

CONFIRMATION OF THE RESPONSIBLE PERSONS

2011-02-14

We confirm that AB Lifosa not audited Financial Statements for year ended 31 December and 4 th quarter 2010, prepared in accordance with International Financial Reporting Standards, give a true view of AB Lifosa assets, liabilities, financial position, profit.

ADDED: Interim non audited Financial Statements for year ended 31 December 2010.

Director General



Jonas Dastikas

Chief Financial Officer



Regvita Ivanovienė

**LIFOSA AB  
INTERIM FINANCIAL STATEMENT  
(UNAUDITED)  
31 DECEMBER 2010**

*Translation note*

*This version of the financial statements 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 the financial statements takes precedence over this translation.*

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**LIFOSA AB**  
**FINANCIAL STATEMENTS (UNAUDITED)**  
**31 DECEMBER 2010**

**STATEMENT OF COMPREHENSIVE INCOME**  
**in thousand LTL**

	Notes	October - December 2010	December 2009	Year ended 31 December 2010	Year ended 31 December 2009
Sales	1	305 676	185 807	1 089 280	838 798
Cost of sales	4	(206 981)	(168 106)	(785 661)	(802 696)
<b>Gross profit</b>		<b>98 695</b>	<b>17 701</b>	<b>303 619</b>	<b>36 102</b>
Selling and distribution costs	2,4	(6 882)	(8 092)	(29 026)	(29 101)
Administrative expenses	3,4	(6 999)	(4 186)	(26 225)	(26 976)
Net foreign exchange gain/(loss)	5	2 714	1 514	12 378	(16 352)
Other income	6	7 209	4 240	22 558	17 907
<b>Operating profit</b>		<b>94 737</b>	<b>11 177</b>	<b>283 304</b>	<b>(18 420)</b>
Interest income on short-term cash deposits	6	41	45	188	373
<b>Profit before tax</b>		<b>94 778</b>	<b>11 222</b>	<b>283 492</b>	<b>(18 047)</b>
Income tax	7	(14 281)	(12 357)	(42 879)	(7 861)
<b>Net profit</b>		<b>80 497</b>	<b>(1 135)</b>	<b>240 613</b>	<b>(25 908)</b>
Basic and diluted earnings per share (LTL per share)	8	3.83	(0.05)	11.45	(1.23)

These preliminary unaudited financial statements on pages 3 – 18 were approved by the Company's Director General and Chief Financial Officer on 10 February 2010.

Jonas Dastikas  
 Director General

Regvita Ivanoviene  
 Chief Financial Officer

The accounting policies and the notes on pages 7 to 18 form an integral part of these preliminary unaudited financial statements.

**LIFOSA AB**  
**FINANCIAL STATEMENTS (UNAUDITED)**  
**31 DECEMBER 2010**

**STATEMENT OF FINANCIAL POSITION**  
**thousand LTL**

	Notes	As at 31 December	
		2010	2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	329 495	271 985
Intangible assets	10	1 540	605
Deferred tax asset	7	2 942	33 449
Other receivables	11,13	11 385	20 029
		<b>345 262</b>	<b>326 068</b>
<b>Current assets</b>			
Inventories	12	175 512	79 385
Trade and other receivables	13	126 931	100 159
Loans granted	13	464 928	342 972
Cash and cash equivalents	14	31 359	34 393
		<b>798 730</b>	<b>556 909</b>
<b>Total assets</b>		<b>1 144 092</b>	<b>882 977</b>
<b>EQUITY</b>			
Share capital	15	210 206	210 206
Share premium		80	80
Legal reserve		21 021	21 021
Retained earnings		833 514	592 900
<b>Total equity</b>		<b>1 064 821</b>	<b>824 207</b>
<b>LIABILITIES</b>			
Grants		17 032	5 127
<b>Current liabilities</b>			
Income tax liabilities		3 570	-
Trade and other payables		41 874	43 173
Other payables		16 795	10 470
		<b>62 239</b>	<b>53 643</b>
<b>Total liabilities</b>	16	<b>79 271</b>	<b>58 770</b>
<b>Total equity and liabilities</b>		<b>1 144 092</b>	<b>882 977</b>

The accounting policies and the notes on pages 7 to 18 form an integral part of these preliminary unaudited financial statements.

