

**LIFOSA AB
FINANCIAL STATEMENTS (UNAUDITED)
31 DECEMBER 2008**

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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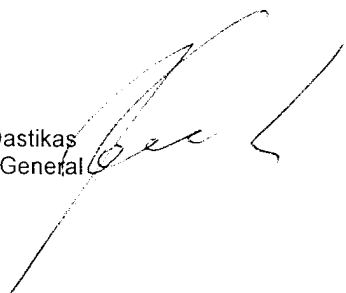
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INCOME STATEMENT

	Note	October - December 2008	December 2007	Year ended 31 December 2008	Year ended 31 December 2007
Sales	1	239 092	279 923	1,748,778	921,648
Cost of sales	4	(518 643)	(156 325)	(1,486,208)	(578,022)
Gross profit		(279 551)	123 598	262,570	343,626
Selling and distribution costs	2,4	(4 176)	(8 868)	(26,783)	(31,316)
Administrative expenses	3,4	(6 763)	(9 304)	(28,766)	(23,258)
Net foreign exchange gain/(loss)	5	23 542	(9 105)	48,909	(22,374)
Other income	6	4 778	558	8,517	1,070
Operating profit		(262 170)	96 879	264,447	267,748
Interest income on short-term cash deposits		352	1 258	2,320	2,317
Profit before tax		(261 818)	98 137	266,767	270,065
Income tax	7	49 596	(18 029)	(29,536)	(48,963)
Net profit		(212 222)	80 108	237,231	221,102
Basic and diluted earnings per share (LTL per share)	8		3,81	11.29	10.52

These preliminary unaudited financial statements on pages 3 – 25 were approved by the Company's Director General and Chief Accountant on 27 February 2009.

Jonas Dastikas
 Director General



Nijolė Kalinauskienė
 Chief Accountant



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BALANCE SHEET

	Notes	As at 31 December	
		2008	2007
ASSETS			
Non-current assets			
Property, plant and equipment	9	264,551	252,798
Intangible assets	10	459	650
Deferred tax asset	7	41,261	1,989
Other receivables	11,13	2,709	3,288
		308,980	258,725
Current assets			
Inventories	12	154,548	63,657
Trade and other receivables	13,14	165,858	208,490
Loans granted	13,14	359,764	12,865
Cash and cash equivalents	15	63,469	173,272
		743,639	458,284
Total assets		1,052,619	717,009
EQUITY			
Share capital	16	210,206	210,206
Share premium		80	80
Legal reserve		21,021	12,734
Retained earnings		618,808	389,864
Total equity		850,115	612,884
LIABILITIES			
Current liabilities			
Income tax liabilities		53,183	38,136
Trade and other payables	17	144,109	60,301
Grants	18	5,212	5,688
Total liabilities		202,504	104,125
Total equity and liabilities		1,052,619	717,009

The accounting policies and the notes on pages 7 to 25 form an integral part of these preliminary unaudited financial statements.

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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Notes	Share capital	Share premium	Legal reserve	Retained earnings	Total
Balance as at 1 January 2007		210,206	80	10,873	170,623	391,782
Transfer to legal reserve		-	-	1,861	(1,861)	-
Net profit for the period		-	-	-	140 994	140 994
Balance at 30 september 2007		210 206	80	12 734	309 756	532 776
Transfer to legal reserve		-	-	-	-	-
Net profit for the year		-	-	-	80 108	80 108
Balance at 30 December 2007	16	210,206	80	12,734	389,864	612,884
Transfer to legal reserve		-	-	8 287	(8 287)	-
Net profit for the period		-	-	-	449 452	449 452
Balance at 30 september 2008		210,206	80	21 021	831 030	1 062 336
Transfer to legal reserve		-	-	-	-	-
Net profit for the year		-	-	-	(212 222)	(212 222)
Balance at 31 December 2008	16	210,206	80	21,021	618,808	850,115

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CASH FLOW STATEMENT

	Notes	Year ended 31 December	
		2008	2007
Cash flows from operating activities			
Cash generated from operations	19	285,742	190,699
Income tax paid		(53,761)	(13,249)
Net cash from operating activities		231,981	177,450
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	9,10	(41,310)	(32,191)
Proceeds from sale of property, plant and equipment		133	221
Proceeds from sale of associate		-	2,775
Loans granted to related parties		(680,357)	-
Loans repayments received from related parties		363,552	-
Interest received for loans granted		7,500	-
Sale of securities	13	-	287
Net cash from investing activities		(350,482)	(28,908)
Cash flows from financing activities			
Interest income from short-term deposits		2,320	2,317
Net cash from financing activities		2,320	2,317
Net increase (decrease) in cash and cash equivalents		(116,181)	150,859
Movement in cash and cash equivalents			
At beginning of year		173,272	24,736
Net increase (decrease)		(116,181)	150,859
Exchange gains/(losses) on cash and bank accounts		6,378	(2,323)
Cash and cash equivalents at end of year	15	63,469	173,272

