



Our report has been prepared in Lithuanian and English languages. In all matters of interpretation of information, views or opinions, the Lithuanian language version of our report takes precedence over the English language version.

Independent Auditor's Report

To the shareholders of Lifosa AB

Report on the financial statements

We have audited the accompanying financial statements of Lifosa AB (the Company) set out on pages 5 – 30 which comprise the statement of financial position as of 31 December 2010 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

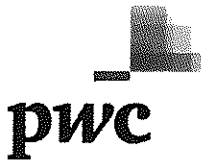
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

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Basis for Qualified Opinion - scope limitation

Certain items of property, plant and equipment are accounted for at a historical cost less subsequent depreciation as adjusted for indexation, using the indexation rates set by the Government of the Republic of Lithuania in 1992-1995. Those certain items of property, plant and equipment of the Company have not been stated in terms of a measuring unit current as at the time (i.e. restated by using a general price index to reflect changes in purchasing power) as required by IAS 29 'Financial Reporting in Hyperinflationary Economies'. It has not been possible to estimate the financial effects of this non-compliance.

Our Auditor's Report on the financial statements for the year ended 31 December 2009 was also qualified for the same matter.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion - scope limitation* paragraph, the Financial statements give a true and fair view of the financial position of the Company as of 31 December 2010 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the Annual Report for the year ended 31 December 2010 set out on pages 31- 67 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2010.

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Partner

Vilnius, Republic of Lithuania
7 April 2011

Rimvydas Jogėla
Auditor's Certificate No.000457

LIFOSA AB

**FINANCIAL STATEMENTS, ANNUAL REPORT
AND INDEPENDENT AUDITOR'S REPORT
31 DECEMBER 2010**

Translation note

These financial statements have been prepared in Lithuanian and English languages. In all matters of interpretation of information, views or opinions, the Lithuanian language version of these financial statements take precedence over the English language version.

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**LIFOSA AB
FINANCIAL STATEMENTS
31 DECEMBER 2010**

STATEMENT OF COMPREHENSIVE INCOME

LTL thousand

	Notes	Year ended 31 December 2010	2009
Sales	1	1,085,583	832,700
Cost of sales	4	(785,661)	(802,696)
Gross profit		299,922	30,004
Selling and distribution costs	2	(29,026)	(29,101)
Administrative expenses	3	(26,225)	(26,976)
Net foreign exchange gain/(loss)	5	12,378	(16,352)
Other income	6	26,255	24,005
Operating profit/(loss)		283,304	(18,420)
Interest income on short-term cash deposits		188	373
(Loss)/profit before tax		283,492	(18,047)
Income tax	7	(42,879)	(7,861)
Net (loss)/profit		240,614	(25,908)
Other comprehensive income		-	-
Total comprehensive income/(loss)		240,614	(25,908)
Basic and diluted (losses)/earnings per share (LTL per share)	8	11.45	(1.23)

These financial statements on pages 5 – 31 were approved by the Company's Technical Director (by proxy) and Chief Financial Officer on April 7 2011.


Rimantas Prosevičius
Technical Director (by proxy)


Regvita Ivanovienė
Chief Financial Officer

The accounting policies and the notes on pages 9 to 31 form an integral part of these financial statements.

LIFOSA AB
FINANCIAL STATEMENTS
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STATEMENT OF FINANCIAL POSITION

LTL thousand

	Pastabos	Year ended 31 December	
		2010	2009
ASSETS			
Non-current assets			
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
		345,362	326,068
Current assets			
Inventories	12	175,512	79,385
Trade and other receivables	13,14	126,931	100,159
Loans	13,14	464,928	342,972
Cash and cash equivalents	15	31,359	34,393
		798,730	556,909
Total assets		1,144,092	882,977
EQUITY			
Share capital	16	210,206	210,206
Share premium		80	80
Legal reserve		21,021	21,021
Retained earnings		833,514	592,900
Total equity		1,064,821	824,207
LIABILITIES			
Non-current liabilities			
Grants	17	17,032	5,127
		17,032	5,127
Current liabilities			
Income tax liabilities		3,570	-
Trade and other payables	18	58,669	53,643
		62,239	53,643
Total liabilities		79,271	58,770
Total equity and liabilities		1,144,092	882,977

The accounting policies and the notes on pages 9 to 31 form an integral part of these financial statements.