**LIFOSA AB**  
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**31 DECEMBER 2010**

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**thousand LTL**

	Notes	Share capital	Share premium	Legal reserve	Retained earnings	Total
<b>Balance at 30 September 2009</b>		<b>210,206</b>	<b>80</b>	<b>21 021</b>	<b>594 035</b>	<b>825 342</b>
Transfer to legal reserve		-	-	-	-	-
Net profit for the period		-	-	-	(1 135)	(1 135)
<b>Balance at 31 December 2009</b>	<b>16</b>	<b>210,206</b>	<b>80</b>	<b>21,021</b>	<b>592 900</b>	<b>824 207</b>
Transfer to legal reserve		-	-	-	-	-
Net profit for the year		-	-	-	160 116	160 116
<b>Balance at 30 September 2010</b>		<b>210,206</b>	<b>80</b>	<b>21 021</b>	<b>753 016</b>	<b>984 323</b>
Transfer to legal reserve		-	-	-	-	-
Net profit for the period		-	-	-	80 497	80 497
		<b>210,206</b>	<b>80</b>	<b>21 021</b>	<b>833 513</b>	<b>1 064 820</b>

The accounting policies and the notes on pages 7 to 18 form an integral part of these preliminary unaudited financial statements.

**LIFOSA AB**  
**FINANCIAL STATEMENTS (UNAUDITED)**  
**31 DECEMBER 2010**

**CASH FLOW STATEMENT**  
**thousand LTL**

	Notes	Year ended 31 December	
		2010	2009
<b>Cash flows from operating activities</b>			
Profit before tax		283 492	(18 047)
Adjustments for:			
Depreciation and amortisation		30 625	31 192
Unrealised foreign exchange loss/(gain)		(12 378)	16 352
Loss (profit) on disposal of property, plant and equipment, net		(38)	(598)
Changes in working capital		(96 769)	190 718
Change in other receivables		(10 215)	(166 220)
Income tax paid		(8 550)	(53 232)
<b>Net cash from operating activities</b>		<b>186 167</b>	<b>165</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets	9,10	(88 156)	(56 192)
Proceeds from sale of property, plant and equipment		38	598
Loans granted to related parties		(135 624)	(336 156)
Loans repayments received from related parties		17 264	349 654
Interest received for loans granted		22 520	12 755
Sale of securities			
<b>Net cash from investing activities</b>		<b>(183 958)</b>	<b>(29 341)</b>
<b>Cash flows from financing activities</b>			
Interest income from short-term deposits		188	373
<b>Net cash from financing activities</b>		<b>188</b>	<b>373</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>2 397</b>	<b>(28 803)</b>
<b>Movement in cash and cash equivalents</b>			
At beginning of year		34 393	63 469
Net increase (decrease)		(2 397)	(28 803)
Exchange gains/(losses) on cash and bank accounts		(637)	(273)
Cash and cash equivalents at end of year	14	<b>31 359</b>	<b>34 393</b>

The accounting policies and the notes on pages 7 to 18 form an integral part of these preliminary unaudited financial statements.

**LIFOSA AB**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**  
**31 DECEMBER 2010**

*(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 Vilnius Stock Exchange of Lithuania. The Company's principal activity is the production of phosphate fertilisers, mainly diammonium phosphate (DAP). As at 31 December 2010, the main shareholders of the Company were as follows:

<i>Shareholder</i>	<i>Number of shares</i>	<i>Percentage of share capital</i>
JSC Mineral Chemical Company "Eurochem"	19,160,229	95.45%
Eurochem A.M. Limited	767,250	3.65%
Other shareholders	188 402	0.9%
	<u>21,020,564</u>	<u>100%</u>

The number of staff employed by the Company on 31 December 2010 totalled 959 (Y '2009: 989).

**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 (IFRS) as adopted by the European Union (EU). The financial statements have been prepared under the historical cost convention, as modified for the indexation of certain property, plant and equipment.

**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.

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.

