AKCINĖ BENDROVĖ "LIFOSA"

CONFIRMATION OF THE RESPONSIBLE PERSONS

2008-04-15

Following the Article 21 paragraph 1 of the Law on Securities of the Republic of Lithuania, we confirm that to our knowledge and information, AB Lifosa audited Financial Statements for the year 2007, prepared in accordance with International Financial Reporting Standards, give a true view of AB Lifosa assets, liabilities, financial position and profit, and the annual report includes a fair review of business development and performance, condition of the company with the description of the major risks and contingencies that were met.

ADDED:

1. Audited Financial Statements for the year 2007.
2. Audited annual Report.
3. Disclosure form concerning the compliance with the Governance Code for the companies listed on the Vilnius Stock Exchange.

Director General Jonas Dastikas

Chief Accountant Nijolė Kalinauskienė

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LIFOSA AB
FINANCIAL STATEMENTS, ANNUAL REPORT AND INDEPENDENT AUDITOR'S REPORT
31 DECEMBER 2007

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PRICEWATERHOUSECOOPERS

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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 and the Board 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 – 28 which comprise the balance sheet as of 31 December 2007 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 2007, 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 2007 set out on pages 29 – 58 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 2007.

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Partner

Rasa Radzevičienė
Auditor's Certificate No.000377

Vilnius, Republic of Lithuania
15 April 2008

INCOME STATEMENT

	Notes	Year ended 31 December 2007	2006
Sales	1	921,648	682,466
Cost of sales	4	(578,022)	(574,753)
Gross profit		**343,626**	**107,713**
Selling and distribution costs	2,4	(31,316)	(29,369)
Administrative expenses	3,4	(23,258)	(23,766)
Net foreign exchange gain/(loss)	5	(22,374)	(10,860)
Other income/gains	6	1,070	544
Operating profit		**267,748**	**44,262**
Interest income on short-term cash deposits		2,317	1,267
Profit before tax		**270,065**	**45,529**
Income tax	7	(48,963)	(8,309)
Net profit		**221,102**	**37,220**
Basic and diluted earnings per share (LTL per share)	8	10.52	1.77

The financial statements on pages 5 to 28 were approved by the Company's Director General and Chief Accountant on 15 April 2008.

Jonas Dastikas
Director General

Nijolė Kalinauskienė
Chief Accountant

The accounting policies and the notes on pages 9 to 28 form an integral part of these financial statements.

BALANCE SHEET

	Notes	As at 31 December 2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	9	252,798	234,919
Intangible assets	10	650	295
Deferred tax asset	7	1,989	1,804
Other receivables	11,13	3,288	11,621
		258,725	**248,639**
Current assets			
Inventories	12	63,657	48,757
Trade and other receivables	13,14	221,355	112,965
Prepaid income tax		-	812
Financial assets at fair value through profit or loss	13	-	287
Cash and cash equivalents	15	173,272	24,736
		458,284	**187,557**
Total assets		**717,009**	**436,196**
EQUITY			
Share capital	16	210,206	210,206
Share premium		80	80
Legal reserve		12,734	10,873
Retained earnings		389,864	170,623
Total equity		**612,884**	**391,782**
LIABILITIES			
Current liabilities			
Income tax liabilities		38,136	4,600
Trade and other payables	17	60,301	35,722
Grants	18	5,688	4,092
Total liabilities		**104,125**	**44,414**
Total equity and liabilities		**717,009**	**436,196**

The accounting policies and the notes on pages 9 to 28 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 2006		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	16	210,206	80	10,873	170,623	391,782
Transfer to legal reserve		-	-	1,861	(1,861)	-
Net profit for the year		-	-	-	221,102	221,102
Balance at 31 December 2007	16	**210,206**	**80**	**12,734**	**389,864**	**612,884**

The accounting policies and the notes on pages 9 to 28 form an integral part of these financial statements.

CASH FLOW STATEMENT

	Notes	Year ended 31 December 2007	2006
Cash flows from operating activities			
Cash generated from operations	19	188,376	56,985
Income tax paid		(13,249)	(15,461)
Net cash from operating activities		175,127	41,524
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	9,10	(32,191)	(46,956)
Proceeds from sale of property, plant and equipment		221	225
Proceeds from sale of associate		2,775	3,152
Purchase of securities	13	-	(287)
Sale of securities	13	287	14,698
Net cash used in investing activities		(28,908)	(29,168)
Cash flows from financing activities			
Interest income from short-term deposits		2,317	1,267
Net cash from financing activities		2,317	1,267
Net increase in cash and cash equivalents		148,536	13,623
Movement in cash and cash equivalents			
At beginning of year		24,736	11,113
Net increase		148,536	13,623
Cash and cash equivalents at end of year	15	173,272	24,736

The accounting policies and the notes on pages 9 to 28 form an integral part of these financial statements.

(All tabular amounts 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 Secondary 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 2007, the main shareholders of the Company were as follows:

Shareholder	*Number of shares*	*Percentage of share capital*
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 2007 totalled 1,019 (2006: 1,038).

B. SIGNIFICANT ACCOUNTING POLICIES

B.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). The financial statements have been prepared under the historical cost convention, as modified for the indexation of certain property, plant and equipment (Note B.4), and for the financial assets at fair value through profit and loss.

The principal 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 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 financial statements, are disclosed in Note D.

Standards, amendments to standards and interpretations effective in 2007

IFRS 7, Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007), and the complementary Amendments to IAS 1, Presentation of Financial Statements – Capital disclosure were adopted by the Company in 2007. The IFRS 7 introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these financial statements.

Early adoption of standards, interpretations and amendments to published standards

The Company has not elected to early adopt any new standards, interpretations and amendments to published standards.

(All tabular amounts in LTL thousand unless otherwise stated)

Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2007 but are not relevant to the Company's operations:

- IFRS 4, Insurance Contracts
- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies
- IFRIC 8, Scope of IFRS 2
- IFRIC 9, Reassessment of Embedded Derivative
- IFRIC 10, Interim Financial Reporting and Impairment

Standards, amendments to standards and interpretations to existing standards that have been issued but are not effective for 2007 and have not been early adopted:

- IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). The Company will apply this Standard with effect from 1 January 2009, however, it is not expected to have material effect on the Company's financial statements.
- IAS 23, Borrowing Costs, Amendment (effective for annual periods beginning on 1 January 2009). The Company will apply this Standard with effect from 1 January 2009; however, meanwhile this Standard is not relevant to the Company's operations since no borrowings are used to finance the construction of qualifying assets.
- IAS 27, Consolidated and Separate Financial Statements (reviewed in January 2008 and effective for annual periods beginning on or after 1 July 2009). Management believes this Standard is not relevant to the Company's operations.
- IFRS 3, Business Combinations (reviewed in January 2008 and applicable to business combinations, in which the acquisition date falls within the first annual period beginning on or after 1 July 2009). Management believes this Standard is not relevant to the Company's operations.
- Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based (issued in January 2008, effective for annual periods beginning on or after 1 January 2008). Management believes this Standard is not relevant to the Company's operations.
- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). Management does not expect that IFRS 8 will have a material effect on the Company's financial statements.
- IFRIC 11, IFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). Management does not expect this interpretation to be relevant to the Company's operations.
- IFRIC 12 Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008). Management does not expect this interpretation to be relevant to the Company's operations.
- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). This Interpretation is not relevant to the Company.
- IFRIC 14, IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirement and their Interaction (effective for annual periods beginning on or after 1 January 2008). Management believes this Interpretation is not relevant to the Company's operations.
- IAS 32 and IAS 1 Amendment, Puttable financial instruments and obligations arising on liquidation (effective from 1 January 2009). Management does not expect the amendment to affect its financial statements.

IFRIC 12, 13, 14 and amended IAS 1, IAS 23, IAS 27, IAS 32 as well as amended IFRS 2 and revised IFRS 3 have not been yet endorsed by the EU.

B.2 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 Litas has been pegged to the euro at 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.3 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 on 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

The Company could not evaluate the possible effect of non-compliance with IAS 29 *Financial Reporting in Hyperinflationary Economies* for measurement of certain items of property, plant and equipment which are carried in the balance sheet 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. However, the cumulative increase in consumer price index during the period when the economy in Lithuania was considered hyperinflationary in accordance with IAS 29 (years 1990-1996, inclusively) significantly exceeded indexation rates set by the Government. Therefore, the carrying value of PP&E reported as at 31 December 2007 would be higher if the Company could apply IAS 29 requirements properly.

Subsequent costs are added to 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.5).