LIFOSA AB
FINANCIAL STATEMENTS
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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

LTL thousand

	Notes	Share capital	Share premium	Legal reserve	Retained earnings	Total
Balance as at 1 January 2009		210,206	80	21,021	618,808	850,115
Total comprehensive profit for the year		-	-	-	(25,908)	(25,908)
Balance at 31 December 2009		210,206	80	21,021	592,900	824,207
Total comprehensive profit for the year		-	-	-	240,614	240,614
Balance at 31 December 2010		210,206	80	21,021	833,514	1,064,821

The accounting policies and the notes on pages 9 to 31 form an integral part of these financial statements.

LIFOSA AB
FINANCIAL STATEMENTS
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STATEMENT OF CASH FLOWS

LTL thousand

	Notes	Year ended 31 December	
		2010	2009
Cash flows from operating activities			
Cash generated from operations	19	164,542	53,067
Income tax paid		(252)	(53,232)
Net cash from operating activities		164,290	(165)
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	9,10	(66,894)	(55,862)
Proceeds from sale of property, plant and equipment		362	598
Loans granted to related parties	14	(135,682)	(336,156)
Loans repayments received from related parties	14	17,264	349,654
Interest received for loans granted	14	18,924	12,755
Net cash from investing activities		(166,026)	(29,011)
Cash flows from financing activities			
Interest income from short-term deposits		189	373
Net cash from financing activities		189	373
Net decrease in cash and cash equivalents		(1,547)	(28,803)
Movement in cash and cash equivalents			
At beginning of year		34,393	63,469
Net decrease		(1,547)	(28,803)
Exchange (losses)/gains on cash and bank accounts		(1,487)	(273)
Cash and cash equivalents at end of year	15	31,359	34,393

The accounting policies and the notes on pages 9 to 31 form an integral part of these financial statements.

LIFOSA AB
NOTES TO THE FINANCIAL STATEMENTS
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 Public Limited Liability 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 NASDAQ OMX Vilnius AB. The Company's principal activity is the production of phosphate fertilisers, mainly diammonium phosphate (DAP). As at 31 December 2010 and as at 31 December 2009 the main shareholders of the Company were as follows:

<i>Shareholder</i>	<i>Number of shares 2010</i>	<i>Percentage of share capital 2010, %</i>
„Mineral Chemical Company Eurochem”	20,064,912	95.45%
„Eurochem A.M. Limited”	767,250	3.65%
Other shareholders	188,402	0.9%
	21,020,564	100%

<i>Shareholder</i>	<i>Number of shares 2009</i>	<i>Percentage of share capital 2009, %</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%
	21,020,564	100%

All shares of the Company are fully paid.

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

The shareholders of the Company have a statutory right to approve these financial statements or not to approve them and to require preparation of a new set of financial statements.

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.3).

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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

Standards, amendments and interpretations effective in 2010 but not relevant to the Company

IFRIC 12 'Service Concession Arrangements' (IFRIC 12 as adopted by the EU is effective for annual periods beginning on or after 30 March 2009) The interpretation contains guidance on applying the existing standards by service providers in public-to-private service concession

The accounting policies and the notes on pages 9 to 31 form an integral part of these financial statements.

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arrangements. Application of IFRIC 12 does not have any impact on the Company's financial statements.

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009 (effective for annual periods ending on or after 30 June 2009; amendments to IFRIC 9 and IAS 39 as adopted by the EU are effective for annual periods beginning after 31 December 2009). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment does not have any impact on the Company's financial statements.

IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' (effective for annual periods beginning on or after 1 October 2008; IFRIC 16 as adopted by the EU is effective for annual periods beginning after 30 June 2009). IFRIC 16 does not have any impact on the Company's financial statements.

IFRIC 17 'Distribution of Non-Cash Assets to Owners' (effective for annual periods beginning on or after 1 July 2009; IFRIC 17 as adopted by the EU is effective for annual periods beginning after 31 October 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 should not be applicable to the Company. IFRIC 17 does not have any impact on the Company's financial statements.

Classification of Rights Issues – Amendment to IAS 32 'Financial Instruments Presentation' (effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. This amendment does not have an impact on the Company's financial statements.