The accounting policies and the notes on pages 7 to 18 form an integral part of these preliminary unaudited financial statements.



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

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.

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 Financial assets**

##### *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 'loans granted' and 'trade and other receivables' in the balance sheet.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less impairment loss. An impairment loss 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 impairment loss 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 impairment loss 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.6 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.

Net realisable value of finished goods is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. Raw materials and other substances held for the production of goods are not written down below their cost, unless it is probable that the cost of goods produced using these raw materials and substances will exceed the net realisable value. Under such circumstances, the best estimate of net realisable value of raw materials and substances is deemed to be their replacement cost. Loss resulting from writing down of inventories to net realisable value is included in the cost of sales in the income statement.

#### **B.7 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.8 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.

The accounting policies and the notes on pages 7 to 18 form an integral part of these preliminary unaudited financial statements.

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**LIFOSA AB**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**  
**31 DECEMBER 2010**

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

**B.9 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.10 Trade payables**

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

**B.11 Income tax**

Pursuant to the Lithuanian Law on Corporate Profit Tax, taxable profit is subject to income tax at a rate of 15 per cent. 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. Pursuant to the amendments of Lithuanian Law on Corporate Profit Tax issued until the preparation of these financial statements, taxable profit is subject to income tax 15 per cent as from 2010 year.

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. Deferred income tax is recognized to the extent it is probable that sufficient taxable profit will be available against which the temporary differences can be utilised.

The principal temporary differences arise from accrued charges and inventory valuation allowance. 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.12 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.

*(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.13 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.14 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.

The accounting policies and the notes on pages 7 to 18 form an integral part of these preliminary unaudited financial statements.

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**LIFOSA AB**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**  
**31 DECEMBER 2010**

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

*(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.15 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.16 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.17 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.18 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.

**B.19 Cash Flow Statement**

For the purpose of presentation of cash flow statement, interest income earned on bank deposits and current accounts is classified as income from financing activities whereas interest income received for loans granted is treated as income from investing activities.

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**LIFOSA AB**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**  
**31 DECEMBER 2010**

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

**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 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.

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.

**LIFOSA AB**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**  
**31 DECEMBER 2010**

(All tabular amounts in LTL thousand unless otherwise stated)

**OTHER EXPLANATORY NOTES**

**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	
	2010	2009	2010	2009	2010	2009
India	333 109	204 194	-	-	-	-
Lithuania	39 537	41 214	1 144 092	882 977	89 394	39 328
France	62 205	11 146	-	-	-	-
Germany	147 882	134 144	-	-	-	-
Poland	45 418	33 541	-	-	-	-
Brazil	30 738	-	-	-	-	-
The Netherlands	88 991	89 175	-	-	-	-
Ethiopia	-	45 120	-	-	-	-
Argentina	27 577	-	-	-	-	-
Canada	43 662	-	-	-	-	-
USA	48 263	-	-	-	-	-
Russia	17 655	-	-	-	-	-
Croatia	13 974	-	-	-	-	-
Ivory Coast	9 221	-	-	-	-	-
Uruguay	8 758	-	-	-	-	-
Guatemala	7 742	-	-	-	-	-
Cameroon	6 531	-	-	-	-	-
Latvia	4 913	-	-	-	-	-
Slovakia	3 140	-	-	-	-	-
Egypt	2 298	-	-	-	-	-
Denmark	14 427	1 213	-	-	-	-
Martinique	2 262	-	-	-	-	-
Malaysia	1 972	-	-	-	-	-
Czech Republic	6 536	5 966	-	-	-	-
Spain	-	2 392	-	-	-	-
Ireland	26 534	8 512	-	-	-	-
Romania	14 171	6 813	-	-	-	-
Ukraine	8 645	6 113	-	-	-	-
Great Britain	17 009	7 503	-	-	-	-
Tajikistan	9 908	3 701	-	-	-	-
Belgium	4 176	2 843	-	-	-	-
Italy	-	10 320	-	-	-	-
Pakistan	-	143 552	-	-	-	-
Kenya	-	30 837	-	-	-	-
Belarus	3 407	4 272	-	-	-	-
Vietnam	19 987	9 174	-	-	-	-
Tanzania	-	8 031	-	-	-	-
Sweden	3 010	6 092	-	-	-	-
Hungary	4 491	3 358	-	-	-	-
Other countries	11 131	19 573	-	-	-	-
	<b>1 089 280</b>	<b>838 799</b>	<b>1 144 092</b>	<b>882 977</b>	<b>89 394</b>	<b>39 328</b>

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).