Construction in progress is transferred to appropriate groups of property, plant and equipment when it is completed and ready 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.4 Intangible assets

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

B.5 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.6 Financial assets

The Company classifies its financial assets into the following categories: financial assets designated at fair value through profit or loss, loans and receivables. The classification depends on the purpose for which the financial assets have been 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-way 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 at fair value through profit or loss are initially recognised at fair value, whereas the 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 values of quoted investments are based on current bid prices.

B.7 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 products 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.8 Trade receivables

Amounts receivable 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 receivable 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.9 Cash and cash equivalents

Cash and cash equivalents are carried at nominal value. Cash and cash equivalents comprise cash in hand, cash at bank held on call, and other short-term highly liquid investments with original maturities of three months or less.

B.10 Share capital

Ordinary shares are stated at their nominal value. Consideration received for the shares sold in excess over their nominal 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.11 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.12 Trade payables

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

B.13 Income tax

Pursuant to the Lithuanian Law on Corporate Profit Tax, taxable profit is subject to income tax at a rate of 15%. 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 2006 and 2007 is 15%.

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

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.14 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 future 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 on a basis consistent with that applied to the depreciation of similar owned assets. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

(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.15 Operating lease – where the Company is the lessor

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

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 the 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

Sales 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.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 the 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

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.21 Emission allowances

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 grants at cost, i.e. zero value. 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. Revenue from sale of surplus allowances is recognised on the actual trade date.

B.22 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

C.1 Financial risk factors

The Company's activities are exposed to a variety of financial risks: market risk (including foreign currency exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme seeks to minimise potential adverse effects on the financial performance of the Company.

Risk management is carried out by the senior management of the Company. The management identifies, evaluates and takes appropriate actions in order to mitigate the financial risks.

(a) Market risk
(i) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar (USD). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The Company's foreign exchange risk management is based on matching the expected cash flows in principal currencies. Due to the fact that the majority of business transactions carried out by the Company, including sales of production and purchases of raw materials are denominated in US dollars, changes in USD exchange rates do not affect the cash flows of the Company. However, these changes are reflected in the carrying value of financial assets and liabilities which are originally expressed in foreign currencies but translated to the functional currency Lithuanian Litas (LTL) in the balance sheet.

The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange risk exposure and primarily arises from US dollar denominated trade receivables, cash and cash equivalents, and accounts payable. The sensitivity analysis provides an approximate quantification of the exposure in the event of a 10% US dollar depreciation against the Lithuanian Litas. The exchange rate shift assumption was based on the US dollar exchange rate net volatility during 2007. At 31 December 2007, if the Lithuanian Litas had strengthened by 10% against the US dollar with all other variables held constant, foreign exchange loss would be LTL 33,219 thousand (2006: LTL 10,534 thousand) higher. Foreign exchange loss is more sensitive to movement in Lithuanian Litas / US dollar exchange rates in 2007 than 2006 because of the increased amount of US dollar denominated trade receivables and cash and cash equivalents.

The Company is not exposed to significant foreign exchange risk arising from transactions denominated in euro (EUR) because the Lithuanian Litas has been pegged to the euro at an exchange rate of LTL 3.4528 = EUR 1 since 2 February 2002.

(ii) Price risk

The Company is not exposed to significant equity securities price risk because it has no material investments in securities or other similar financial instruments. The Company is not exposed to commodity price risk because its products are not traded on a public market.

(iii) Cash flow and fair value interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. There are no interest-bearing liabilities. Furthermore, the Company has no significant interest-baring financial assets, except for the following:

- Short-term bank deposits and repo deals which may be converted to a known amount of cash and are subject to an insignificant risk of changes in value. These deposits and repo deals are held in banks for a period of up to three months for cash flow management purposes and classified as cash equivalents (details are disclosed in Note 15).

- Short-term loan granted to related party at a fixed interest rate as disclosed in Note 14.
- Short term money market investments which are acquired occasionally and classified as financial assets at fair value through profit or loss. Details of these financial assets are disclosed in Note 13.

Split between fixed and floating interest rate depends on the actual situation in the market.

(b) Credit risk

Senior management is responsible for credit risk management. Credit risk arises from cash, cash equivalents, and short-term deposits with banks, as well as credit exposures to customers, mainly related to outstanding receivables. For banks, only well-known and independently rated banks of Lithuania are accepted. For customers, the Company sells the majority of its production to wholesalers and has policies in place to ensure that sales of products are made only to customers with an appropriate credit history. The Company always makes an assessment of the credit quality of the customer, taking into account its financial position, past experience and other factors. The majority of sales to non-related parties are performed only after a prepayment for a full amount is received by the Company. Credit period is awarded only to a few customers who are well known to the Company and have excellent credit history. With respect to sales to related parties, sales are performed only to Eurochem Trading GmbH which acts as a wholesale distributor of products of the Company in non-EU markets.

There were no significant difficulties in collecting accounts receivable from customers or withdrawing cash from banks during the reporting period and the management does not expect any material losses from non-performance by these counterparties.

(c) 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 expenditures as well as accumulating sufficient amounts of liquid funds to make the regular payments as they fall due according to the schedule.

Management monitors rolling forecasts of the Company's liquidity reserve on the basis of expected cash flow. According to the latest cash flow estimates, the Company is not expected to face any significant liquidity problems in the near future.

The Company has no other financial liabilities except for trade and other payables. All trade and other payables reported in the balance sheet are due within 12 months and their fair value is equal to their carrying balances as the impact of discounting would not be significant.

C.2 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company defines its capital as cash and cash equivalents, equity and debt. During years 2006 and 2007, the Company had no borrowings. All its operations were equity-financed.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, or take other appropriate actions.

Pursuant to the Lithuanian Law on Companies, the authorised share capital of a public limited liability company must be not less than LTL 150 thousand and the shareholders' equity should not be lower than 1/2 of the Company's registered share capital. As at 31 December 2007 and 31 December 2006, the Company complied with these requirements.

C.3 Fair value estimation

The nominal value less impairment provision of trade receivables and the nominal value of accounts payable are 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.

(All tabular amounts in LTL thousand unless otherwise stated)

D. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are regularly reviewed and assessed 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, the useful lives of which 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 market can be analysed as follows:

	Sales		Total assets		Capital expenditure	
	2007	2006	2007	2006	2007	2006
The Netherlands	127,754	50,681	-	-	-	-
Lithuania	88,829	70,054	717,009	436,196	46,658	45,442
Germany	87,141	43,693	-	-	-	-
Ethiopia	72,545	52,746	-	-	-	-
Turkey	66,158	78,723	-	-	-	-
Pakistan	65,578	58,766	-	-	-	-
France	64,748	56,525	-	-	-	-
Great Britain	50,861	10,326	-	-	-	-
Poland	45,116	45,844	-	-	-	-
Spain	34,221	13,395	-	-	-	-
Argentina	30,098	6,965	-	-	-	-
Kenya	24,233	17,557	-	-	-	-
Belgium	23,523	4,919	-	-	-	-
Ireland	22,069	28,886	-	-	-	-
Hungary	20,345	17,793	-	-	-	-
Czech Republic	13,622	17,917	-	-	-	-
Ivory Coast	13,428	9,962	-	-	-	-
Cameroon	13,154	5,644	-	-	-	-
Tajikistan	11,613	2,511	-	-	-	-
Romania	10,677	13,200	-	-	-	-
Ukraine	10,135	5,664	-	-	-	-
Denmark	9,958	2,983	-	-	-	-
India	-	23,895	-	-	-	-
Italy	-	7,237	-	-	-	-
Uruguay	-	17,683	-	-	-	-
Other countries	15,842	18,897	-	-	-	-
	921,648	**682,466**	**717,009**	**436,196**	**46,658**	**45,442**

Sales are allocated among geographical segments based on the country which is the final destination of production sold by the Company according to dispatch documents. Usually, this country is where the buyer is located with the exception being sales to certain wholesale customers, mainly related party Eurochem Trading GmbH. For instance, Eurochem Trading GmbH is based in Switzerland but acts as a wholesale distributor of production of the Company in non-EU markets (more details about related party transactions with Eurochem Trading GmbH are disclosed in Note 20).