IAS 27 'Consolidated and Separate Financial Statements' (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The revised ISA 27 does not have any impact on the Company's financial statements.

IFRS 3 'Business Combinations' (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised standard does not have any impact on the Company's financial statements.

Amendment to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1) (effective for annual periods beginning on or after 1 July 2009). This amendment to IFRS 5 is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that an entity committed to a sale plan involving loss of control of a subsidiary would classify the subsidiary's assets and liabilities as held for sale. The revised guidance should be applied prospectively from the date at which the entity first applied IFRS 5. This amendment does not have an impact on the Company's financial statements.

Eligible Hedged Items—Amendment to IAS 39 'Financial Instruments: Recognition and Measurement' (effective with

The accounting policies and the notes on pages 9 to 31 form an integral part of these financial statements.

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retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. This amendment does not have an impact on the Company's financial statements.

IFRS 1 'First-time Adoption of International Financial Reporting Standards' (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; restructured IFRS 1 as adopted by the EU is effective for annual periods beginning after 31 December 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard does not have any impact on the Company's financial statements.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2 'Share-based Payment' (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments do not have any impact on the Company's financial statements.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1 'First-time Adoption of IFRS' (effective for annual periods beginning on or after 1 January 2010). The amendments provide an additional exemption for measurement of oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments do not have any impact on the Company's financial statements.

IFRIC 15 'Agreements for the Construction of Real Estate' (effective for annual periods beginning on or after 1 January 2009; IFRIC 15 as adopted by the EU is effective for annual periods beginning after 31 December 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The amendment does not have any impact on the Company's financial statements.

IFRIC 18 'Transfers of Assets from Customers' (effective prospectively to transfers of assets from customers received on or after 1 July 2009, earlier application permitted; IFRIC 18 as adopted by the EU is effective for annual periods beginning after 31 October 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 does not have any impact on the Company's financial statements.

In April 2009 the EU endorsed the Improvements to IFRSs (amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; the amendments as adopted by the EU are effective for annual periods starting after 31 December 2009). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations. These amendments are not expected to have significant impact on the Company's financial statements.

Standards, amendments to standards and interpretations to existing standards that have been issued but are not effective for 2010 and have not been early adopted

IAS 24 'Related Party Disclosures' (amended November 2009, effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition and by (b) providing a partial exemption from the disclosure requirements for government-related entities. These amendments are not expected to have significant impact on the Company's financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Company does not expect the amendment to have any material effect on its financial statements.

The accounting policies and the notes on pages 9 to 31 form an integral part of these financial statements.

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IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The Company does not expect IFRIC 19 to have any material effect on its financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Company does not expect the amendment to have any material effect on its financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurement (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU).

Improvements to International Financial Reporting Standards, issued in May 2010 (effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011; the improvements have not yet been adopted by the EU). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, to IAS 21, IAS 28, IAS 31, IAS 34 and IFRIC 13.

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.

Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12 (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU). The amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value.

Severe hyperinflation and removal of fixed dates for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU). The amendments will provide relief for first-time adopters of IFRSs from having to reconstruct transactions that occurred before their date of transition to IFRSs, and guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time.

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.

USD exchange rate (LTL/1USD)	As at 31 December	Average
2010	2.6099	2.6067
2009	2.4052	2.4828

(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 profit of loss.

B.3 Property, plant and equipment

The accounting policies and the notes on pages 9 to 31 form an integral part of these financial statements.

LIFOSA AB
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2010

(All tabular amounts in LTL thousand unless otherwise stated)

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 indexations of property, plant and equipment were performed during the period between 1 January 1992 and 31 December 1995.

Indexation rates used 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 statement of financial position 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 2010 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 and the replaced part is retired, 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 profit or loss 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 and equipment	4-10 years
Other property, plant and equipment	5-8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 profit or loss.

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

The accounting policies and the notes on pages 9 to 31 form an integral part of these financial statements.

LIFOSA AB
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(All tabular amounts in LTL thousand unless otherwise stated)

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 end of the reporting period. These are classified as non-current assets. Loans and receivables are classified as 'loans granted' and 'trade and other receivables' in the statement of financial position.