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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 2007 and 2008, 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	91.15%
Eurochem A.M. Limited	767,250	3.65%
Sagitaris International Limited	226,909	1.08%
Other shareholders	866,176	4.12%
	<u>21,020,564</u>	<u>100%</u>

The number of staff employed by the Company on 31 December 2008 totalled 1,003 (2007: 1,019).

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 (Note B.4).

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.

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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 2008 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.

The accounting policies and the notes on pages 7 to 25 form an integral part of these preliminary unaudited financial statements.

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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

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.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.

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.8 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.9 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.

B.10 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.11 Trade payables

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

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B.12 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. Income tax rate valid for 2007 and 2008 is 15 per cent. Pursuant to the amendments of Lithuanian Law on Corporate Profit Tax issued until the preparation of these financial statements, taxable profit will be subject to income tax at a rate of 20 per cent as from 2009.

Pursuant to the Lithuanian Provisional Law on Social Tax, social tax at a rate of 3 per cent for 2007 was paid on taxable profit earned (it was added to income tax rate of 15 per cent). Taxable profit earned in 2008 is not subject to social tax.

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.13 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.14 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.15 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.

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(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.16 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.17 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.18 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.19 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.20 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.21 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.

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B.22 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.

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 loans granted, 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 4% Lithuanian Litas' weakening / strengthening against the US dollar. The exchange rate shift assumption was based on the US dollar exchange rate net volatility during 2008. At 31 December 2008, if the Lithuanian Litas had weakened / strengthened by 4% against the US dollar with all other variables held constant, foreign exchange gain would be LTL 16,481 thousand higher / smaller (2007: loss would be LTL 13,288 thousand smaller / higher).

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 investments in securities or other similar financial instruments.

(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. The Company's significant interest-bearing financial assets include:

- Short-term loans granted to related party at a fixed interest rate as disclosed in Note 14.
- 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).

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 loans granted to the related

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parties, 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. In the event of granting loans to the EuroChem group companies the Company does not perform additional credit risk evaluation procedures.

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. In addition, no significant difficulties are anticipated in recovering loans granted to related parties.

(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 share capital less cash and cash equivalents. During years 2007 and 2008, the Company had no borrowings.

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 2008 Company complied with these requirements.

C.3 Fair value estimation

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

D. CRITICAL ACCOUNTING ESTIMATES AND 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 loss for accounts receivable

Impairment loss 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

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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.

Inventory valuation allowance

Write-down of finished goods to net realisable value is performed based on the management's estimate of the expected selling price of finished goods after the end of the financial year. If these expected prices exceed the production cost of finished goods, an impairment loss is recognised. Such an estimate is performed in respect of each significant position of finished goods at the balance sheet date. After the end of the year the Company's management determine expected selling prices of goods taking account of available market information and / or existing agreements with customers. Net realisable value of semi-finished products and work in progress is measured by reference to the net realisable value of finished goods as compared to the production cost of finished goods.

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 the replacement cost.

Current management's estimates regarding net realisable value of inventories could change because of changes in demand for the products produced by the Company and other unexpected developments.

Deferred tax asset

For the purpose of these financial statements, deferred tax assets were recognised on all temporary differences as the Company expects that taxable income to be earned over the several coming years will be sufficient to utilise these temporary differences. Nevertheless, the possibility to fully realise deferred tax assets depends on whether the Company will manage to achieve its operational targets.

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.

Latest fluctuations in the word and Lithuanian financial markets

The ongoing global liquidity crisis which commenced in the middle of 2008 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

Management is unable to reliably estimate the effects on the Company's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Company's business in the current circumstances.

Debtors of the Company may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers may also have an impact on Company's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent of information available, the Company's management have assessed and properly reflected potential impact of these factors in the financial statements.

