

Annual report

1. Reporting period

This annual report covers the period from 1 January 2008 until 31 December 2008. All numbers in the report are given as of 31 December 2008, 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, Maironio 11, 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	Ordinary registered shares
ISIN code	LT0000116691
Abbreviation	LFO1L
Number of shares	21 020 564
Par value in LTL	10
Total par value in LTL	210 205 640

The date of listing initiation

May 12, 1997

Classification under GICS:

Sector	Materials
Industry group	Materials
Industry	Chemical substances
Sub-Industry	Fertilizers & Agricultural Chemicals

Trading AB „Lifosa” shares



Comparison of AB „Lifosa” share prices vs OMX Vilnius stock index value



<u>Index/shares</u>	<u>01.01.2006</u>	<u>31.12.2008</u>	<u>+/- 96</u>
- OMX Vilnius	448,76	179,25	-60,06↓
- LFO 1L	45,71 LTL	17,44LTL	-61,85↓

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

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 situation of agriculture and subsidizing policy, i.e. factors that cannot be influenced by producers.

In 2008 the situation in phosphate fertilizers markets was variable as never before. The trends that initiated in 2007 persisted through all the I st half-year in 2008. Prices of main agricultural products used for food, fodder and biofuel (wheat, corn, soya beans, etc.) continued growing. Growing oil prices and the need for energetic independence encouraged many countries to look for alternative sources of vehicle fuel. Significant development of agricultural sector in Brazil and India has also increased the demand and import of fertilizers. Higher income of farmers resulted in higher demand for fertilizers. Prices for the main company's product Diammonium Phosphate reached the heights never experienced before. The Company successfully turned the favourable market situation to advantage earning the record profit throughout the history of the enterprise.

The situation drastically changed during the II half of 2008. Congenial weather conditions (optimal amount of precipitation) enabled to reach high grain fertility in all basic corn growing regions. Due to the drop in oil prices production of biofuel became loss-making. Ample supplies of corn significantly reduced wheat, maize, rice prices. Expecting similar drop in fertilizer prices farmers suspended purchases of fertilizers, namely phosphate and potassium fertilizers. Such a situation was especially unfavourable for fertilizer manufacturers. Even 3 times reduced prices of Diammonium Phosphate could hardly help to vitalize the demand in fertilizers. Major producers of phosphate fertilizers decreased production volumes, some plants were temporarily closed. During the Q IV of 2008 the enterprise ran at about 70% capacity.

Assessment of the main types of risks and contravenes 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 Northern Africa and the Middle East. Overproduction may reduce fertilizer sale prices. The Company's products then may become uncompetitive due to higher production costs, compared to the price offered by competitors. The bigger part of production cost is made up of raw materials cost. Phosphates (apatit concentrate or phosphorite) are the main raw materials in phosphate fertilizer process thus the least production costs suffer the manufacturers producing their own raw phosphates.

Bad climate (stormy sea, limiting the movement of ships), unrest in the regions may hinder the delivery of raw materials resulting in reduced production volumes.

Business risks are managed by continuous investment into equipment and processes and reducing fixed costs also saving raw materials and energy consumption. 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 the 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.

The supervision of the Company activity's and the accountability of the Head of the company and control on the main Company activities' matters are warranted by analyzing and evaluating the required material provided by the Head of the Company at the monthly Board Meetings. In this way, the Company Board constantly warrants the strategic governance of the Company and control how the Board members implement Company's yearly plans of business, investment, production and etc. In the Company works the General Director's Council – the internal auditor, who is partially executing function of the Company's internal control.

7. Financial and non-financial activity result analysis

Key activity indicators:

	2006	2007	2008
Income from sale, in LTL thousand	682 466	921 648	1 748 778
Cost of sale, in LTL thousand	574 753	578 022	1 486 208
Gross profit, in LTL thousand	107 713	343 626	262 570
<i>Gross profit margin, %</i>	16	37	15
Operating profit, in LTL thousand	44 262	267 748	264 447
<i>Operating profit margin, %</i>	6	29	15
Profit before tax, in LTL thousand	45 529	270 065	266 767
<i>Profit before tax margin, %</i>	7	29	15
Net profit, in LTL thousand	37 220	221 102	237 231
<i>Net profit margin, %</i>	5	24	14
EBIT, in LTL thousand	45 529	270 065	297 125
EBITDA, in LTL thousand	71 589	298 423	17
ROE, %	10	36	28
ROA, %	9	31	23
Debt-equity ratio	0,11	0,17	0,24
Liquidity ratio	4,65	4,66	3,77
Quick ratio	3,44	4,01	2,99
Net coverage index	0,61	1,76	0,32
Profit per share , in LTL	1,77	10,52	11,29
Stock market share prices end-of-period , in LTL	21,40	67,00	17,44
P/E ratio	12,09	6,37	1,54
Income per employee, in LTL thousand	657	904	1 744