Analysis of sales by category:

	2007	2006
Sales of goods	902,342	664,741
Sales of raw materials	5,048	5,267
Services rendered	14,253	12,303
Other	5	155
	921,648	**682,466**

(All tabular amounts in LTL thousand unless otherwise stated)

2. SELLING AND DISTRIBUTION COSTS

	2007	2006
Shipping costs	9,108	8,082
Transportation costs	13,173	13,036
Loading and forwarding costs	8,213	7,247
Inspecting and certification costs	776	899
Other distribution expenses	46	105
	31,316	**29,369**

3. ADMINISTRATIVE EXPENSES

	2007	2006
Remuneration of employees	9,360	9,922
Social security contributions	2,959	3,193
Taxes (other than income tax)	2,106	1,772
Depreciation and amortization	1,062	1,095
Insurance	552	883
Security	766	693
Telecommunications	499	423
Support granted	1,248	1,137
Other administrative expenses	4,706	4,648
	23,258	**23,766**

4. EXPENSES BY NATURE

	2007	2006
Raw materials and consumables used	484,166	456,569
Remuneration of employees and social security contributions	56,392	48,904
Transportation services	31,316	29,369
Depreciation and amortisation	28,358	26,060
Change in finished goods, semi-manufactures and work in progress	(14,791)	20,172
Repair and maintenance	15,633	14,044
Energy and fuel	10,263	11,511
Taxes (other than income tax)	2,106	1,772
Consulting expenses	785	1,634
Security	766	693
Telecommunication and IT maintenance expenses	499	505
Marketing	240	197
Other	16,863	16,458
	632,596	**627,888**

Remuneration of employees and social security contributions comprise salary expenses of LTL 38,842 thousand (2006: LTL 31,833 thousand), social security expenses of LTL 13,257 thousand (2006: LTL 10,708 thousand) and bonuses and other benefits of LTL 4,293 thousand (2006: LTL 6,363 thousand).

5. NET FOREIGN EXCHANGE GAIN/LOSS

Net foreign exchange gain and loss resulted from significant fluctuations in exchange rate of functional currency of the Company (the Lithuanian Litas) and the main trading currency of the Company (the US dollar). Net foreign exchange result reported in the income statement includes the following:

	2007	2006
Commission for currency translation operations	455	416
Net foreign exchange gain (loss)	(22,829)	(11,276)
	(22,374)	**(10,860)**

(All tabular amounts in LTL thousand unless otherwise stated)

6. OTHER INCOME/GAINS

	2007	2006
Interest income on short-term loan	915	527
Gain on disposal of property, plant and equipment	155	17
	1,070	**544**

7. INCOME TAX

	2007	2006
Current tax	49,148	9,055
Deferred tax	(185)	(746)
	48,963	**8,309**

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:

	2007	2006
Profit before tax	**270,065**	**45,530**
Tax calculated at a rate of 18% (2006: 19%)	48,612	8,651
Effect of non-taxable income	(414)	(442)
Effect of expenses not deductible for tax purposes	765	101
Tax charge	**48,963**	**8,309**

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

Deferred tax assets

	Sales margin	Accrued charges	Total
At 1 January 2006	-	1,058	1,058
To be credited/(charged) to net profit	-	746	746
At 31 December 2006	-	1,804	1,804
To be credited/(charged) to net profit	408	(223)	185
At 31 December 2007	408	1,581	1,989

Deferred income tax assets are recognised to the extent that realisation of the related tax benefit through future taxable profits is probable. Deferred tax asset recognised for sales margin (adjustment of sales and cost of sales for tax purposes due to different timing of recognition) and for accrued charges is expected to be realised during the year 2008.

8. EARNINGS PER SHARE

	2007	2006
Net profit attributable to shareholders	221,102	37,220
Weighted average number of ordinary shares in issue (thousand)	21,021	21,021
Earnings per share (LTL per share)	**10.52**	**1.77**

9. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Vehicles and equipment	Other PP&E	Construction in progress	Total
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
Year ended 31 December 2007						
Opening net book amount	91,122	113,867	5,993	2,989	20,948	234,919
Additions	6,896	10,105	2,515	479	26,139	46,134
Disposals and write-offs	-	(45)	-	(18)	-	(63)
Reclassifications	7,172	29,547	-	81	(36,800)	-
Depreciation charge	(4,672)	(21,338)	(968)	(1,214)	-	(28,192)
Closing net book amount	100,518	132,136	7,540	2,317	10,287	252,798
At 31 December 2007						
Cost	188,128	375,026	16,748	11,660	10,287	601,849
Accumulated depreciation	(87,610)	(242,890)	(9,208)	(9,343)	-	(349,051)
Net book amount	100,518	132,136	7,540	2,317	10,287	252,798

Land is leased by the Company from the Government of the Republic of Lithuania for the term of 99 years under the lease agreement signed in 1997. The rental payments for the land amounted to LTL 298 thousand in 2007 (2006: LTL 298 thousand).

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 3,496 thousand as at 31 December 2007 (2006: LTL 1,307 thousand). Annual revenues of LTL 79 thousand (2006: LTL 163 thousand) were earned and depreciation expenses of LTL 99 thousand (2006: LTL 177 thousand) were incurred.

10. INTANGIBLE ASSETS

	Computer software
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
Year ended 31 December 2007	
Opening net book amount	295
Additions	524
Disposals and write-offs	(3)
Amortisation charge	(166)
Closing net book amount	**650**
At 31 December 2007	
Cost	1,121
Accumulated amortisation	(471)
Net book amount	**650**

11. OTHER RECEIVABLES

The balance of non-current receivables comprises a long-term cash deposit of LTL 2,658 thousand (2006: LTL 2,581 thousand) to secure contingent liability to clean the factory's environment under the order of the Ministry of Environment of the Republic of Lithuania in case the activities of the Company were ceased (Note 21), and prepayments for non-current assets and construction in progress of LTL 629 thousand (2006: LTL 9,124 thousand).

12. INVENTORIES

	2007	2006
Finished products	27,688	13,242
Raw materials and supplies	31,419	32,059
Work in progress	1,803	1,533
Semi-manufactures	2,747	1,923
	63,657	**48,757**

13. FINANCIAL INSTRUMENTS

(a) Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

31 December 2007	Loans and receivables	Assets at fair value through the profit and loss	Total
Assets as per balance sheet			
Non-current receivables	2,658	-	**2,658**
Trade and other receivables	196,003	-	**196,003**
Cash and cash equivalents	173,272	-	**173,272**
	371,933	**-**	**371,933**

	Other financial liabilities	Total
Liabilities as per balance sheet		
Trade and other payables	37,869	**37,869**
	37,869	**37,869**

31 December 2006	Loans and receivables	Assets at fair value through the profit and loss	Total
Assets as per balance sheet			
Non-current receivables	2,581	-	**2,581**
Trade and other receivables	91,632	-	**91,632**
Other financial assets at fair value through profit or loss	-	287	**287**
Cash and cash equivalents	24,736	-	**24,736**
	118,949	**287**	**119,236**

	Other financial liabilities	Total
Liabilities as per balance sheet		
Trade and other payables	28,935	**28,935**
	28,935	**28,935**

Accounts receivable in tables above are presented less of prepayments, tax receivables, and other non-financial assets while accounts payable are less of tax payables and other non-financial liabilities.

Financial assets at fair value through profit or loss consist of short-term money market investments under the agreements signed with SEB bank.

(b) Credit quality of financial assets

As of 31 December 2007, the Company had LTL 173,263 thousand of cash at bank, short-term bank deposits and repo deals (2006: LTL 24,717 thousand). All the above balances were held in Lithuanian banks with a minimum of A long-term borrowing rating assigned by *FitchRatings* or Lithuanian banks which have not been rated locally by international rating agencies but which parent companies have AA- long-term borrowing rating assigned by *Standard & Poor's*.

13. FINANCIAL INSTRUMENTS (continued)

As of 31 December 2007, the Company had trade accounts receivable of LTL 180,893 thousand (2006: LTL 10,213 thousand) that were neither past due nor impaired. These receivables may be split into the following groups:

	2007	2006
Trade receivables neither past due nor impaired		
Receivables from related party Eurochem Trading GmbH	170,258	3,882
Receivables from external customers	10,635	6,331
	180,893	**10,213**

More details about transactions with related parties are disclosed in Notes 14 and 20. Eurochem Trading GmbH is an existing customer of the Company for several years with no defaults in the past.

None of the financial assets that are fully performing and that would otherwise be past due or impaired has been renegotiated in the last year, except for part of trade receivables from related party Eurochem Trading GmbH which payment terms were renegotiated in the end of 2007. The revised payment term was set at 210 days after the date of issuing bill of lading (the initial payment term was set at 14 days). From the total amount of trade receivables from Eurochem trading GmbH outstanding as at 31 December 2007, LTL 161,733 thousand have been renegotiated.