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 profit or loss within 'administrative expenses'. Bad debts are written off during the year in which they are identified as irrecoverable.

Derecognition of financial assets. The Company derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

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 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 of finished goods. Under such circumstances, the best estimate of net realisable value of raw materials and substances is deemed to be their market value. Loss resulting from writing down of inventories to net realisable value is included in the cost of sales in the statement of comprehensive income.

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, letters of credit 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 and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

B.12 Income tax and deferred income tax

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period.

Income tax charge is based on taxable profit or losses for the current and prior periods and considers deferred

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taxation. Income tax is calculated based on the Lithuanian tax legislation. The standard income tax rate in Lithuania is 15% (2009: 20%).

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Company changes its activities due to which these losses incurred except when the Company does not continue its activities due to reasons which do not depend on the Company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed based on tax rates enacted or substantially enacted at the each reporting period.

Deferred tax assets have been recognized in the statement of financial position to the extent the management believes it will be realized in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realized, this part of the deferred tax asset is not recognized in the financial statements.

Deferred income tax relating to items recognized in other comprehensive income, also recognized in other comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxation authority.

B.13 Leases – where the Company is the lessee

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 profit or loss 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 statement of financial position. 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.

(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 the end of the reporting period 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

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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 (normally based on Incoterms).

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 average number of ordinary registered shares outstanding during the reporting period, excluding ordinary registered shares purchased by the Company and held as treasury shares.

B.19 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

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 at their fair value 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 non-current liabilities and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

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.

B.23 Comparative figures

Where necessary, comparative figures have been reclassified to conform with changes in current year presentation.

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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, other price risk and cash flow and fair value interest rate 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 significantly 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) at the end of each reporting period.

Financial assets and liabilities denominated in USD:	2010	2009
Cash and cash equivalents (15 note)	18,959	13,702
Accounts receivable (14 note)	62,055	72,469
Loans granted and interest accrued (14 note)	13,209	-
Accounts payable (18 note)	(8,388)	(22,258)
Net position	85,835	63,913

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 8.5% Lithuanian Litas' weakening / strengthening against the US dollar. The exchange rate shift assumption was based on the US dollar exchange rate net volatility during 2010. At 31 December 2010, if the Lithuanian Litas had strengthened / weakened by 8.5% against the US dollar with all other variables held constant, foreign exchange gain would be LTL 7,296 thousand higher / smaller (2009: 2% loss would be LTL 1,278 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. No significant transactions in other foreign currencies are performed by the Company.

(ii) The other price risk

The Company is not exposed to 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 parties at a fixed interest rate as disclosed in Note 14.
- Short-term bank deposits and letters of credit which may be converted to a known amount of cash and are subject to an insignificant risk of changes in value. These deposits 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).

Division between fixed and variable interest rate depend on the situation in the market.

(b) Credit risk

The accounting policies and the notes on pages 9 to 31 form an integral part of these financial statements.

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Senior management is responsible for credit risk management. Credit risk arises from loans granted to the related 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. No other significant sales to other group are performed by the Company. In the event of granting loans to the EuroChem group companies the Company does not perform additional credit risk evaluation procedures.

There were no difficulties in collecting accounts receivable from customers or withdrawing cash from banks during the reporting period (except ones in note 14) 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.

The maximum exposure of financial assets to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 13.

(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 statement of financial position 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 2010 and 2009, the Company had no borrowings.

	2010	2009
Shareholders' equity	1,064,821	824,207
Less cash and cash equivalents	31,359	34,393
Kapitalo iš viso	1,033,462	789,814

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 2010 and 31 December 2009 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 loan granted and financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is

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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 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 (Note 14). 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 the production cost of finished goods exceeds their expected selling prices, an impairment loss is recognised. Such an estimate is performed in respect of each significant position of finished goods at the end of each reporting period. After the end of the year the Company's management determined expected selling prices of goods based on available market information and / or existing agreements with customers.

Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of finished products will exceed the net realisable value, the materials are written down to their net realisable value. In such circumstances, the market price of the materials is deemed to be the best available measure of their net realisable value.

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 market developments (Note 12).

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.