The accounting policies and the notes on pages 7 to 18 form an integral part of these preliminary unaudited financial statements.

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

Analysis of sales by category:

	<b>2010</b>	<b>2009</b>
Sales of goods	1 070 233	818 099
Sales of raw materials	5	811
Sales of CO <sub>2</sub> emission rights	4 276	6 098
Sales of electricity, heat energy, gas, other services, other sales revenue	14 766	13 792
	<b>1 089 280</b>	<b>838 799</b>

**2. SELLING AND DISTRIBUTION COSTS**

	<b>2010</b>	<b>2009</b>
Transportation costs	16 094	15 201
Loading and forwarding costs	12 755	13 661
Other selling and distribution costs	177	256
	<b>29 026</b>	<b>29 101</b>

**3. ADMINISTRATIVE EXPENSES**

	<b>2010</b>	<b>2009</b>
Remuneration of employees	12 506	10 481
Social security contributions	3 925	3 229
Taxes (other than income tax)	1 946	1 855
Depreciation and amortization	1 034	961
Insurance	92	334
Security	957	879
Telecommunications	326	456
Support granted	793	894
Other administrative expenses	4 646	7 887
	<b>26 225</b>	<b>26 976</b>

**4. EXPENSES BY NATURE**

	<b>2010</b>	<b>2009</b>
Raw materials and consumables used	691 047	640 924
Inventory valuation allowance	(19 230)	481
Remuneration of employees and social security contributions	73 698	68 498
Transportation services	29 026	29 101
Depreciation and amortisation	30 625	31 192
Change in finished goods, semi-manufactures and work in progress	-	50 130
Repair and maintenance	10 981	13 616
Energy and fuel	8 103	9 685
Taxes (other than income tax)	1 946	1 855
Consulting expenses	689	891
Security	957	879
Telecommunication and IT maintenance expenses	326	385
Marketing	366	896
Other (foreign currency revaluation result)	12 378	10 240
	<b>840 912</b>	<b>858 773</b>

Remuneration of employees and social security contributions comprise salary expenses of LTL 51 902 thousand (2009: LTL 45 445 thousand), social security expenses of LTL 17 465 (2009: LTL 16,437 thousand) and bonuses and other benefits of LTL 4 331 thousand (2008: LTL 6 616 thousand).

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**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).

	<u>2010</u>	<u>2009</u>
Net profit from currency sales	962	1 721
Net profit from unrealised foreign exchange	11 416	(18 073)
	<u>12 378</u>	<u>(16 352)</u>

**6. OTHER INCOME/GAINS**

	<u>2010</u>	<u>2009</u>
Interest income on short-term loans	22 520	17 865
Gain on disposal of property, plant and equipment	38	42
	<u>22 588</u>	<u>17 907</u>

**Income interest**

	<u>2010</u>	<u>2009</u>
Interest from long-term deposit	144	144
Interest short-term deposit	28	175
Interest on account balances	16	54
	<u>188</u>	<u>373</u>

**7. Income tax**

	<u>2010</u>	<u>2009</u>
Current tax	(45 821)	49
Deferred tax	2 942	7 812
	<u>(42 879)</u>	<u>7 861</u>

**8. EARNINGS PER SHARE**

	<u>2010</u>	<u>2009</u>
Net profit attributable to shareholders	240 613	(25 907)
Weighted average number of ordinary shares in issue (thousand)	21,021	21,021
Earnings per share (LTL per share)	<u>11,45</u>	<u>(1,23)</u>

The accounting policies and the notes on pages 7 to 18 form an integral part of these preliminary unaudited financial statements.