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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	
	2008	2007	2008	2007	2008	2007
India	948,202	-	-	-	-	-
Lithuania	124,569	88,829	1,052,619	717,009	42,027	46,658
France	109,021	64,748	-	-	-	-
Germany	88,969	87,141	-	-	-	-
Poland	84,957	45,116	-	-	-	-
Brasil	84,897	-	-	-	-	-
The Netherlands	50,522	127,754	-	-	-	-
Ethiopia	37,697	72,545	-	-	-	-
Argentina	30,554	30,098	-	-	-	-
Hungary	27,360	20,345	-	-	-	-
Denmark	26,536	9,958	-	-	-	-
Czech Republic	18,607	13,622	-	-	-	-
Spain	17,263	34,221	-	-	-	-
Portugal	16,493	-	-	-	-	-
Ireland	14,881	22,069	-	-	-	-
Other countries	14,073	15,842	-	-	-	-
Romania	13,858	10,677	-	-	-	-
Ukrain	12,690	10,135	-	-	-	-
Great Britain	10,500	50,861	-	-	-	-
Tajikistan	9,429	11,613	-	-	-	-
Belgium	7,700	23,523	-	-	-	-
Turkey	-	66,158	-	-	-	-
Pakistan	-	65,578	-	-	-	-
Kenya	-	24,233	-	-	-	-
Ivory Coast	-	13,428	-	-	-	-
Cameroon	-	13,154	-	-	-	-
	1,748,778	921,648	1,052,619	717,009	42,027	46,658

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:

	2008	2007
Sales of goods	1,712,305	902,342
Sales of raw materials	15,570	5,048
Sales of electricity, heat energy, gas, CO ₂ emission rights, other services, other sales revenue	20,903	14,258
	1,748,778	921,648

The accounting policies and the notes on pages 7 to 25 form an integral part of these preliminary unaudited financial statements.

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2. SELLING AND DISTRIBUTION COSTS

	2008	2007
Shipping costs	3,466	9,108
Transportation costs	12,924	13,173
Loading and forwarding costs	10,194	8,213
Other selling and distribution costs	199	822
	26,783	31,316

3. ADMINISTRATIVE EXPENSES

	2008	2007
Remuneration of employees	12,777	9,360
Social security contributions	4,099	2,959
Taxes (other than income tax)	1,631	1,960
Depreciation and amortization	862	1,062
Insurance	577	552
Security	816	766
Telecommunications	531	499
Support granted	2,565	1,248
Other administrative expenses	4,908	4,852
	28,766	23,258

4. EXPENSES BY NATURE

	2008	2007
Raw materials and consumables used	1,215,255	484,166
Inventory valuation allowance	191,199	-
Remuneration of employees and social security contributions	70,745	56,392
Transportation services	26,783	31,316
Depreciation and amortisation	30,358	28,358
Change in finished goods, semi-manufactures and work in progress	(59,674)	(14,791)
Repair and maintenance	15,479	15,633
Energy and fuel	13,202	10,263
Taxes (other than income tax)	1,631	1,960
Consulting expenses	952	785
Security	816	766
Telecommunication and IT maintenance expenses	531	499
Marketing	809	240
Other	33,671	17,009
	1,541,757	632,596

Remuneration of employees and social security contributions comprise salary expenses of LTL 49,730 thousand (2007: LTL 38,842 thousand), social security expenses of LTL 16,610 (2007: LTL 13,257 thousand) and bonuses and other benefits of LTL 4,405 thousand (2007: LTL 4,293 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).

6. OTHER INCOME/GAINS

	2008	2007
Interest income on short-term loans	8,491	915
Gain on disposal of property, plant and equipment	26	155
	8,517	1,070

The accounting policies and the notes on pages 7 to 25 form an integral part of these preliminary unaudited financial statements.

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7. INCOME TAX

	<u>2008</u>	<u>2007</u>
Current tax	68,808	49,148
Deferred tax	(39,272)	(185)
	<u>29,536</u>	<u>48,963</u>

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

	<u>2008</u>	<u>2007</u>
Profit before tax	266,766	270,065
Tax calculated at a rate of 15% (2007: 18%)	40,015	48,612
Effect of non taxable income and support granted	(385)	(414)
Effect of expenses not deductible for tax purposes	219	765
Effect of change in profit tax rate	(10,313)	-
Tax charge	<u>29,536</u>	<u>48,963</u>

The effect of the changed income tax rate arises due to the fact that with effect from 2009 the income tax rate is set at 20 per cent (see note B.12). As at 31 December 2008, deferred tax assets were recognised for all temporary differences (impairment of inventories, see note 12, accrued charges recognised as non-deductible expenses for income tax calculation purposes) using income tax at a rate of 20 per cent, however, these temporary differences increased income tax expense for 2008 only by 15 per cent.

