2005, or 97.40 per cent (2005: 96.54 per cent) of total revenue of the Company.

Sales of DAP account for the major portion of sales revenue, i.e. 81.79 per cent or LTL 558,162 thousand as compared to 80.73 per cent or LTL 487,517 thousand in 2005, and they predetermined growth of basic revenue. In 2006, income from sales of this product was LTL 70,645 thousand or 14.5 per cent higher than in 2005. In the local market, income from DAP sold amounted to LTL 49,138 thousand or 8.8 per cent of total sales revenue of DAP (2005: LTL 49,511 thousand or 10.16 per cent).

Based on International Financial Reporting Standards, the Company‘s net profit for 2006 was LTL 37,220 thousand, which is less by 54.3 per cent or LTL 44,295 thousand as compared to LTL 81,516 thousand in 2005. Operating profit for 2006 amounted to LTL 44,262 thousand, which is less by 53.5 per cent or LTL 50,896 thousand as compared to LTL 95,158 thousand in 2005.

Net profit margin in 2006 was 5.45 per cent as compared to 13.5 per cent in 2005. Operating profit margin in 2006 was 6.48 per cent as compared to 15.76 per cent in 2005.

The main factors that affect the Company‘s profitability include: price of raw materials, use of production capacity (economy of scale), logistics costs incurred in relation to transportation of raw materials required for the production process and delivery of end-products to the buyers.

Decrease in profit margin in 2006 was mainly caused by higher prices of the basic raw materials: sulphur, ammonia and phosphate raw material phosphorite. The Company in its production process uses the following basic types of raw materials: apatite, phosphorite, ammonia, sulphur, aluminium hydroxide, and lime. All these kinds of raw materials are imported. In 2006, the acquisition cost of the basic types of raw materials was higher by 9 to 28 per cent, depending on the type of raw materials, or by LTL 62,731 thousand as compared to 2005.

During the reporting year, more phosphate raw materials with a lower quantity of active agents imported from Morocco were used in the production process. The base price and transportation costs of these raw materials are much higher than those of apatite supplied by MCC Eurochem group company. The acquisition cost of ammonia increased due to several objective reasons: due to higher prices of gas and growing demand, average global prices linked to the index were higher by 2-5 per cent as compared to 2005, transportation by railway via Belarus and Lithuania became more expensive; with effect from 2006, a 2 per cent customs duty benefit for ammonia imported to the EU from third countries is no longer in force in the EU. Last year, customs duty payable on ammonia comprised 5.5 per cent of the value of imported freight. The acquisition cost of sulphur increased due to indexation of transportation charges by railway.

Environmental issues

At the end of the reporting year, the Company was in compliance with environmental requirements stipulated in the Lithuanian normative acts and legal documents. No claims or fines were received. Reportable business activities were in compliance with environmental management requirements as set forth in international standard ISO 14001:2004. In 2006, the Company paid environment pollution taxes and use of natural resources amounting to LTL 752 thousand, which is less by LTL 69 thousand as compared to LTL 821 thousand in 2005.
The Company performs monitoring of effect of pollutants emitted to atmosphere, waste and groundwater. In 2006, 1,868 tonnes of pollutants were emitted to atmosphere from stationary pollution sources, i.e. less by 338 tonnes as compared to 2005. Emissions of sulphur dioxide accounted for 87 per cent of all pollutants emitted to atmosphere. As a result of higher volumes of production of mineral fertilizers, comparative emissions of pollutants to atmosphere and water expressed in kg/t remained at the same level. During 2006, 1,976,054 tonnes of phosphogypsum waste were handled in the Company's own dumping ground.

Personnel-related issues

The Company employs highly qualified personnel and engineers who ensure high quality of products and implementation of technolocal innovations. At 31 December 2006, the Company had 1,030 employees (2005: 1,051 employees). Average age of employees is 44 years. Personnel turnover in 2006 was 10.4 per cent of all employees. Management members and specialists account for 18.8 per cent of all employees.

3. References to and explanations of data reported in the annual financial statements

There are no additional explanations.

4. Number and nominal value of own shares owned or acquired by the Company during the reporting period and their percentage in the authorised share capital.

The Company did not acquire its own shares.

5. Number of own shares acquired or disposed of by the Company during the reporting period.

During the reporting year the Company neither acquired nor disposed of its own shares.

6. Details of payment for own shares, where acquisition or disposal of such shares are subject to consideration.

During the reporting year the Company neither acquired nor disposed of its own shares.