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**9. PROPERTY, PLANT AND EQUIPMENT**

	<b>Buildings</b>	<b>Plant and machinery</b>	<b>Vehicles and equipment</b>	<b>Other PP&amp;E</b>	<b>Construction in progress</b>	<b>Total</b>
<b>At 31 December 2008</b>						
Cost	200,002	405,478	17,215	12,199	3,970	638,864
Accumulated depreciation	(91,955)	(262,396)	(9,771)	(10,191)	-	(374,313)
<b>Net book amount</b>	<b>108,047</b>	<b>143,082</b>	<b>7,444</b>	<b>2,008</b>	<b>3,970</b>	<b>264,551</b>
<b>Year ended 31 December 2009</b>						
Opening net book amount	108 047	143 082	7 444	2 008	3 970	264 551
Additions	-	1 545	684	423	36 275	38 927
Disposals and write-offs	(536)	-	-	(20)	-	(556)
Reclassifications	2 768	15 329	-	422	(18 519)	-
Depreciation charge	(4 795)	(24 218)	(1 353)	(571)	-	(30 937)
<b>Closing net book amount</b>	<b>105 484</b>	<b>135 738</b>	<b>6 775</b>	<b>2 262</b>	<b>21 726</b>	<b>271 985</b>
<b>At 31 December 2009</b>						
Cost	201 372	416 267	17 747	12 058	21 726	669 170
Accumulated depreciation	(95 888)	(280 529)	(10 972)	(9 796)	-	(397 185)
<b>Net book amount</b>	<b>105 484</b>	<b>135 738</b>	<b>6 775</b>	<b>2 262</b>	<b>21 726</b>	<b>271 985</b>
<b>Year ended 31 December 2010</b>						
Opening net book amount	105 484	135 738	6 775	2 262	21 726	271 985
Additions	50	4 282	8 955	302	74 567	88 156
Disposals and write-offs	(39)	(284)	-	(1)	-	(324)
Reclassifications	24 391	70 244	-	1 161	(95 796)	-
Depreciation charge	(4 572)	(23 667)	(1 402)	(681)	-	(30 322)
<b>Closing net book amount</b>	<b>125 314</b>	<b>186 313</b>	<b>14 328</b>	<b>3 043</b>	<b>497</b>	<b>329 495</b>
<b>At 31 December 2010</b>						
Cost	225 658	486 343	26 301	13 035	497	751 834
Accumulated depreciation	(100 344)	(300 030)	(11 973)	(9 992)	-	(442 339)
<b>Net book amount</b>	<b>125 314</b>	<b>186 313</b>	<b>14 328</b>	<b>3 043</b>	<b>497</b>	<b>329 495</b>

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 565 thousand in 2010 (2009: LTL 303 thousand).

Besides this, 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 247 thousand (2009: LTL 935 thousand). Annual revenues of LTL 152 thousand (2009: LTL 84 thousand) were earned and depreciation expenses of LTL 24 thousand (2009: LTL 28 thousand) were incurred.

In December 2010 AB "Lifosa" purchased a land plot (of 0.4089 ha) belonging to the rest-house in Moletai district, the value of which is 50 thousand LTL.



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**10. INTANGIBLE ASSETS**

	<b>Computer software</b>
<b>At 31 December 2008</b>	
Cost	1 049
Accumulated amortisation	(590)
Net book amount	<u>459</u>
<b>Year ended 31 December 2009</b>	
Opening net book amount	459
Additions	401
Disposals and write-offs	-
Amortisation charge	(255)
Closing net book amount	<u>605</u>
<b>At 31 December 2009</b>	
Cost	1 450
Accumulated amortisation	(845)
Net book amount	<u>605</u>
<b>Year ended 31 December 2010</b>	
Opening net book amount	605
Additions	1 238
Disposals and write-offs	-
Amortisation charge	(303)
Closing net book amount	<u>1 540</u>
<b>At 31 December 2010</b>	
Cost	2 686
Accumulated amortisation	(1 146)
Net book amount	<u>1 540</u>

**11. OTHER RECEIVABLES**

The balance of non-current receivables comprises a long-term cash deposit of LTL 2 496 thousand and 349 LTL of interest (2009: LTL 2 496 thousand and 207 thousand interest) 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), and prepayments for non-current assets and construction in progress of LTL 8 539 thousand (2009: LTL 17 326 thousand).