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

Deferred tax assets

	<u>Inventory valuation allowance</u>	<u>Sales margin</u>	<u>Accrued charges</u>	<u>Total</u>
At 1 January 2007	-	-	1,804	1,804
Recognized in the Income Statement	-	408	(223)	185
At 31 December 2007	-	408	1,581	1,989
Recognized in the Income Statement	38,240	(408)	1,440	39,272
At 31 December 2008	<u>38,240</u>	-	<u>3,021</u>	<u>41,261</u>

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. It is expected that the deferred income tax assets recognised by the Company will be realised over the several coming years. In 2007, deferred income tax assets were calculated using 15 per cent income tax rate and in 2008 – using 20 per cent income tax rate (see note B.12).

8. EARNINGS PER SHARE

	<u>2008</u>	<u>2007</u>
Net profit attributable to shareholders	237,231	221,102
Weighted average number of ordinary shares in issue (thousand)	21,021	21,021
Earnings per share (LTL per share)	<u>11.29</u>	<u>10.52</u>

The accounting policies and the notes on pages 7 to 25 form an integral part of these preliminary unaudited financial statements.

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9. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Vehicles and equipment	Other PP&E	Construction in progress	Total
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
Year ended 31 December 2008						
Opening net book amount	100,518	132,136	7,540	2,317	10,287	252,798
Additions	-	6,053	1,010	626	34,233	41,922
Disposals and write-offs	(23)	(1)	-	(5)	-	(29)
Reclassifications	11,957	28,457	-	136	(40,550)	-
Depreciation charge	(4,405)	(23,563)	(1,106)	(1,066)	-	(30,140)
Closing net book amount	108,047	143,082	7,444	2,008	3,970	264,551
At 31 December 2008						
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)
Net book amount	108,047	143,082	7,444	2,008	3,970	264,551

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 2008 (2007: LTL 298 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 935 thousand (2007: LTL 1,163 thousand). Annual revenues of LTL 72 thousand (2007: LTL 79 thousand) were earned and depreciation expenses of LTL 77 thousand (2007: LTL 79 thousand) were incurred.

The management carried out the impairment test as of 31 December 2008 which did not identify impairment of property, plant and equipment.

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10. INTANGIBLE ASSETS

	Computer software
At 31 December 2006	
Cost	600
Accumulated amortisation	(305)
Net book amount	<u>295</u>
Year ended 31 December 2007	
Opening net book amount	295
Additions	524
Disposals and write-offs	(3)
Amortisation charge	(166)
Closing net book amount	<u>650</u>
At 31 December 2007	
Cost	1,121
Accumulated amortisation	(471)
Net book amount	<u>650</u>
Year ended 31 December 2008	
Opening net book amount	650
Additions	105
Disposals and write-offs	(78)
Amortisation charge	(218)
Closing net book amount	<u>459</u>
At 31 December 2008	
Cost	1,049
Accumulated amortisation	(590)
Net book amount	<u>459</u>

11. OTHER RECEIVABLES

The balance of non-current receivables comprises a long-term cash deposit of LTL 2,559 thousand (2007: LTL 2,658 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 150 thousand (2007: LTL 629 thousand).

12. INVENTORIES

	Finished goods	Raw materials	Work in progress	Semi-manufactures	Total
At 31 December 2007					
Cost	27,688	31,419	1,803	2,747	63,657
Write down to net realisable value (reversal)	-	-	-	-	-
Net realisable value	27,688	31,419	1,803	2,747	63,657
At 31 December 2008					
Cost	173,449	151,790	7,594	12,914	345,747
Write down to net realisable value (reversal)	97,697	81,530	4,433	7,539	191,199
Net realisable value	75,752	70,260	3,161	5,375	154,548

The accounting policies and the notes on pages 7 to 25 form an integral part of these preliminary unaudited financial statements.

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12. INVENTORIES (continued)

As at 31 December 2008, the Company recognised impairment loss of finished goods due to the decline in selling prices of finished goods in global markets at the end of 2008. This loss indicates the difference between the production cost of finished goods and estimated net realisable value. Accordingly, impairment allowance was established in respect of semi-finished products and work in progress. As the change in prices of main raw materials generally occurs later than the change in prices of finished goods and is moving along the same direction, it is probable that the cost of finished goods produced from raw materials accounted for as at the balance sheet date will exceed the net realisable value of these finished goods. Therefore, main raw materials were measured at the replacement cost which, in the opinion of the management, the same raw materials could be acquired for. In the opinion of the Company's management, such a measurement of raw materials is the best estimate of their net realisable value at the balance sheet date.