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

During the year 2007 the company produced 790 300 tons of Diammonium Phosphate i.e. 6,1 percent less compared to the year 2007 (841 670 tons). The Company produced 61 925 tons of Feed Phospahtes (only Monocalcium Phosphate was produced), i.e. 4,6 percent less compared to the year 2007 (64 890 tons). Significant drop in demand for phosphate fertilizers during Q IV 2008 resulted in total capacity that was exploited about 70 percent therefore in 2008 1 051 400 tons of sulphuric acid were produced, i.e. 8,1 percent less than in 2007 (1 144 600 tons); During 2007 398 050 tons of phosphoric acid (interim product) were produced i.e. 7,5 percent less than in 2007 (430 300 tons).

The company also produces electricity, which is first of all used for process needs, and the surplus amount is sold to other companies. During 2008 237 850 thousand kWh of electricity were generated, i.e. 3 percent more than in 2007 (231 035 thousand kWh). Power generation increased due to the new 6,1 MW turbogenerator introduced in June 2008. Reduced capacities of sulphuric acid production in Q IV 2008 negatively effected the power generation process.

Income from basic operations amounted to LTL 1 748 778 thousand and compared to the year

2007 (LTL 921 648 thousand), grew by 90 percent. 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 2008 increased 2,1 times compared to the average price in 2007, though sales volumes reduced by 8,5 percent compared to year 2007. Income from product sales (Diammonium Phosphate, Feed Phosphates, Aluminium Fluoride, Sulphuric and Phosphoric acids) amounted to LTL 1 712 305 thousand (LTL 902 342 thousand in 2007). Income from sales of Diammonium Phosphate amounted to LTL 1 533 149 thousand (LTL 796 426 thousand in 2007), i.e. 89,5 percent of all sales (88,3 percent in 2007). Income from sales of Feed Phosphates amounted to LTL 152 754 thousand (LTL 68 302 thousand in 2007) or 8,9 percent (7,6 percent in 2007) of the total sales income.

Diammonium Phosphate sales volumes in tons:

	Q1	Q2	Q3	Q4	TOTAL
2008	193 122	224 732	215 234	121 764	754 852
2007	181 597	162 521	260 099	221 000	825 217
Change %, 2008/2007	106,3	138,3	82,8	55,1	91,5

The cost of sales amounted to LTL 1 486 208 thousand and compared to the year 2007 (LTL 578 022 thousand) increased 2,6 times. The increase of cost was due to 2,5 times increased consumption of the raw materials and other materials: from LTL 484 166 thousand in 2007 to LTL 1 215 255 thousand in 2008. The average price of raw phosphates, which most affected the increase of raw materials costs, increased from 231, 06 LTL/t in 2007 to 748,95 LTL/t in 2008.

Diammonium Phosphate sales in Asia region increased even 3,2 times with lower exports to Europe; sales volumes in this region dropped by 52,8 percent. Sales in Africa decreased by 83,2 percent, while sales in America were twice higher compared to the year 2007. Company's sales geography has drastically changed: India market became the main phosphate fertilizer sales market. Sales volume in tons in Asia region made 55,4 percent of total sales (15,8 percent in 2007), sales in Europe made up 33,2 percent (62,4 percent in 2007), sales in America made up 8,1 percent (3,7 percent in 2007), and the remaining 3,3 percent of products were sold in Africa (18,1 percent in 2007).

Feed Phosphates are sold only to European market. In 2008 60 191 tons of Monocalcium Phosphate were sold (65 372 tons in 2007).

During the reporting period 70 401 thousand kWh of electricity was sold, i.e. almost by 51,5 percent more compared to the year 2007 (46 464 thousand kWh).

Investment

In 2008 capital investment amounted to 42 027 thousand LTL. Main projects implemented in 2008 were "Construction of a new 50 thousand tons capacity warehouse" (investment value LTL 11 589 thousand) and "Purchase and installation of 6,1 MW turbogenerator" (investment value LTL 10 816 thousand). Amortization deduction in 2008 amounted to LTL 30 358 thousand.