7. Reasons for acquisition of own shares by the Company during the reporting period.

During the reporting year the Company neither acquired nor disposed of its own shares.

8. Information on the Company's branches and representative offices.

During the reporting year, the Company did not have any subsidiaries, branches or representative offices, and it neither acquired nor disposed of any shares of other companies.

9. Significant events subsequent to the end of the previous financial year.

On 14 March, 2006 a trilateral agreement was signed by and between MCC EuroChem, Lifosa AB and Kėdainiai region local authority on co-operation in economic and social matters, based on which amount of LTL 1.17 million was provided to support health care, sports, cultural, and education programmes.

In May, 2006 an area of 14 ha close to the Company‘s phosphogypsum field was forested.

On 11 December, 2006 Lifosa AB, the Lithuanian Ministry of Economy and the Lithuanian Business Support Agency signed the agreement on provision of support from the EU structural funds for the project, *Use of Local and Renewable Energy Sources of Sulphur Acid Unit in Electricity Generation Process.*

10. Information on the Company‘s operation plans, future development and forecasts.

In 2007, the Company plans to increase DAP production volume by 2 per cent, and increase monodicalcium phosphate production volume by 8 per cent. Production volume of a key component of products, phosphoric acid, is expected to increase by 4 per cent, and production capacities for this product will be used at a maximum level (100 per cent). Sales regions and quantitative proportions are expected to remain at a similar level as that in 2006, with priority given to a geographically favourable region of Europe considering the seasonality. In 2007, it is planned to invest LTL 7.75 million in final implementation of the project *Use of Local and Renewable Energy Sources of Sulphur Acid Unit in Electricity Generation Process*, and invest LTL 12.1 million in renovation of production facilities in all units of the Company.

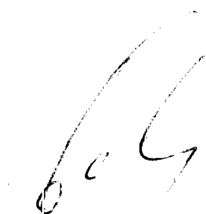
The Company's objective is to sustain its position as a competitive company producing mineral phosphorous fertilizers, which is able to overcome the challenges of fluctuations on the global market. The plans to increase the production of fodder phosphate up to 150 thousand tonnes per annum are currently discussed with MCC EuroChem management by bringing into use a new unit. It is expected to modernise the collection of surface waste with their recycling possibilities. This will enable the Company to reduce taxes for use of natural resources and taxes for emission of pollutants to atmosphere. Furthermore, the Company plans to adjust its technological line used in phosphate production unit for the production of nitrogen-phosphorus-kalium (NPK) fertilizers.

11. Information on research and development activities carried out by the Company.

During the last reporting year the Company was not engaged in any research and development activities.

12. Description of financial risk management objectives and hedging instruments used.

During the last reporting year the Company did not use any instruments to hedge against financial risks.

General Manager  Jonas Dastikas

Disclosure form concerning the compliance with the Governance Code for the companies whose securities are traded on a regulated market

Lifosa AB (hereinafter "the Company") following Article 21.3 of the Lithuanian Law on Securities and paragraph 20.5 of the Trading Rules of the Vilnius Stock Exchange (VSE), discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions.

The Company provides disclosures concerning its compliance with the Governance Code by each principle/recommendation specified in the Governance Code. The disclosures are provided as representations confirming the Company's compliance or non-compliance with the specific principle recommendation of the Governance Code or as partial representations certifying the Company's partial compliance or non-compliance with the specific recommendations of the Governance Code.

Principle I: Basic provisions
The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing shareholder value over time.

The Company confirms its substantial compliance with Principle I recommendations of the Governance Code. The Company confirms its partial non-compliance with item 1.1 recommendations of the Governance Code since the Company's development strategy is not made public on the Company's website, however, it is disclosed in the Company's annual performance reports submitted to the Securities Commission, VSE, and the Register of Legal Entities, announcements and articles in daily newspapers, at press conferences and on TV. The Company's board of directors and management act in close co-operation in order to attain maximum benefit for the shareholders. The Company's board members are executive directors of the Company's major shareholder and the Company itself, whereas the Company's chief executive officer is a board member.

The Company has implemented Quality Management (ISO 9001), Environmental Management (ISO 14001), and Occupational Safety and Health Management (OHSAS 18001) systems, regularly updates collective employment contract, reports on fulfilment of collective contract are delivered during annual meetings of employees and their authorised representatives, 'open day' events and meetings with local community are held. In the Company's opinion, with a help of the above-mentioned reporting documents and measures the management bodies ensure that the interests of suppliers, clients, employees and local community are duly respected.