14. TRADE AND OTHER RECEIVABLES

	2007	2006
Trade receivables, gross	183,138	73,871
Less: provision for impairment of trade receivable	(294)	(601)
VAT tax receivable	12,268	11,685
Short-term loan granted	12,865	13,669
Prepayments made to suppliers	12,466	6,884
Grants receivable	-	4,092
Other receivables	912	3,365
	221,355	**112,965**

The short-term loan in table above represents a loan of LTL 11,786 thousand (USD 5,000 thousand) granted to related party Eurochem A.M. Limited under the agreement signed on 23 December 2005 and accumulated interest of LTL 1,079 thousand. Under the amended terms of agreement in December 2006, the loan was provided for the period until 31 December 2007 subject to interest rate of 5.3%. Total interest charged on this loan amounted to LTL 665 thousand in 2007. Under the amended terms of agreement in December 2007, the loan was provided for the period until 31 December 2008 subject to interest rate of 4.3%.

The fair values of trade and other receivables are assumed to be substantially equal to their carrying values. Based on the management estimate, the impact of discounting would not be significant.

Trade receivables that are less than six months past due are not considered impaired. The ageing analysis of these trade receivables is as follows:

	2007	2006
Trade receivables past due but not impaired		
Up to 3 months	1,918	16,739
3 to 6 months	33	46,318
	1,951	**63,057**

In 2006 the amount of trade receivables past due but not impaired contained LTL 13,558 thousand and LTL 46,300 thousand of receivables from Eurochem Trading GmbH overdue by up to 3 months and by 3 to 6 months, respectively. These receivables were recovered in full in 2007. The remaining amount of trade receivables past due but not impaired relate to a number of independent customers for whom there is no recent history of default.

14. TRADE AND OTHER RECEIVABLES (continued)

As of 31 December 2007, trade receivables of LTL 294 thousand (2006: LTL 601 thousand) were impaired and provided for a full amount. The individually impaired receivables mainly relate to wholesalers, which are in unexpectedly difficult economic situations. It was assessed that neither part of those receivables is expected to be recovered. The ageing of these receivables is as follows:

	2007	2006
Trade receivables impaired and provided for		
6 to 12 months	-	-
Over 12 months	294	601
	294	**601**

Movements of the provision for impairment of trade receivables are as follows:

	2007	2006
At 1 January	**601**	**1,819**
Receivables written off during the year as uncollectible	(273)	(1,182)
Impact of changing foreign exchange rates	(34)	(36)
At 31 December	**294**	**601**

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the income statement. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

	2007	2006
US dollar	188,034	87,307
Lithuanian Litas or Euro	33,321	25,658
	221,355	**112,965**

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Company does not hold any collateral as security.

15. CASH AND CASH EQUIVALENTS

	2007	2006
Cash in bank	4,499	3,257
Cash on hand	9	19
Time deposits and repo deals	168,612	21,158
Letters of credit and guarantees	152	302
	173,272	**24,736**

16. SHARE CAPITAL

As at 31 December 2007, authorised share capital comprised 21,020,564 ordinary shares with a par value of LTL 10 each. No changes were made in the Company's authorised share capital during 2007.

17. TRADE AND OTHER PAYABLES

	2007	2006
Trade payables	24,895	19,257
Import VAT payable	6,782	4,764
Other payables and accrued charges	12,974	9,678
Amounts received in advance	13,921	156
Other taxes payable	452	726
Social security payable	1,277	1,141
	60,301	**35,722**

18. GRANTS

Under the order of the Lithuanian Minister of National Economy, dated 24 November 2006, the Company obtained the right to receive grant amounting to LTL 6,000 thousand from the EU structural funds to finance expenses relating to the project: "The usage of current and regenerating sources of energy of sulphur acid department for production of electrical power". The project was started on 1 July 2006 and completed on 1 August 2007. As at 31 December 2006, the Company accounted for grant receivable under trade and other receivables, and the grant under liabilities to the extent of costs eligible for compensation incurred to 31 December 2006. As at 31 December 2007, the Company had received full amount of the grant. The grant is amortised over the useful life time of related assets and LTL 289 thousand was credited to the income statement in 2007 (2006: LTL 0) to off-set the depreciation of related assets

19. CASH FROM OPERATING ACTIVITIES

	2007	2006
Profit before tax	270,065	45,529
Adjustments for:		
Depreciation and amortisation (Notes 9, 10)	28,358	26,063
Write-off of inventory	55	-
Finance charges (interest)	(2,317)	(1,267)
Loss on disposal of property, plant and equipment, net	(155)	(17)
Unrealised foreign exchange loss	22,829	10,860
Changes in working capital:		
– trade and other receivables	(133,158)	(32,075)
– payables	17,654	(11,633)
– inventories	(14,955)	19,525
Cash from operating activities	188,376	56,985

There were no significant non-cash transactions during the years 2006 and 2007.

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

	2007	2006
Net book value (Notes 9, 10)	66	208
Gain on disposal of property, plant and equipment (Note 6)	155	17
	221	**225**

20. RELATED-PARTY TRANSACTIONS

The Company is controlled by Mineral and Chemical Company Eurochem (Russia), which owns 91.15% of shares of the Company. As at 31 December 2006, the principal shareholders and ultimate beneficiaries of Mineral and Chemical Company Eurochem, each holding 50 per cent of shares of this company, were Mr. Andrey Melnichenko and Mr. Sergey Popov. In December 2006 they reached an agreement, whereby Mr. Andrey Melnichenko became the sole ultimate beneficiary of Mineral and Chemical Company Eurochem effective from May 2007.

Other related parties are deemed to be the Eurochem Group entities and management of the Company.

The following transactions were carried out with related parties:

	2007		2006	
	Sales	**Purchases**	**Sales**	**Purchases**
Eurochem Trading GmbH	297,366	27,440	296,524	222,159
Harvester Shipmanagement Ltd	-	75,347	-	39,609
OAO Kavdorskiy GOK	-	132,286	-	-
OAO NAK Azot	-	46,642	-	-
	297,366	**281,715**	**296,524**	**261,768**

Related parties in the table above belong to the Eurochem Group. Nature of transactions with related parties is purchase of raw materials (Eurochem Trading GmbH, Kavdorskiy GOK and NAK Azot), purchase of transportation services (Harvester Shipmanagement Ltd) and sales of production (Eurochem Trading GmbH).

Year-end balances of transactions with related parties:

	2007		2006	
	Receivables	**Payables**	**Receivables**	**Payables**
Eurochem Trading GmbH	170,258	-	63,690	4,017
Harvester Shipmanagement Ltd	-	4,552	-	2,192
OAO Kavdorskiy GOK	-	6,807	-	-
OAO NAK Azot	-	4,253	-	-
Eurochem A.M. Limited	12,865	-	13,669	-
	183,123	**15,612**	**77,359**	**6,209**

The balances of receivables include receivables for production sold (Eurochem Trading GmbH) and loan granted (Eurochem A.M. Limited). The balances of payables include accounts payable for raw materials purchased (OAO Kavdorskiy GOK, OAO NAK Azot) and for transportation services purchased (Harvester Shipmanagement Ltd).

Key management compensation

During 2007, the Company accounted for LTL 3,261 thousand (2006: LTL 2,067 thousand) of key management remuneration expenses, including salary expenses of LTL 1,699 thousand (2006: LTL 968 thousand), bonuses of LTL 788 thousand (2006: LTL 415 thousand) and social security expenses of LTL 774 thousand (2006: LTL 684 thousand). Average number of key management personnel was 5 in 2006 and 2007.

21. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

The Company is producing excessive quantity of gypsum which is a waste product. Based on the order of the Minister of Environment, the Company has prepared the plan for utilization of waste products in case the Company ceased its operations, and has made an assessment of expected costs waste management in the amount of LTL 2,658 thousand as at 31 December 2007 (2006: LTL 2,581 thousand). Based on this assessment, a guarantee for the full amount was issued by SEB bank and restriction was imposed by the bank on the Company's cash of LTL 2,658 thousand (Note 11).

The outflow of the Company's resources for management of waste products based on the above-mentioned plan is under full control of the Company and considered as not probable because it would happen only in case the Company ceased its operations. The Company's management and shareholders have no intentions to liquidate the Company or terminate its trading activities in the foreseeable future, nor do they expect that such situation would be inevitable. Based on this, no provision was recognized in these financial statements for the expected waste management costs.