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

During the reporting period the Company did not acquire own shares.

10. Material events since the end of previous financial year

On 17 July 2008 a credit of USD 140 000 thousand with 5,0 percent of interest rate was given to patronizing Company OAO MCC EuroChem which was reimbursed on December 15, 2008 including accrued interests.

The credit of LTL 345 059 thousand (USD 140 800 thousand) was given to the related party "Eurochem A.M. Limited" under the Agreement signed on 11 December, 2008 and a credit of LTL 12 253 thousand (USD 5 thousand) was given under the Agreement of 23 December, 2005 which was extended in 2006, 2007 and 2008. Accrued interests amounted respectively up to LTL 803 thousand and LTL 1 649 thousand. The loans were given for the period to 11 and 29 of December 2009 with 0,5 percent interest rate.

On 8 December 2008 the trilateral agreement on financing and administration of the Project „Expansion of AB „Lifosa“ Efficiency through Implementation of Innovative Technologies at Upgraded Feed Phosphate Process“ between Economy Ministry of LR, Lithuanian Business Support Agency public co. and AB „Lifosa“ was signed. According to this agreement, LTL 13 712 135 LTL shall be allocated from European regional development fund for the installation of new feed phosphate line.

AB „Lifosa“ plans to introduce a new line that would increase the capacity of feed phosphate production twice – up to 150 thousand tons per year. This will create a favourable background to expand the geography of new markets and increase the scope of exports. Production of feed phosphates was initiated in 2001.

Product quality as well as physical properties (humidity, uniform size of granules) and chemical specification (purity of the product) in the new fully automated feed phosphate plant will improve. The Project „Expansion of AB „Lifosa“ Efficiency through Implementation of Innovative Technologies at Upgraded Feed Phosphate Process“ shall further stimulate the development of chemical section and enhance competitive ability of Lithuanian chemical products in the markets worldwide.

It is estimated that the Project will be implemented in 19 months, - since January 2009 till July 2010.

11. Planned and forecasted activities of the company

In 2009 the Company shall strive to completely exploit available process capacities, to produce and sell 826 thousand tons of Diammonium Phosphate and 80 thousand tons of Feed Phosphates. In case the price of the main product Diammonium Phosphate remains at the level of the beginning of year 2009, the estimated income of the enterprise shall amount up to LTL 1 billion in 2009.

More favourable situation for manufacturers in phosphate fertilizer market It is expected in the IInd half of 2009. The world grain production of 2009 is expected to be lower than in 2008 due to the decreased areas of the land under crop and due to the reduced fertilizer consumption. Because of the drop in crop supplies the price should have to increase motivating the farmers to more intense application of fertilizers.

In 2009 the prices of raw phosphates, ammonia, sulphur shall considerably be lower than in 2008 and expected to regain the level of year 2007. It is possible to forecast that the reduced freight prices during the IInd half of 2008, so acceptable for the company, should remain through 2009 also.

The Company expects to invest LTL 55 380 thousand in 2009. Major part of investment in 2009 – LTL 33 100 thousand - will be used for construction of Feed Phosphate Plant.

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

No restrictions for stock transfer.

14. Shareholders

On 31 December 2008 there were 2 091 shareholder.

Shareholders owning or managing over 1 percent of the company's authorized capital:

There is a requirement to indicate the shareholders possessing >5 percents, I suggest , do not show at all EX AM and Sagg.

Company name, number head office address	Number of equity shares, units	Owned share of authorized capital, percent	Voting share, percent	Directly and indirectly available voting share, percent
Eurochem, Mineral and Chemical Company Joint Stock UL. Dubininskaya dom 53, stroenie 6, 115054 Moscow, Russia 102770002659	19 160 229	91.15	91.15	95,88??
Eurochem A.M. Limited Cristodoulou Chatzipavlou 205,Louloupis Court 2nd Floor,Office 201,p.c. 3036,Limassol	767 250	3.65	3.65	0
Sagittarius International Limited The Premises of Commonwealth Trust Limited Drake Chambers,Tortola,British Virgin Island	226 909	1.08	1.08	0

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 2008 the company had 999 employees. Average employee age is 45,3 years. During the year 2008 employment relationship ended with 61 employee. The Company allocated funds for improvement employee skills and training. 251,6 thousand LTL were spent for employee training in 2008. 470 employees received training in 2008.