Principle II: The corporate governance framework
The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.

The Company confirms its substantial compliance with Principle II recommendations of the Governance Code. The Company has set up a collegial management body – the board and a sole management body – the Company's chief executive officer (General Manager). A collegial supervisory body – the supervisory board has not been set up.

The supervision of the Company's activities and the fulfilment of and control over the responsibilities of the chief executive officer are ensured by the board's analysis and assessment of reports delivered by the chief executive officer and required by the board during monthly board meetings addressing the key issues related to the Company's operations. Thereby the Company's board continuously ensures strategic management of the Company and exercises control over the fulfilment of annual business, investment and production plans by the general manager and other directors.

The Company confirms its non-compliance with item 2.3 recommendation of the Governance Code since the Company has set up only one collegial body, i.e. the board. In the Company's opinion, the supervision of the functions of the chief executive officer carried out by the board is sufficiently effective.

The Company's board comprises five members elected for the term of four years. It is believed that this number is sufficient since there were no cases in the Company's practice of domination by a small group of individuals in the Company's board; all decisions on the overall majority of issues at the board are approved by unanimous vote.

The Company confirms its compliance with item 2.6. recommendation since the Company's board members are appointed for maximum terms provided for in the Lithuanian legislation and the number of terms of board members is not subject to any restrictions in accordance with the issuer's articles of association and practice.

The Company confirms its compliance with item 2.7 recommendation since its chairman of the board has never been in the past and currently is not a chief executive officer of the Company.

Disclosure form concerning the compliance with the Governance Code for the companies whose securities are traded on a regulated market (continued)

In view of the shareholders that are known to the Company and existing as at 31 December 2006, where one shareholder holds more than 91.15 (ninety-one point fifteen) per cent of the Company‘s shares and votes, the Company can confirm its compliance with Principle II requirements and ensures the interests of the Company‘s shareholders.

Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting. The order of the formation of a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.

The Company confirms its substantial non-compliance with this Principle of the Governance Code since the shareholder controlling the Company by the number of his voting rights has a power on his own discretion and for his own interests without any restrictions to suggest the shareholders' meeting to recall a collegial body or its individual members elected by the Company‘s shareholders' meeting.
The Company collects information about the members of a collegial body, their education, qualification, and conflicts of interest as set forth in the Board's Work Regulations of the Company and item 3.2 recommendations, and discloses a substantial part of such information in publicly announced draft resolutions of general meetings of shareholders and during the general meetings of shareholders. The Company plans to post information on the members of management bodies on its website. The board members take various training courses and workshops, during which they are notified of the last developments in the area of regulatory legislation.
The Company confirms its compliance with item 3.4 recommendations of the Governance Code since the Company's board is composed of members who have the required diversity of knowledge and experience.
The Company confirms its non-compliance with item 3.6 recommendations of the Governance Code, since none of the members of the board can be considered to be independent members under item 3.7 independence requirements.

Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.

The Company confirms its substantial compliance with Principle IV recommendations of the Code of Governance.

The board considers and approves the Company‘s investment projects and production programmes. The board analyses and assesses the Company‘s draft annual financial statements and draft profit (loss) appropriation for the approval by the general meeting of shareholders. The Company‘s Articles of Association and the Board‘s Work Regulations define the obligation of management bodies to act in good faith, with due care and responsibility and exceptionally for the benefit and in the interests of the Company and its shareholders, be loyal to the Company and avoid conflict of interests.

To the best knowledge of the Company, the board members act in good faith for the Company and no facts or reasons are available that would result in a potential doubt that the board members act against the interests of the Company. When the issue discussed at the board meeting is associated with a board member, the member concerned is not involved in the discussion and voting process on such issue. All board members attend the board meetings and, in the Company‘s opinion, each member dedicates sufficient time for the fulfilment of duties pertaining to the members of the board.

No committees are set up in the Company‘s board, therefore, the Company confirms its substantial non-compliance with items 4.7 to 4.14 recommendations. However, the board is usually composed of members with a required diversity of experience, education and job responsibilities, therefore, it could be stated that the board in fulfilling its functions partially fulfils the functions of nomination, remuneration and audit committees. The board elects and appoints the Company‘s chief executive officer and determines the level of remuneration for the chief executive officer, other directors, and chief accountant. For the selection of the Company‘s chief executive officer and other executive officers, the board may announce a competition, consider and approve or disapprove of the candidates to the directors of the Company proposed by the chief executive officer, continuously assesses their experience, professional skills and implementation of the Company‘s strategic objectives, as well as familiarises itself with their reports. The Company‘s board elects the candidate auditor and proposes it for approval by the general meeting of shareholders.