Capital expenditure commitments

Capital expenditure commitments contracted for property, plant and equipment at the balance sheet date but not recognized in the financial statements amounted to LTL 3,807 thousand (31 December 2006: 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 by the Government equal in number to its cap. Allowances are issued free of charge. Allowances obtained at no cost are recorded at a zero value by the Company. In 2007 actual emissions of the Company amounted to 612 tons (2006: 1,110 tons). The market value of remaining unused allowances amounted to LTL 0.2 thousand as at 31 December 2007 (2006: LTL 629 thousand). Income from emission allowances sold and unused (for the previous period) amounted to LTL 60 thousand in 2007.

For the period 2008–2012, the Company was issued allowances to emit 499,696 tons of carbon dioxide, 99,939 tons whereof are attributed to the year 2008.

Annual report

1. Reporting period

This annual report covers the period from 1 January 2007 until 31 December 2007. All numbers in the report are given as of 31 December 2007, unless otherwise stated. In this report AB Lifosa may hereinafter be referred to as the Entity, the Company or the Issuer.

2. The Issuer and its contact data

Name	Joint stock company Lifosa
Legal form	Legal person, Joint stock company
Authorized capital	210 205 640 Lt.
Registration date and place	30 October 1996 in Legal Persons Register
Registration certificate No.	025806
Company number	161110455
VAT number	611104515
Head office address	Juodkiškio g. 50, LT-57502 Kėdainiai
Telephone	+370 347 66 483
Fax	+370 347 66 166
E-mail	info@lifosa.com
Website	www.lifosa.com

The company has no branches or representative offices.

3. Main activities of the Issuer

The Company mainly deals with production and wholesale of feed phosphates, nitrogen-phosphoric fertilizers (Diammonium Phosphate) and also aluminium fluoride. Interim products are sulphuric acid and wet-process phosphoric acid used in the production of main products. Non-typical activities of the Company are generation and trade in electricity and thermal energy.

4. Contracts with intermediaries of public circulation of securities

AB Lifosa has a contract with financial brokerage firm AB FMĮ Finasta (Konstitucijos ave. 23, Vilnius) on the administering of securities issued by the Company.

5. Data on the trade in Issuer's securities in regulated markets

AB Lifosa ordinary registered shares are listed in the secondary list of AB "Vilniaus vertybinių popierių birža" (Vilnius Stock Exchange). No trading of shares of the Company takes place in any other stock exchanges.

Basic characteristics of shares

Type of shares	ISIN code	Abbreviation	Number of shares	Par value in LTL	Total par value
Ordinary registered shares	LT0000116691	LFO1L	21 020 564	10	210 205 640

6. Objective overview of the Entity's status, operations and development, description of key risks and exposures the Company faces

Overview of the Company's business and status

Diammonium Phosphate and feed phosphates are used all over the world. These products are produced by many companies which can offer products of the same quality and chemical composition. Sales results mainly depend on the best price offered to the market, which is mainly influenced by the economical position of agriculture and subsidizing policy, i.e. factors that cannot be influenced by producers.

Last year grain stock in the world has fallen to a critically low point. Growing oil prices and the need for energetic independence encouraged many countries to look for alternative sources of vehicle fuel. Increasing threat of global warming made governments to reduce the quotes for CO_2 emissions and charge higher fines for pollution. Rather costly production of biofuel, ethanol and biodiesel has gained speed. Prices of main agricultural products used for food, fodder and fuel, namely wheat, corn, soya beans, sugar beetroots etc., continued growing. Farmers receiving higher income prefer phosphoric fertilizers which are more efficient (though also more expensive) compared to nitric ones. Significant development of agricultural sector in Brazil and India has also increased the demand and import of fertilizers. Food demand grew in Asia; the USA saw an increased demand for corn used in ethanol manufacturing. Production capacity of phosphoric fertilizers, which remained in the same level, could not satisfy the increased demand. Therefore, in the end of Q1 2007 prices began to go up. This tendency remained until the end of the year. Manufacturers tend not to increase the production volumes of phosphoric products with the aim to maintain higher prices resulting from limited supply and growing demand. High cost of basic raw materials and growing energy and logistic costs also made manufacturers sell fertilizers at higher prices in order to guarantee profitability.

Assessment of the main types of risks and exposures the Company faces with

Phosphoric fertilizer business is cyclic. Phosphoric fertilizer prices fluctuate because of economic and natural factors, periodicity of end user business, decline in the purchasing power. Therefore, the Company's income and profit may drop, business may become unprofitable.

By 2012 the supply of phosphoric products may increase significantly as a result of new DAP production lines currently being built in Africa and the Middle East. This would reduce fertilizer sale prices. The Company's products then would become uncompetitive due to higher production costs, growing transportation costs and higher DAP selling price compared to the price offered by competitors in Europe, Africa and Asia.

The bigger part of production cost is made up of raw materials cost and thus production costs keep increasing due to limited supply and growing prices of raw materials in the global market, continuously growing transportation costs. When the supply grows, the Company will not be able to move higher production costs onto the end user what would have a negative impact on results of its operations.

Bad climate, unrest in the regions may hinder the delivery of raw materials and thus result in reduced production volumes.

Business risks are managed by continuous investment into equipment and processes and reducing fixed costs; also raw material consumption norms are reduced. Bigger part of raw materials is obtained from the subsidiaries of major shareholder MCC Eurochem. When raw material is purchased from third parties, several suppliers are selected and long term contracts are signed with them. The supply of raw materials is a regularly planned process.

The Company produces high quality fertilizers appreciated by buyers and consumers. Goods are promptly delivered to different regions under agreed delivery terms.

Financial risks the Company faces with and their management are described in the explanatory notes of the audited financial statements.

7. The analysis of financial and non-financial results

Key activity indicators:

	2006	2007
Income from sale, in LTL thousand	682 466	921 648
Cost of sale, in LTL thousand	574 753	578 022
Gross profit, in LTL thousand	107 713	343 626
Gross profit margin, %	*16*	*37*
Operating profit, in LTL thousand	44 262	267 748
Operating profit margin, %	*6*	*29*
Profit before tax, in LTL thousand	45 529	270 065
Profit before tax margin, %	*7*	*29*
Net profit, in LTL thousand	37 220	221 102
Net profit margin, %	*5*	*24*
EBIT, in LTL thousand	45 529	270 065
EBITDA, in LTL thousand	71 589	298 423
ROE, %	10	36
ROA, %	9	31
Debt-equity ratio	0,11	0,17
Liquidity ratio	4,22	4,40
Income per employee, in LTL thousand	657	904

8. References and additional explanations of the data presented in financial statements

During the year 2007 the company produced 841 670 tons of Diammonium Phosphate, i.e. 7.15 percent more compared to the year 2006 (785 500 tons). Production of fodder phosphates decreased to 64 890 tons, i.e. 4.98 percent less compared to the year 2006 (68 290 tons). During the reporting year the company produced only monocalcium phosphate; dicalcium phosphate was abandoned due to lower profit margin. The volume of final product directly depends on production of the interim product, namely phosphoric acid. During 2007, 430 300 tons of phosphoric acid was produced, i.e. 4.16 percent more than in 2006 (413 100 tons).

The company also produces electricity, which is first of all used for production needs while the remaining amount is sold. During 2007, 231 035 thousand kWh of electricity was produced, i.e. 17.18 percent more than in 2006 (197 167 thousand kWh). During the reporting year a modern process heat complete recovery system was implemented. The system, which started operating in August, improved the production processes, let to use more thermal energy generated during the manufacturing of sulphuric acid and convert this energy into electricity.

Sales income amounted to LTL 921 648 thousand and grew by 35 percent compared to the year 2006 (LTL 682 466 thousand). Income growth mainly resulted from continuously increasing price of diammonium phosphate in the global market. The average price of diammonium phosphate sold by the Company in 2007 increased by 42.5 percent compared to the average price in 2006, sales volumes remained almost the same as in 2006. Income from sales of production amounted to LTL 902 342 thousand (LTL 664 741 thousand in 2006) or 97.9 percent (97.4 percent in 2006) of the Company's total sales income. Income from sales of diammonium phosphate amounted to LTL 796 426 thousand (LTL 558 162 thousand in 2006), i.e. 88.3 percent of all production sales (84.0 percent in 2006). Income from sales of feed phosphates amounted to LTL 68 302 thousand (LTL 57 320 thousand in 2006) or 7.4 percent (8.6 percent in 2006) of the total production sales.