**12. INVENTORIES**

	<b>2010</b>	<b>2009</b>
Finished goods	72 500	46 928
Raw materials and suppliers	99 526	28 778
Work in progress	2 495	1 765
Semi-manufactures	991	1 913
	<u>175 512</u>	<u>79 385</u>

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Production realizable value is assessed sales price in the ordinary course of business, less of completion and selling expenses.

**13. LOANS GRANTED, TRADE AND OTHER RECEIVABLES**

	<b>2010</b>	<b>2009</b>
Trade receivables, gross	73 614	81 224
Less: provision for impairment of trade receivable	(3 490)	(3 640)
VAT tax receivable	33 471	12 944
Prepayments made to suppliers	22 759	9 034
Other receivables	577	597
	<b>126 931</b>	<b>100 159</b>
Short-term loans granted	464 928	342 972
	<b>591 859</b>	<b>443 131</b>

**14. CASH AND CASH EQUIVALENTS**

	<b>2010</b>	<b>2009</b>
Cash in bank	4 950	862
Cash on hand	4	4
Time deposits and repo deals	26 305	33 527
Letters of credit and guarantees	100	-
	<b>31 359</b>	<b>34 393</b>

**15. SHARE CAPITAL**

As at 31 December 2010, 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 2010.

**16. TRADE AND OTHER PAYABLES**

	<b>2010</b>	<b>2009</b>
Trade payables	19 323	37 373
Import VAT payable	17 437	3 270
Other payables and accrued charges	16 795	10 470
Amounts received in advance	1 289	77
Income tax liabilities	3 570	-
Social security payable	1 944	1 948
Other taxes payable	1 881	505
	<b>62 239</b>	<b>53 643</b>

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**17. RELATED-PARTY TRANSACTIONS**

The Company is controlled by Mineral and Chemical Company Eurochem (Russia), which owns 95.45% of shares of the Company. As at 31 December 2010, the main shareholder of Mineral and Chemical Company Eurochem, holding 95 per cent of shares of this company, was Mr. Andrey Melnichenko.

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:

	2010		2009	
	Sales	Purchases	Sales	Purchases
Eurochem Trading GmbH	589 801	54 026	455 072	833
Harvester Shipmanagement Ltd	-	2 585	-	8 638
OA0 Kavdorskiy GOK	-	190 561	-	329 881
OA0 NAK Azot	-	59 715	-	84 638
UAB"Eurochem Baltic Logistics"	23	103 448	8	5 659
DP" Agrocentr Eurochem-Ukraine"	2 817	-	-	-
Hotel "Ujut"	-	8	-	-
	<b>592 641</b>	<b>410 343</b>	<b>455 080</b>	<b>429 649</b>

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, NAK Azot and DP"Agrocentr Eurochem-Ukraine"), purchase of transportation services (Harvester Shipmanagement Ltd and "Eurochem Baltic Logistics" ) and sales of production (Eurochem Trading GmbH).

During 2010, the Company also granted loan to related party Eurochem A.M. Limited.

Year-end balances of transactions with related parties:

	2010		2009	
	Receivables	Payables	Receivables	Payables
Eurochem International Holding	50 095	-	-	-
Eurochem Trading GmbH	60 919	1 034	70 533	-
Harvester Shipmanagement Ltd	-	-	-	942
OA0 Kavdorskiy GOK	27	6 887	-	15 138
OA0 NAK Azot	-	-	-	6 104
Eurochem A.M. Limited	414 833	-	342 972	-
UAB"Eurochem Baltic Logistics"	50	2 348	2	129
	<b>525 924</b>	<b>10 269</b>	<b>413 507</b>	<b>22 313</b>

The balances of receivables include receivables for production sold (Eurochem Trading GmbH) and short-term loans granted (Eurochem A.M. Limited and Eurochem Internacional Holding ). The balances of payables include accounts payable for raw materials purchased (OA0 Kavdorskiy GOK, Eurochem Trading GmbH) and for transportation services purchased ( UAB"Eurochem Baltic Logistics" ).