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OTHER EXPLANATORY NOTES

1. SALES

The Company's single operating segment is production of mineral fertilizers. All the Company's assets are located in Lithuania. The Company's sales by market can be analysed as follows:

	Sales	
	2010	2009
India	333,109	204,194
Germany	147,882	134,144
Netherlands	88,991	89,175
France	62,205	11,146
USA	48,263	-
Poland	45,418	33,541
Canada	43,662	-
Lithuania	35,840	35,116
Brazil	30,738	-
Argentina	27,577	-
Ireland	26,534	8,512
Vietnam	19,987	9,174
Russia	17,655	-
Great Britain	17,009	7,503
Denmark	14,427	1,213
Romania	14,171	6,813
Croatia	13,974	-
Ivory Coast	9,221	2,419
Tadzhikistan	8,901	4,708
Uruguay	8,758	-
Ukraine	8,645	6,113
Guatemala	7,742	-
Other countries	7,643	2,401
Czechia	6,536	5,966
Cameroon	6,531	1,915
Latvia	4,913	2,268
Hungary	4,491	3,358
Belgium	4,176	2,843
Belarus	3,407	4,272
Slovakia	3,140	3,003
Sweden	3,010	6,092
Paraguay	2,427	849
Egypt	2,298	-
Martinique	2,262	-
Senegal	2,068	-
Malaysia	1,972	2,901
Pakistan	-	143,552
Ethiopia	-	45,120
Kenya	-	30,837
Italy	-	10,320
Tanzania	-	8,031
Spain	-	2,392
Austria	-	1,416
Chile	-	1,393
	1,085,583	832,700

Sales by market 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 and intermediaries, 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). Diammonium phosphate (DAP) sales in 2010 amounts to 852 thousand tons (2009: 910 thousand tons).

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Analysis of sales by category:

	2010	2009
Sales of diammonium phosphate	945,826	743,848
Sales of monocalcium phosphate	90,026	58,820
Sales of aluminium flouride	32,717	15,043
Other	225	386
Total sales of goods	1,068,794	818,097
Sales of electricity, heat energy and other	16,784	13,792
Sales of raw materials	5	811
	1,085,583	832,700

2. SELLING AND DISTRIBUTION COSTS

	2010	2009
Transportation costs	16,094	14,945
Loading and forwarding costs	12,755	13,661
Other selling and distribution costs	177	495
	29,026	29,101

3. ADMINISTRATIVE EXPENSES

	2010	2009
Remuneration of employees	12,506	10,481
Social security contributions	3,925	3,229
Taxes (other than income tax)	1,946	1,855
Bad debt expenses (Note 14)	(150)	3,316
Consulting expenses	689	891
Depreciation and amortization	1,034	961
Insurance	218	334
Security	957	879
Telecommunications	326	385
Support granted	793	894
Other administrative expenses	3,981	3,751
	26,225	26,976

4. EXPENSES BY NATURE

	2010	2009
Raw materials and consumables used	691,047	640,924
Change in finished goods, semi-manufactures and work in progress	(22,968)	50,130
Remuneration of employees and social security contributions	73,698	76,447
Depreciation and amortization	30,625	31,192
Transportation services	29,026	29,101
Energy and fuel	14,497	9,685
Vacation and bonus reserve accrual expenses	7,102	(6,358)
Repair and maintenance	4,969	7,601
Other expenses	3,756	6,191
Overhead production expenses	2,187	1,409
Heat and electricity expenses	2,046	2,854
Taxes (other than income tax)	1,946	1,855
Security	957	879
Support granted	793	894
Consulting expenses	689	891
Marketing and representation	366	896
Telecommunication and IT maintenance expenses	326	385
Change in inventory valuation allowance	-	481
Accounts receivable impairment	(150)	3,316
	840,912	858,773

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Remuneration of employees and social security contributions comprise salary expenses of LTL 51,902 thousand (2009: LTL 51,746 thousand), social security expenses of LTL 17,465 (2009: LTL 18,086 thousand) and bonuses and other benefits of LTL 4,331 thousand (2009: LTL 6,616 thousand).