Diammonium phosphate sales volumes in thousand tons:

	Q1	Q2	Q3	Q4	TOTAL
2007	181 597	162 521	260 099	221 000	825 217
2006	207 494	174 619	216 902	219 860	818 875
Change %	87.5	93.1	119.9	100.5	100.8

In Q2 the Company's diammonium phosphate sale prices reached global prices after contracts entered into several months ago were executed. The cost of sales amounted to LTL 578 022 thousand and compared to the year 2006 (LTL 574 753 thousand) has not changed while the prices of the main raw materials maintained at the same level as in 2006. After volumes of apatite concentrate production in one of MCC Eurochem group companies were increased, less Moroccan phosphate raw material was used for production of phosphoric acid, thus production costs almost remained unchanged.

Diammonium phosphate sales in Europe increased by 28.5 percent. On the other hand, there was less export to Asia; sales volumes in this region dropped by 46.5 percent. Sales in Africa increased by 8.6 percent, sales in America dropped by 14.6 percent compared to the year 2006. Due to favourable market conditions, lower transportation costs and higher profit margin the Company preferred to trade with European buyers. Sales in Europe made up 62.4 percent of all sales (49 percent in 2006), sales in Africa made up 18 percent (16.8 percent in 2006), sales in Asia made up 15.8 percent (29.9 percent in 2006), and the remaining 3.7 percent of products were sold in America (4.4 percent in 2006).

Feed phosphates are sold only to European market. In 2007 65 372 tons of monocalcium phosphate were sold (70 677 tons in 2006).

During the reporting period 46 464 thousand kWh of electricity was sold, i.e. almost 3 times more compared to the year 2006 (15 666 thousand kWh).

Investments

In 2007 capital investments amounted to 46 658 thousand LTL. Main projects implemented in 2007 were Modernization of Sulphuric Acid Unit Process Absorption (investment value LTL 28 872 thousand) and Replacement of Phosphoric Acid Unit Surface Condensers (investment value LTL 6 356 thousand). LTL 11 430 thousand were spent for replacement of fully depreciated equipment, capital repair of buildings and equipment. Depreciation and amortization deductions in 2007 amounted to LTL 28 336 thousand.

9. Information on own shares acquired and held by the company

During the reporting period the Company has not acquired its own shares.

10. Material events since the end of previous financial year

On 15 February 2007 the Audit Company DET NORSKE VERITAS issued a certificate to AB Lifosa certifying that the Company's health and safety management system for employees complies with OHSAS 18001:1999 requirements. Having obtained employee health and safety management system certificate AB Lifosa became one of the first big Lithuanian companies holding all three major international certificates, namely Quality Management ISO 9001:2000, Environmental Management ISO 14001:2004 and Occupational Health and Safety Management OHSAS 18001:1999.

On 25 May 2007 AB Lifosa was awarded the first certificate in Lithuania granting the right to use a "Blue Wave" sign. This sign informs the public that the company uses a transparent salary payment system.

On 1 August 2007 the Company implemented a project "Use of local and renewable sources of energy generated in sulphuric acid unit for electricity production" and finished installation of Heat Recovery System (HRS). The system gives an opportunity to produce more thermal and electric energy using process heat generated in the production of sulphuric acid. After the reconstruction the Company will use sources of surplus heat to produce over 200 million kWh of electricity, more than 20 million kWh of which will be delivered to the national grid and the city will receive almost 100 thousand MWh of thermal energy. To produce such amount of energy Lithuanian power and boiler stations would have to burn abount 60 million m^3 of natural gas and emit different pollutants, greenhouse gas among them. By reducing CO_2 emissions AB Lifosa has a significant positive impact towards the implementation of Kyoto protocol.

11. Planned and forecasted activities of the company

Demand for phosphoric fertilizers will remain stable and the year 2008 will be successful for manufacturers of phosphoric fertilizers. Grain production in the world is expected to grow by five percent and the grain stock level is expected to decrease in 2008. Demand for phosphoric products will increase with the growth of ethanol production and demand for fodder crops. Falling grain stocks in the world will increase their price and there will be big demand for fertilizers. World economies, especially those of developing countries, will maintain growing tendencies and food consumption will increase together with rising income. Farmers' purchasing power will improve and they will allocate more money to obtain more expensive phosphoric fertilizers.

Global fertilizer demand will grow by 2 – 3 percent. The expected demand in Western Europe will not fall because of European Commission's decision to let farmers use 10 percent of uncultivated land. 2.3 percent growth in demand is expected in Central Europe because of more rapid development of the region. In Russia the demand will grow by 3.5 percent, and the biggest growth in demand of about 6.4 percent is forecasted in South America, first of all in Brazil.

China and Russia, aiming to decrease the burden suffered by their farmers due to soaring fertilizer prices, have introduced export duties on fertilizers: in Q1 2008 China introduced 35 percent export duty on diammonium phosphate and Russia introduced 8.5 percent export duty on phosphoric fertilizers.

In 2008 sulphur prices will increase five times in average, ammonium prices will double and will depend on the growth of energy prices. The most important factor influencing fertilizer prices is the growing price of basic raw materials, namely phosphate rock and phosphoric acid. Production of phosphate raw material is concentrated in the hands of a few key sellers who determine high export prices. The market of fodder phosphates remains stable; however, the growing price of phosphoric acid also influences the price of these products.

In 2008 the physical production and sales volumes will actually remain the same as in 2007, except for the volumes of feed phosphates, which is expected to increase slightly. Because of the growing prices of raw materials, which make up more than 4/5 of production costs, the costs of manufactured products of the Company will also grow.

The Company expects to invest LTL 39 430 thousand in 2008. Major part of investment in 2008 will be used for construction of diammonium phosphate warehouse and reconstruction of phosphoric acid reactor.

According to the Company's business plan for 2008, the company expects to receive LTL 1 451 600 thousand of income from sales of goods and services.

12. Structure of the Issuer's authorized capital

Type of shares	Number of shares	Par value, LTL	Total par value, LTL	Share in authorized capital, percent
Ordinary registered shares	21 020 564	10	210 205 640	100.00

13. Stock transfer restrictions

There are no restrictions for stock transfer.

14. Shareholders

As at 31 December 2007 the Company had 1 221 shareholder.
Shareholders owning or managing over 1 percent of the company's authorized capital are as follows:

Company name, number head office address	Number of equity shares, units	Owned share of authorized capital, percent	Voting share, percent
Eurochem, Mineral and Chemical Company Joint Stock Kozhevnichesky Proyezd 4, Buildings 1,2, 115114 Moscow, Russia 102770002659	19 160 229	91.15	91.15

Eurochem A.M. Limited Cristodoulou Chatzipavlou 205,Louloupis Court 2nd Floor,Office 201,p.c. 3036,Limassol	767 250	3.65	3.65
Sagittarius International Limited The Premises of Commonwealth Trust Limited Drake Chambers,Tortola,British Virgin Island	226 909	1.08	1.08

15. Shareholders holding special controlling rights and description of these rights

None.

16. All restrictions of voting rights

None.

17. Agreements between shareholders which to the knowledge of the Issuer may restrict transfer of shares and/or voting rights

None.

18. Employees and environment protection

Employees

In the end of 2007 the company had 1 008 employees. Average employee age is 45 years. During the year 2007 employment relationship ended with 22 employees (19 in 2006). The Company allocated funds for enhancing employee skills and training. LTL 158 thousand were spent for employee training in 2007 (LTL 125 thousand in 2006). 639 employees received training in 2007 (547 in 2006).

Average number of payroll employees

	2004	2005	2006	2007
Managers	101	106	116	117
Specialists	92	92	80	78
Workers	859	851	842	824
Total	**1 052**	**1 049**	**1 038**	**1 019**

Average monthly salary in LTL

	2004	2005	2006	2007
Managers	4 114	4 816	4 669	6 669
Specialists	2 068	2 917	3 005	3 557
Workers	1 469	1 762	2 087	2 729
Total	**1 776**	**2 172**	**2 444**	**3 245**

Employee grouping by education

	2004	2005	2006	2007
With higher education	161	163	170	176
With special secondary education	235	222	213	201
With secondary education	514	538	526	514
other	142	126	129	128
Total	**1 052**	**1 049**	**1 038**	**1 019**

Environment protection

In 2007 stationary source emissions were 2 210 tons (1 868 tons in 2006), including 1 963 tons of sulphur dioxide representing 89 % of total emissions. The above amount excludes CO_2 emissions. Compared to the year 2006 total emission increased by 342 tons. With increased mineral fertilizer production volumes comparative emissions to air and water did not change if calculated kg/t of product. Allowable emission to water in tonnes per annum was not exceeded. 2 251 thousand m^3 of surface waste water (rainwater) was emitted to the Obelė river. During the year 638 tons of pollutants were emitted with wastewater. Compared to 2006 pollutant content in wastewater has dropped significantly.