Inventories in respect of which impairment loss was recognised are neither obsolete, nor damaged. The Company expects to sell them or use them in production.

13. FINANCIAL INSTRUMENTS

(a) Financial instruments by category

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

	Loans and receivables	Total
31 December 2008		
Assets as per balance sheet		
Non-current receivables	2,559	2,559
Trade and other receivables	122,938	122,938
Loans granted	359,764	359,764
Cash and cash equivalents	63,469	63,469
	548,730	548,730
	Other financial liabilities	Total
Liabilities as per balance sheet		
Trade and other payables	123,426	123,426
	123,426	123,426
31 December 2007		
Assets as per balance sheet		
Non-current receivables	2,658	2,658
Trade and other receivables	183,138	183,138
Loans granted	12,865	12,865
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

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.

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13. FINANCIAL INSTRUMENTS (continued)

(b) Credit quality of financial assets

As of 31 December 2008, the Company had LTL 63,469 thousand of cash at bank, short-term bank deposits and repo deals (2007: LTL 173,272 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 a minimum of A long-term borrowing rating.

As of 31 December 2008, the Company had trade accounts receivable of LTL 113,780 thousand (2007: LTL 180,893 thousand) that were neither past due nor impaired. These receivables may be split into the following groups:

	<u>2008</u>	<u>2007</u>
Trade receivables neither past due nor impaired		
Receivables from related party Eurochem Trading GmbH	107,119	170,258
Receivables from external customers	6,661	10,635
	<u>113,780</u>	<u>180,893</u>

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.

14. LOANS GRANTED, TRADE AND OTHER RECEIVABLES

	<u>2008</u>	<u>2007</u>
Trade receivables, gross	122,938	183,138
Less: provision for impairment of trade receivable	(305)	(294)
VAT tax receivable	40,437	12,268
Prepayments made to suppliers	1,572	12,466
Other receivables	1,216	912
	<u>165,858</u>	<u>208,490</u>
Short-term loans granted	359,764	12,865
	<u>525,622</u>	<u>221,355</u>

The short-term loans granted in table above represents a loan of LTL 345,059 thousand (USD 140,800 thousand) granted to related party Eurochem A.M. Limited under the agreement signed on 11 December 2008 and LTL 12,253 thousand (USD 5,000 thousand) under the agreement signed 23 December 2005 which was prolonged in 2006, 2007 and 2008. Accumulated interest account for LTL 803 thousand and LTL 1,649 thousand respectively. Loans are granted till 11 and 29 December 2009 subject to interest rate of 5%.

As at 17 July 2008 the Company granted USD 140,000 thousand loan to JSC MCC EuroChem subject to interest rate of 5%. The loan was repaid on 15 December 2008 including the accrued interest.

The fair values of trade and other receivables and loans granted 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:

	<u>2008</u>	<u>2007</u>
Trade receivables past due but not impaired		
Up to 3 months	4,497	1,918
3 to 6 months	4,356	33
	<u>8,853</u>	<u>1,951</u>

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Trade receivables past due but not impaired are related to individual customers that fulfilled their obligations in the past. Based on the management estimate, all trade receivables past due but not impaired are expected to be recovered in 2009.

As of 31 December 2008, trade receivables of LTL 305 thousand (2007: LTL 294 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:

	2008	2007
Trade receivables impaired and provided for		
6 to 12 months	-	-
Over 12 months	305	294
	305	294

Movements of the impairment loss of trade receivables are as follows:

	2008	2007
At 1 January	294	601
Receivables written off during the year as uncollectible	-	(273)
Impact of changing foreign exchange rates	11	(34)
At 31 December	305	294

The creation and release of impairment loss 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:

	2008	2007
US dollar	466,980	188,034
Lithuanian Litas or Euro	58,642	33,321
	525,622	221,355

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

	2008	2007
Cash in bank	1,937	4,499
Cash on hand	9	9
Time deposits and repo deals	61,523	168,612
Letters of credit and guarantees	-	152
	63,469	173,272

16. SHARE CAPITAL

As at 31 December 2008, 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 2008.

The accounting policies and the notes on pages 7 to 25 form an integral part of these preliminary unaudited financial statements.