5. NET FOREIGN EXCHANGE GAIN/(LOSS)

Net foreign exchange gain/(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

	2010	2009
Interest income on short-term loans (note 14)	22,520	17,865
CO2 emission rights	3,697	6,098
Gain on disposal of property, plant and equipment	38	42
	26,255	24,005

7. INCOME TAX

	2010	2009
Current income tax expense	12,372	49
Deferred income tax expense	30,507	7,812
	42,879	7,861

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:

	2010	2009
Profit/(loss) before tax	283,492	(18,047)
Tax calculated at a rate of 15% (2009: 20%)	42,524	(3,609)
Effect of non taxable income and support granted	(328)	-
Effect of expenses not deductible for tax purposes	432	320
Income tax corrections of prior years	251	-
Effect of change in income tax rate	-	11,150
Total income tax expense	42,879	7,861

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

Deferred tax assets

	Inventory valuation allowance	Accounts receivable provision for impairment	Tax losses carried forward	Provisions	Total
At 1 January 2009	38,240	-	-	3,021	41,261
Recognized in profit or loss	(38,168)	541	31,526	(1,711)	(7,812)
At 31 December 2009	72	541	31,526	1,310	33,449
Recognized in the profit or loss	(72)	(22)	(31,526)	1,113	(30,507)
At 31 December 2010	-	519	-	2,423	2,942

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. It is expected that the deferred income tax assets recognized by the Company will be realized over the several coming years.

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

8. BASIC AND DILUTED EARNINGS/(LOSSES) PER SHARE

	2010	2009
Net (loss)/profit attributable to shareholders	240,614	(25,908)
Weighted average number of ordinary shares in issue (thousand)	21,021	21,021
Earnings/(loss) per share (LTL per share)	11.45	(1.23)

The Company has no dilutive potential ordinary shares; therefore the diluted earnings per share equal the basic earnings per share.

9. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Vehicles and equipment	Other PP&E	Construction in progress	Total
At 1 January 2009	200,002	405,478	17,215	12,199	3,970	638,864
Cost or indexed cost	(91,955)	(262,396)	(9,771)	(10,191)	-	(374,313)
Accumulated depreciation	108,047	143,082	7,444	2,008	3,970	264,551
Net book amount						
Year ended 31 December 2009	108,047	143,082	7,444	2,008	3,970	264,551
Opening net book amount	-	1,545	684	423	36,275	38,927
Additions	(536)	-	-	(20)	-	(556)
Disposals and write-offs	2,768	15,329	-	422	(18,519)	-
Transfers	(4,795)	(24,218)	(1,353)	(571)	-	(30,937)
Depreciation charge	105,484	135,738	6,775	2,262	21,726	271,985
Closing net book amount						
At 31 December 2009	201,372	416,267	17,747	12,058	21,726	669,170
Cost or indexed cost	(95,888)	(280,529)	(10,972)	(9,796)	-	(397,185)
Accumulated depreciation	105,484	135,738	6,775	2,262	21,726	271,985
Net book amount						
Year ended 31 December 2010	105,484	135,738	6,775	2,262	21,726	271,985
Opening net book amount	50	4,282	8,955	302	74,567	88,56
Additions	(39)	(284)	-	(1)	-	(324)
Disposals and write-offs	24,391	70,244	-	1,161	(95,796)	-
Transfers	(4,572)	(23,667)	(1,402)	(681)	-	(30,322)
Depreciation charge	125,314	186,313	14,328	3,043	497	329,495
Closing net book amount						
At 31 December 2010	225,658	486,343	26,301	13,035	497	751,834
Cost or indexed cost	(100,344)	(300,030)	(11,973)	(9,992)	-	(422,339)
Accumulated depreciation	125,314	186,313	14,328	3,043	497	329,495
Net book amount	200,002	405,478	17,215	12,199	3,970	638,864

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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), recognised in profit or loss within administrative expenses.

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 271 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.

Company acquired part of the land in 2010. Land was ownership of rest-house in Moletai district. Acquisition cost – LTL 50 thousand.

10. INTANGIBLE ASSETS

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

11. OTHER RECEIVABLES

The balance of non-current receivables comprises a long-term cash deposit of LTL 2,496 thousand and interest accrued of LTL 350 thousand (2009: LTL 2,496 thousand and LTL 207 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 8,539 thousand (2009: LTL 17,326 thousand).