During 2007 the Company disposed 2 035 thousand tons of by-product phosphate gypsum in the Company's landfill (1 976 thousand tons in 2006). Other manufacturing waste of the Company is sorted and delivered to waste handlers or to the Company's non-toxic landfill in compliance with the procedure laid down in Waste Disposal Regulation.

During 2007 the Company paid LTL 914 527 of pollution taxes, i.e. LTL 162 966 more than in 2006. No fines or claims were received.

19. Procedure of amending Issuer's articles of association

The Company's articles of association are amended in accordance with the Law on Companies of the Republic of Lithuania. The Company's articles of association may be amended only under the resolution of the general meeting adopted by higher than 2/3 majority of votes. Amended articles of association come into force only after they are registered in the Register of Legal Persons under the Law.

20. Issuer's bodies

General Meeting is the main body of the Company. The Company's governance bodies are the Board and the Head of the Company (general director). There is no Supervisory Council in the Company. The Board is elected by the General Meeting for a four-year term of office. The Board consists of 5 members. General director is appointed, withdrawn and dismissed by the Board. The Board may call a competition for the general director's position.

21. Members of collegiate bodies, Head of the Company, Chief Accountant

Member of the Board

Full name	**Position**	**Equity/vote share held, percent**
	The Board	
Aleksandras Tugolukovas	Chairman (since 27/04/2007)	-
Valerijus Rogalskis	Member	-
Stanislavas Duriaginas	Member	-
Jonas Dastikas	Member	0.145
Regvita Ivanovienė	Member	0.005

Beginning and end dates of the Board members office (until the end of general meeting)

Full name	**Beginning of office**	**End of office**
Jonas Dastikas	23/04/2004	2008
Aleksandras Tugolukovas	03/11/2004	2008
Regvita Ivanovienė	21/12/2004	2008
Stanislavas Duriaginas	22/04/2005	2008
Valerijus Rogalskis	13/04/2007	2008

Head of the Company , Chief Accountant

Full name	**Position**	**Equity/vote share held, percent**
Jonas Dastikas	General director	0.1450
Nijolė Kalinauskienė	Chief Accountant	0.0001

22. Information on significant agreements

The Company has not entered into any significant agreements the validity, amendment and termination of which could be affected by the change in shareholder structure.

23. Information on compliance with the Code of Corporate Governance

AB Lifosa basically complies with the principles of the Code of Corporate Governance approved by Vilnius Stock Exchange for listed companies whose securities are traded in regulated market. No material changes have occurred after the Company's notification on compliance with the Code of Corporate Governance after the end of reporting year 2007. Notification on compliance with the principles of the Code of Corporate Governance approved by Vilnius Stock Exchange for listed companies whose securities are traded in regulated market is enclosed as a separate written confirmation.

24. Information on the transactions between the related parties

Information on related parties is presented in the explanatory notes of the audited Financial Statements for year ended 31 December 2007.

25. Data on the publicly announced information

During the period between 1 January 2007 and 12 December 2007 all information publicly announced by the Company was published through Vilnius stock exchange. The content of this information may be accessed in the website of Vilnius stock exchange by using the following link: http://www.baltic.omxgroup.com/market/?pg=news.

Jonas Dastikas

General Director

15 April 2008

Annex 1
To the Annual Report 2007

Disclosure form concerning the compliance with the Governance Code for the companies listed on the regulated market

The public company AB „*Lifosa*" (further- the Company), following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 20.5 of the Trading Rules of the Vilnius Stock Exchange, discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions.

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The Company's development strategy and objectives are disclosed in the Annual Reports of the Company; some information is available on the Company's website, in articles of the daily newspapers, reports, press conferences, on TV.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	The Management Board and the Managers of the Company act in furtherance of the declared strategic objectives, optimizing the shareholders value. The Company consistently and successfully strengthened its position in the world markets while increasing production rates and implementing the sales performance strategies.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The Company's Management Board is in close co-operation with the Head of the enterprise. The Board Members of the company are the managing persons from the key shareholder's and from the Company. The Head of the Company is the Board Member. Board of the Company takes the resolutions on the strategic issues and the Board Members report to the Board on their activities.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The Company has implemented the Quality Management System (ISO 9001), the Environmental Management System (ISO 14001) and the Occupational Health and Safety Management System (OHSAS 18001); the Collective Agreement is signed between the Company and the representatives of trade unions, existing in the company; the Head of the Company reports on the fulfilment of the Collective Agreement provisions to the employees and to the representatives of the employees during the Annual Meetings. Every year the Company arranges the Open Days' sessions for

		the society and meetings with the local community. The Company aims for the advancement in the field of social responsibility and has announced the statement on the social responsibility publicly. The Company continually supports the cultural, education & science, sports & health programmes, arrangements and exhibitions initiated and organized by the regional and local municipality also invests into cultural activities of the local community. The Company considers that on basis of the above mentioned documents and means the management bodies secure the interests of suppliers, clients, employees and of the local community.

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.

2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	No	The Company has a collegial management body the Board and the sole-person management body the Head of the Company (General Director). There is no collegial supervisory body the Supervisory Board. The supervision of the Company's performance, accountability and control is secured by the Board while analysing and evaluating the material on the performance of Company's key activities presented by the General Director of the Company at the monthly Board meetings. Hereby, the Board of the Company secures the strategic management of the Company on a constant basis and controls the implementation of the annual business and production plans, investments, etc., executed by the General Director and the Management.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	No	See the comments of the item 2.1
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	No	See the comments of the item 2.1
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.	No	The set up and the performance of the Company's Board do not fully meet the recommendations defined in Principles III and IV. The compliance or non compliance with the recommendations is disclosed in the further comments.

2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.[1]	Yes	The Board of the Company comprises five members. The number of the Board Members is considered sufficient, as there were no cases that small group of individuals would dominate the Board; the Board's decisions on most of the questions are made unanimously. The Board Members are elected for the maximum intervals allowed by the Lithuanian legislation (4 years) and the number of terms for the members is not limited in conformity with the Issuer's Articles and the best practice.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Not applicable	The Articles of Association do not state the set up of the Supervisory Board.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Chairman of the Company's Board is not and never was the Head of the Company.

Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting

The order of the formation 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.

3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	It is considered, that the mechanism of the formation of the Board ensures objective and fair monitoring and control over the Company's Head. The right of the minority shareholders to nominate their representative to the collegial body is not limited.

3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	The Company collects the data about the members of the collegial body and the information about their education, professional background, qualification and potential conflicts of interest in accordance with the Company's Board regulations and discloses the relevant portion of information in the publicly announced draft resolutions of the general shareholders meetings and during the general shareholders' meeting. The Company is planning to disclose the information on the members of the management bodies in its website.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	The Board Members take improvement courses and participate in the seminars, workshops gaining the information about the changes in the legislation and rules, regulating the Company's activities.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	Yes	All the Board Members have the higher education of different specialities and qualifications and are engaged in different fields of activities. It is considered that the members of different professional experience and having the required diversity of knowledge assure the qualification balance of the Board. The audit committee is not formed within the Board.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	No	New Board Members are provided with the key documents of the Company, they are provided with all relevant information necessary for efficient activities. The annual review of the members' skills and knowledge is not conducted in the Company.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.	No	Based on the data available as of December 31, 2007, one shareholder holds 91.15 percent of all the Company's shares and votes. None of the Board Members elected by the general shareholders meeting can be treated as an independent member following the independence criteria as identified in item 3.7. The Board is planning to discuss the recommendation regarding a sufficient number of independent members of the collegial body.

3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization	No	See the comments of the item 3.6.

receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.		
3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	No	Actually the Company's Board has a right to determine the content of the independence notion. All the currently acting Board Members are associated either with the Company or with its shareholder; therefore, the independence notion is not defined.
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Not applicable	See the comments of the item 3.8.

3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Not applicable	See the comments of the item 3.8.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.	Not applicable	See the comments of the item 3.8.

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.

4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.	Yes	The Board analyses and assesses the Company's draft annual financial statements and draft profit (loss) allocation and presents to the general shareholders meeting. The Board periodically discusses and approves the investment projects, production programmes of the Company. The Company's Articles of Association and the Board's operating rules define the responsibility of the management bodies to act fairly, transparently, reasonably and exceptionally for the benefit and in the interests of the Company and the shareholders, being loyal to the Company, avoiding the conflicts of the interests.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	To the Company's information, the Board Members act in good faith towards the Company and the Company has no knowledge or information which could create the doubt that the Board Members could act conversely. In case the Board meeting discusses the subject related to the Board Member, the interested member opts out of the discussion and voting.