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17. TRADE AND OTHER PAYABLES

	2008	2007
Trade payables	106,210	24,895
Import VAT payable	17,552	6,782
Other payables and accrued charges	17,216	12,974
Amounts received in advance	1,009	13,921
Other taxes payable	311	452
Social security payable	1,811	1,277
	144,109	60,301

18. GRANTS

The Company received a grant amounting to LTL 5,976 thousand from the EU structural funds to finance acquisition of equipment relating to the project: "The usage of current and regenerating sources of energy of sulphur acid department for production of electrical power" (received in 2007) and a grant of LTL 238 thousand from Environment protection investments fund to finance the acquisition of waste cleaning equipment (received in 2008). The grants are amortised over the useful life time of related assets and income amounting to LTL 712 thousand was credited to the income statement in 2008 (2007: LTL 289 thousand) to off-set the depreciation of related assets.

19. CASH FROM OPERATING ACTIVITIES

	2008	2007
Profit before tax	266,767	270,065
Adjustments for:		
Depreciation and amortisation (Notes 9, 10)	30,358	28,358
Write-off of inventory	52	55
Inventory valuation allowance (Note 12)	191,199	-
Finance charges (interest)	(2,320)	(2,317)
Interest received for loans granted	(7,500)	-
Loss on disposal of property, plant and equipment, net	(26)	(155)
Unrealised foreign exchange loss	(48,909)	22,829
Changes in working capital:		
– trade and other receivables	55,169	(130,835)
– payables	83,094	17,654
– inventories	(282,142)	(14,955)
Cash from operating activities	285,742	190,699

There were no significant non-cash transactions during the years 2007 and 2008.

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

	2008	2007
Net book value (Notes 9, 10)	107	66
Gain on disposal of property, plant and equipment (Note 6)	26	155
	133	221

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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 2008, 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:

	2008		2007	
	Sales	Purchases	Sales	Purchases
AO MXK „EuroChem	-	35,235	-	-
Eurochem Trading GmbH	1,110,581	-	297,366	27,440
Harvester Shipmanagement Ltd	-	47,057	-	75,347
OA0 Kavdorskiy GOK	8	709,739	-	132,286
OA0 NAK Azot	-	90,228	-	46,642
	1,110,589	882,259	297,366	281,715

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 OA0 MXK Eurochem), purchase of transportation services (Harvester Shipmanagement Ltd) and sales of production (Eurochem Trading GmbH).

During 2008, the Company also granted loan to related party Eurochem A.M. Limited (Note 14).

Year-end balances of transactions with related parties:

	2008		2007	
	Receivables	Payables	Receivables	Payables
Eurochem Trading GmbH	107,119	-	170,258	-
Harvester Shipmanagement Ltd	-	219	-	4,552
OA0 Kavdorskiy GOK	-	90,512	-	6,807
OA0 NAK Azot	-	2,877	-	4,253
Eurochem A.M. Limited	359,764	-	12,865	-
	466,883	93,608	183,123	15,612

The balances of receivables include receivables for production sold (Eurochem Trading GmbH) and short-term loans granted (Eurochem A.M. Limited). The balances of payables include accounts payable for raw materials purchased (OA0 Kavdorskiy GOK, OA0 NAK Azot) and for transportation services purchased (Harvester Shipmanagement Ltd).

Key management compensation

During 2008, the Company accounted for LTL 3,739 thousand (2007: LTL 3,261 thousand) of key management remuneration expenses, including salary expenses of LTL 1,617 thousand (2007: LTL 1,699 thousand), bonuses of LTL 1,234 thousand (2007: LTL 788 thousand) and social security expenses of LTL 888 thousand (2007: LTL 774 thousand). Average number of key management personnel was 5 in 2007 and 2008.

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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)
31 DECEMBER 2008

(All tabular amounts in LTL thousand unless otherwise stated)

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 2,559 thousand as at 31 December 2008 (2007: LTL 2,658 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 2,559 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 1,170 thousand (31 December 2007: LTL 3,807 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. The Company receives allowances from the Government in an amount equal to its cap. Allowances are issued free of charge. In 2008 actual emissions of the Company amounted to 838 tons (2007: 612 tons). 56,223 tons of actual emissions granted in 2008 remained unused and unsold (2007: 3,289 tons). The market value of these allowances amounted to LTL 2,999 thousand as at 31 December 2008 (2007: LTL 0.2 thousand). Income from unused emission allowances sold (for the previous period) amounted to LTL 2,473 thousand in 2008 (2007: LTL 60 thousand).

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 2009.