LIFOSA AB
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2010

(All tabular amounts in LTL thousand unless otherwise stated)

12. INVENTORIES

	Finished goods	Raw materials	Work in progress	Semi-manufactures	Total
At 31 December 2009					
Cost	47,409	28,778	1,765	1,914	79,866
Write down to net realisable value	(481)	-	-	-	(481)
Net realisable value	46,928	28,778	1,765	1,914	79,385
At 31 December 2010					
Cost	72,500	99,527	2,495	990	175,512
Write down to net realisable value	-	-	-	-	-
Net realisable value	72,500	99,527	2,495	990	175,512

As at 31 December 2009, only the value of finished products (aluminium fluoride) was written down to net realizable value in connection with the stabilization of prices of finished products in the international markets.

Aluminium fluoride valuation allowance down to net realizable value was realized during 2010.

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
31 December 2010	
Assets as per statement of financial position	
Non-current receivables	2,846
Trade and other receivables	73,614
Less: allowance for impairment of trade receivable	(3,490)
Short-term loans granted	464,928
Cash and cash equivalents	31,359
	569,257
Other financial liabilities	
Liabilities as per statement of financial position	
Trade and other payables	36,118
	36,118
31 December 2009	
Assets as per statement of financial position	
Non-current receivables	2,703
Trade and other receivables	81,193
Short-term loans granted	342,972
Cash and cash equivalents	34,393
Less: allowance for impairment of trade receivable	(3,640)
	457,621
Other financial liabilities	
Liabilities as per statement of financial position	
Trade and other payables	47,843
	47,843

The accounting policies and the notes on pages 9 to 31 form an integral part of these financial statements.

LIFOSA AB
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2010

(All tabular amounts in LTL thousand unless otherwise stated)

13. FINANCIAL INSTRUMENTS (continued)

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.

(b) Credit quality of financial assets

As of 31 December 2010, the Company had LTL 31,359 thousand of cash at bank, letters of credit, and short-term bank deposits (2009: LTL 34,393 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 2010, the Company had trade accounts receivable of LTL 68,885 thousand (2009: LTL 75,687 thousand) that were neither past due nor impaired. These receivables may be split into the following groups:

	<u>2010</u>	<u>2009</u>
Trade receivables neither past due nor impaired		
Receivables from related party Eurochem Trading GmbH	60,996	69,919
Receivables from external customers	7,889	5,768
	<u>68,885</u>	<u>75,687</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 (except for in note 14).

14. LOANS GRANTED, TRADE AND OTHER RECEIVABLES

	<u>2010</u>	<u>2009</u>
Trade receivables, gross	73,614	81,193
Less: allowance 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	628
	<u>126,931</u>	<u>100,159</u>
Short-term loans granted	464,928	342,972
	<u>591,859</u>	<u>443,131</u>

The accounting policies and the notes on pages 9 to 31 form an integral part of these financial statements.

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

Short-term loans include loans granted to related parties - EuroChem A.M Limited and EuroChem International Holding B.V.

Loan agreement with EuroChem A.M. was prolonged until 16 July 2011 amounting to LTL 336,154 thousand (EUR 97,357 thousand) with 6.7% fixed interest rate. As at 9 June 2010, additional loan amounting to LTL 86,320 thousand (EUR 25,000 thousand) was granted until 7 June 2011 with 5.45% interest rate.

As of 31 December 2010, interest receivable from EuroChem A.M. Limited amounted to LTL 9,621 thousand (EUR 2,786 thousand). Before granting loan in EUR, part of the loan amounting to LTL 17,264 thousand (EUR 5,000 thousand) and interest amounting to LTL 18,924 thousand (EUR 5,481 thousand) was repaid.

Loans amounting to LTL 36,254 thousand (EUR 10,500 thousand), LTL 7,921 thousand (USD 3,000 thousand) and LTL 5,186 thousand (USD 2,000 thousand) to related party EuroChem International Holding B.V. were granted as of 3 September 2010, 22 September 2010 and 27 September 2010 respectively.

As of 31 December 2010, LTL 791 thousand interest and LTL 58 thousand currency rate exchange loss have been accounted.

Loan granted in EUR is valid until 26 August 2011 with 5.3% interest rate.

Loans granted in USD are valid until 20 September 2011 with 4.5% interest rate.

Information regarding receivables from related parties is disclosed in note 20.