4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	The dates for the Board meetings are agreed with the Board Members. The Board Members attend the Board meetings and, from the Company's point of view, each member devotes sufficient time to perform his or her duties as a member of the board.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The Company's Board treats the Company's shareholders fairly and impartially. The Company has updated its website which now includes more information about the Company. The Board Members answer to the inquiries of the shareholders.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	The Company concludes transactions with related parties under the normal course of business and following the standard rules valid at the Company. The Company's Board approves the transactions, exceeding the defined transaction value. The resolutions are taken in accordance with the regulations of the Law on Companies.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies[2]. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	Yes	The Company's Board is independent in passing the decisions that are significant for the Company's operations and strategy. The majority of the Board Members are not job or otherwise related with the Head of the Company who is a Board Member. The Company ensures that the Board is provided with sufficient administrative and financial resources to execute their duties. The employees of the company provide the Board Members with all the information necessary to fulfil their functions properly and to solve the issues pertaining to their competence.

4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	No	As it has been mentioned, there are no independent members in the Company's board. The Committees are not formed in the Company's Board; however, according to the common practice, the Board is set up of the members having different experience, education and of different specialities and qualifications. Therefore, it can be stated that the Board, while executing its duties and functions, partially covers the functions of the nomination, remuneration and audit committees. The Company's Board elects and nominates the Head of the Company and also defines the remuneration to be paid him, other directors and the chief accountant. The Board may announce the competition to select the person for the company's head position and also for the positions of other directors, may consider and approve or not approve the candidates to be nominated to the Company's directors positions suggested by the head of the company, evaluates their experience, professional skills and assesses the implementation of the Company's strategic goals, reviews the reports. The Company's Board selects the candidate for the Company's auditor position and suggests the general shareholders meeting to approve it.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	Not applicable	See the comments of the item 4.7.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that	Not applicable	See the comments of the item 4.7.

committee membership is refreshed and that undue reliance is not placed on particular individuals.		
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	No	See the comments of the item 4.7.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Not applicable	See the comments of the item 4.7.

4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: • Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; • Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; • Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; • Properly consider issues related to succession planning; • Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	Not applicable	See the comments of the item 4.7.
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: • Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; • Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; • Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; • Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); • Make general recommendations to the executive directors	Not applicable	See the comments of the item 4.7.

and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: • Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; • Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; • Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: • Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); • At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; • Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; • Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; • Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy	Not applicable	See the comments of the item 4.7.

establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;

• Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.

4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.

4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.

4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.

4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.

4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.

4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.

4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	The general shareholders' meeting conducts the assessment of the Company's Board activities.

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

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.

5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	This recommendation is included into the Company's Board rules and it is followed.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.	Yes	The meetings of the Company's collegial body – the Board are carried out in accordance with the approved schedule, usually monthly.

5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	The agendas for the Board meetings are prepared in advance. The questions, also the draft resolutions of the Board, to be discussed at the meeting, are prepared and submitted by the Head of the Company, by the Board Members or by the experts of the Company under the order of the Board or of the Head of the Company. The draft projects may also be arranged by outside experts, not only the employees of the Company. Each member of the management body has access to the material of the meeting before the date of the meeting. The draft resolutions and other relevant information on the meeting are presented in advance, on the date of the announcement of the meeting. The agenda of the meeting normally is not changed, unless supplemented during the meeting under the presence of all the Board Members of the Company and then it is decided to include into discussions the additional issues.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	No	The Company does not observe this recommendation as only one collegial body – the Board is set up.

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.

6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The authorised capital of the Company consists of the ordinary intangible registered shares that grant the same personal ownership and intangible rights to all their holders.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The rights attached to the shares are defined in the Articles of Association. If the new issue of the shares granting different rights to their holders would be issued, the Company would announce publicly about the rights attached to the newly issued and to already existing shares.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	The Board approves important to the Company or great value transactions, such as transfer, investment and pledge of the Company's assets, mortgage, sponsorship and granting, loans in accordance with the order defined by the Articles of Association.

6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.	Yes	The venue, date and time for the Company's meetings are agreed so to ensure equal opportunities for all the shareholders to effectively participate at the meetings. Each shareholder may participate at the meeting in person or through the authorised representative and may require an advanced voting on the meeting agenda's issues. On the shareholders' request, the Company prepares and submits the advanced voting bulletin. Prior to the shareholders' meeting, the shareholders interested in the Company's activities, may inquire the authorised persons for the information on the questions related to the shareholder's meeting agenda and they will receive sufficient information.
6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	The Company places on the publicly accessible website and on the Stock Exchange website system the draft resolutions of the shareholders meeting and also the adopted resolutions of the shareholders meeting.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The Company's shareholders may exercise the right to participate at the general shareholders meeting either in person or through the representative provided the person has an appropriate authorisation or he or she has an agreement on the transfer of his voting right in accordance with the legal order; also, the Company provides the shareholders with the opportunity to vote by filling in the general voting bulletin as defined in the Law on Companies.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	No	The Company does not follow this recommendation as it does not yet have the technologies available to ensure the security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person and has not yet got such kind of requests from 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.

7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	This recommendation is obligatory to the members of the Company's management body under the guidance of the Company's documents.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	This recommendation is obligatory to the members of the Company's management body under the guidance of the Company's documents.

Principle VIII: Company's remuneration policy

Remuneration policy and procedure for approval, revision 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.

8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	No	The Company does not make a public statement of the company's remuneration policy..

8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	Not applicable	See the comments of the item 8.1
8.3. Remuneration statement should leastwise include the following information: • Explanation of the relative importance of the variable and non-variable components of directors' remuneration; • Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; • Sufficient information on the linkage between the remuneration and performance; • The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; • A description of the main characteristics of supplementary pension or early retirement schemes for directors.	Not applicable	See the comments of the item 8.1
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	Not applicable	See the comments of the item 8.1
8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	Not applicable	See the comments of the item 8.1
8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	See the comments of the item 8.1

8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.7.1. The following remuneration and/or emoluments-related information should be disclosed: • The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; • The remuneration and advantages received from any undertaking belonging to the same group; • The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; • If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; • Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; • Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: • The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; • The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; • The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; • All changes in the terms and conditions of existing share options occurring during the financial year. 8.7.3. The following supplementary pension schemes-related information should be disclosed: • When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; • When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.	No	The Company makes a remuneration statement on the general average remuneration paid to the Head of the Company and to the individual directors of the Management body in its Annual prospect-report under the existing laws and regulations. The Company observes the approved policy, stating that the remuneration and bonus system, including other payments related to the job relations, make a commercial secret and, therefore, is not to be disclosed publicly.

8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	Not applicable	The remuneration schemes mentioned in this recommendation were not applied in the Company.
8.9. The following issues should be subject to approval by the shareholders' annual general meeting: • Grant of share-based schemes, including share options, to directors; • Determination of maximum number of shares and main conditions of share granting; • The term within which options can be exercised; • The conditions for any subsequent change in the exercise of the options, if permissible by law; • All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.		
8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.		
8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.		

8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		

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 co-operation 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.

9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The methods and means of implementation of these recommendations are disclosed while describing the implementation of the provisions of the Principle I of this Governance Code.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.	Yes	See the comments of the item 9.1
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	See the comments of the item 9.1

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.

10.1. The company should disclose information on: • The financial and operating results of the company; • Company objectives; • Persons holding by the right of ownership or in control of a block of shares in the company; • Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; • Material foreseeable risk factors; • Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; • Material issues regarding employees and other stakeholders; • Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. 10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Yes	The Company states that it actually follows this recommendation because the information is disclosed and available on the website, on the information system at the Stock Exchange, in the financial statements, except for the recommendation of the item 10.3 (information about the education, professional experience of the management bodies is being arranged and will be made available on the website soon) and this is explained while disclosing the abidance of the recommendations of the Principles I, VI and VIII. The Company follows the recommendations of the items 10.4 and 10.5 of this Principle while disclosing the relevant information to the outside sources also announcing it through the internal information systems of the Company, accessible to all the employees.
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The Company announces the information through the Vilnius Stock Exchange information system both in Lithuanian and English languages simultaneously before or after a trading session on the Vilnius Stock Exchange.

10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	The information on the Company's website is announced in Lithuanian, English and Russian languages.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	All the information described in this recommendation is placed 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 conclusion and opinion.

11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	An independent firm of auditors conducts the audit of the Company's annual financial statements and the review of the Annual Report.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	The Company's Board proposes a candidate firm of auditors to the general shareholders' meeting.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Not applicable	The firm of auditors did not render non-audit services to the Company and no fees of this kind were paid to the firm.