Principle V: The working procedure of the company's collegial bodies

Disclosure form concerning the compliance with the Governance Code for the companies whose securities are traded on a regulated market (continued)

The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.

The Company confirms its substantial compliance with the recommendations of this Principle of the Governance Code. The meetings of the Company's collegial body of management – the board – are held at certain intervals of time approved in advance. Agenda is planned in advance. Issues on the agenda of the board meeting, including draft resolutions of the board, are drafted and submitted by the Company's chief executive officer, board members or other specialists of the Company on the request of the board or chief executive officer. The process of drafting may involve other specialists external to the Company. Issues on the agenda are available to each member of management body prior to the date of the meeting. Draft resolutions and other necessary information are provided in advance upon notification of the meetings. Agenda of the meeting convened is usually not subject to any amendments, unless the discussion of additional issues is agreed during the meeting attended by all board members of the Company.

The Company confirms its non-compliance with item 5.4 recommendations, since only the board has been set up at the Company.

Principle VI: The equitable treatment of shareholders and shareholder rights
The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.

The Company confirms its substantial compliance with the recommendations of this Principle of the Governance Code. The Company's authorised share capital consists of ordinary intangible registered shares granting the same individual property and non-property rights to their holders. .

The transactions, such as transfer, investment, pledge of assets, mortgage, issue of surety or guarantee, borrowings or other significant value transactions are approved in accordance with the procedure stipulated in the Company's Articles of Association.

The Company posts the draft resolutions of the expected meetings on the websites of the VSE and the Lithuanian Securities Commission, and with effect from 2007 it plans to post them on the Company's website in accordance with the procedure stipulated in regulatory legislation.

The venue, date, and time of the Company's meetings are chosen to ensure wide and active attendance of the shareholders. Each shareholder is furnished with the opportunity to attend the shareholders' meeting in person or by proxy and vote in advance on issues included in the agenda. If necessary, the Company issues and delivers an advance voting ballot.

The Company confirms its non-compliance with item 6.7 requirements of Principle VI of the Governance Code, since the Company has not implemented technologies that would ensure the security of telecommunication equipment and contents of communications, and a possibility to identify the voter's signature, and no such kind of requests have been received so far from the Company's shareholders.

Principle VII: The avoidance of conflicts of interest and their disclosure
The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.

The Company confirms its compliance with all recommendations of this Principle of the Governance Code.

Principle VIII: Company's remuneration policy
Remuneration policy and procedure for approval, review and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.

The Company confirms its non-compliance with the recommendations of this Principle of the Governance Code in respect of a public statement of its remuneration policy. In its annual prospectus-report, the Company reports only the gross average amount of remuneration of its chief executive officer and senior management in accordance with the effective laws. The Company follows the established policy, which says that the scheme of salaries and bonuses and other employment-related benefits shall be considered as information not subject to public disclosure and such information is deemed to be a commercial secret.

Principle IX: The role of stakeholders in corporate governance
The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active cooperation between companies and stakeholders in creating the company value, jobs and

financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.

The Company confirms its compliance with all recommendations of this Principle of the Governance Code. The compliance with these recommendations is disclosed in the description of compliance with Principle I recommendations of the Governance Code herein.

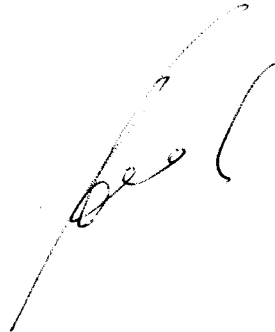
Principle X: Information disclosure and transparency
The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.

The Company confirms its partial compliance with the recommendations of this Principle of the Governance Code, except for items 10.3 and 10.7 recommendations, which is explained in disclosures of the Company's compliance with Principles VI and VIII recommendations. The Company confirms its compliance with items 10.4 and 10.5 recommendations, since it discloses the information required under these items in both external sources and internal information system accessible to its employees.

The Company will seek to be in full compliance with items 10.3, 10.6 and 10.7 recommendations by additional disclosure of the information required under these items on the Company's website.

Principle XI: The selection of the company's auditor
The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's report and opinion.

The Company confirms its compliance with all recommendations of this Principle of the Governance Code. Item 11.3 recommendations are not relevant for the Company since the firm of auditors has not rendered any non-audit services and has not received any fees thereon.

General Manager  Jonas Dastikas