Average number of payroll employees

	2005 m.	2006 m.	2007 m.	2008 m.
Managers	106	116	117	119
Specialists	92	80	78	77
Workers	851	842	824	807
Total	1 049	1 038	1 019	1 003

Average monthly salary in LTL

	2005 m.	2006 m.	2007 m.	2008 m.
Managers	4 816	4 669	6 669	7846
Specialists	2 917	3 005	3 557	4324
Workers	1 762	2 087	2 729	3592
Total	2 172	2 444	3 245	4 151

Employee grouping by education

	2005 m.	2006 m.	2007 m.	2008 m.
With higher education	163	170	176	181
With special secondary education	222	213	201	194
With secondary education	538	526	514	525
Other	126	129	128	103
Total	1 049	1 038	1 019	1 003

Environment protection

In 2008 stationary source emissions (process objects) were 1 929 tons (2 210 tons in 2007), save and except the CO₂ emissions. Sulphur dioxide emissions amounted to 1 712 tons or 89% of total pollutants. Compared to the year 2007 emissions reduced by 281 tons due to reduced yield of Sulphuric Acid and Diammonium Phosphate. Volumes of comparative emissions kg/t of product to air and water did not change – retained the same level. Allowable emission to water in tonnes per annum was not exceeded. 2 251 thousand m³ of surface waste water (rainwater) was emitted to the Obelis river. During the year 591 tons of pollutants were emitted with wastewater or by 47 tons less than in 2007.

During 2007 the Company disposed 1 887 thousand tons of by-product phosphate gypsum in the Company's landfill (2 035 thousand tons in 2007). 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 2008 the company paid LTL 873 898 pollution taxes and for nature resources, i.e. LTL 40 629 less than in 2007. No fines or claims were received.

19. Procedure of amending Issuer's Articles of Association

The Company's Articles of Association are amended pursuant to the Republic of Lithuania Law on Companies. The Company's Articles of Association may be amended only under the general meeting resolution 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 governing bodies are the Management Board and the Head (General Director). There is no Council of Supervisors. The Management Board is elected by the General Meeting for four-year term of office. The Management Board consists of 5 members. General Director is appointed, withdrawn and dismissed by the Board. The Board may call a tender for general director's position.

21. Members of collegiate bodies, Head of the Company, Chief Financial Officer

Following the Articles of Association the collegiate governing body of the Company is formed - the Management Board. The fields of the Management Board's activities are defined by the Board's functions, working procedure, the rights and duties under the Articles of Association also under the Management Board procedure Regulations. The Head of the Company ensures daily activities of the Company. The functions, rights and duties of the Head are established by the Articles of Association and office regulations.

Board members

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	0.1118
Regvita Ivanovienė	Member	0.0049

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

Full name	Beginning of office	End of office
Jonas Dastikas	25/04/2008	2012
Aleksandras Tugolukovas	25/04/2008	2012
Regvita Ivanovienė	25/04/2008	2012
Stanislavas Duriaginas	25/04/2008	2012
Valerijus Rogalskis	25/04/2008	2012

Company Management : Head of the Company , Chief Accountant

Full name	Position	Equity/vote share held, percent
Jonas Dastikas	General director	0.1118
Nijolė Kalinauskienė	Chief Accountant	0.0001

During the accountable period, the Company didn't calculate any amounts for the Board members, didn't alienate any asset or provided any guarantees to the Head of the Company and Chief accountant. For the Head of the Company there was calculated on the average _____Lt/month, for the Chief Accountant ____Lt/month.

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“ 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 2008. 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.

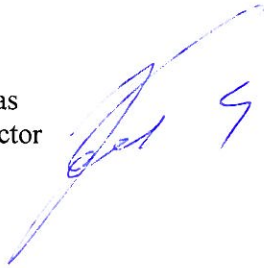
24. Information on the transactions between the related parties

Information on the related persons is presented in the item 20 of the explanatory notes of the audited Financial Statement 2008.

25. Data on the publicly announced information

In the period of 01-01-2008 – 31-12-2008 AB „Lifosa“ reported publicly the announcements via Vilnius Stock Exchange. For the content of public announcements, please visit the website of Vilnius Stock Exchange: <http://www.baltic.omxgroup.com/market/?pg=news>.

Jonas Dastikas
General Director



April 14, 2009