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>2010</u>	<u>2009</u>
Trade receivables past due but not impaired		
Up to 3 months	1,239	1,868
3 to 6 months	-	-
	<u>1,239</u>	<u>1,868</u>

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 2011.

As of 31 December 2010, trade receivables of LTL 3,490 thousand (2009: LTL 3,640 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:

	<u>2010</u>	<u>2009</u>
Trade receivables impaired and provided for		
6 to 12 months	-	-
Over 12 months	3,490	3,640
	<u>3,490</u>	<u>3,640</u>

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

	<u>2010</u>	<u>2009</u>
At 1 January	3,640	305
Receivables written down during the year as uncollectible	(150)	3,316
Impact of changing foreign exchange rates	-	19
At 31 December	<u>3,490</u>	<u>3,640</u>

The accounting policies and the notes on pages 9 to 31 form an integral part of these financial statements.

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

Impairment loss for impaired receivables has 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 of financial assets within trade and other receivables do not contain impaired assets. In 2010 LTL 150 thousand of impaired receivable has been recovered.

The carrying amounts of the Company's trade and other receivables are denominated USD amounts to LTL 93,546 thousand (2009: LTL 72,469 thousand). Other receivables are denominated in Euro and Lithuanian Litas.

15. CASH AND CASH EQUIVALENTS

	<u>2010</u>	<u>2009</u>
Cash in bank	4,950	862
Cash on hand	4	4
Time deposits	26,305	29,005
Letters of credit	100	4,522
	<u>31,359</u>	<u>34,393</u>

The carrying amount of the Company's cash and cash equivalents as at 31 December 2010 denominated in USD comprises LTL 18,958 thousand (2009: LTL 13,702 thousand).

16. 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.

17. 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).

In 2010, LTL 13,712 thousand EU structural funds have been utilized and construction of Feeding phosphate manufactory has been finished.

The grants are amortized over the useful life time of related assets. Income amounting to LTL 1,166 thousand was credited to profit or loss in 2010 (2009: LTL 727 thousand) to off-set the depreciation of related assets.

18. TRADE AND OTHER PAYABLES

	<u>2010</u>	<u>2009</u>
Trade payables	19323	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
Other taxes payable	1,881	505
Social security payable	1,944	1948
	<u>58,669</u>	<u>53,643</u>

The carrying amount of the Company's trade and other payables as at 31 December 2010 denominated in USD comprises LTL 8,388 thousand (2009: LTL 22,258 thousand).

The accounting policies and the notes on pages 9 to 31 form an integral part of these financial statements.

LIFOSA AB
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(All tabular amounts in LTL thousand unless otherwise stated)

19. CASH FLOWS FROM OPERATING ACTIVITIES

	<u>2010</u>	<u>2009</u>
Profit/(loss) before tax	283,492	(18,047)
Adjustments for:		
Depreciation and amortisation (Notes 9, 10)	29,551	31,192
Write-off of inventory	19	971
Inventory valuation allowance (Note 12)	(481)	(190,718)
Interest income on short term deposits	(189)	(373)
Interest income on loans granted	(18,924)	(12,755)
Loss on disposal of property, plant and equipment, net	(38)	(42)
Unrealised foreign exchange loss	(12,378)	16,352
Changes in working capital:		
– trade and other receivables	(16,589)	52,770
– trade and other payables	(3,524)	(91,193)
– subsidiaries	(733)	-
– inventories	(95,665)	264,910
	<u>164,542</u>	<u>53,067</u>
Cash from operating activities		

There were no significant non-cash transactions during the year 2010.

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

	<u>2010</u>	<u>2009</u>
Net book value (Notes 9, 10)	324	556
Gain on disposal of property, plant and equipment (Note 6)	38	42
	<u>362</u>	<u>598</u>

20. 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 (ultimate controlling party).

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

The following transactions were carried out with related parties:

	<u>2010</u>		<u>2009</u>	
	Sales	Purchases	Sales	Purchases
Eurochem Trading GmbH	589,801	54,026	455,072	833
Harvester Shipmanagement Ltd	-	2,585	-	8,638
OAo Kavdorskiy GOK	-	190,561	-	329,881
OAo NAK Azot	-	59,715	-	84,638
UAB EuroChem Baltic Logistics	23	103,448	8	5,659
DP Agrocentr EuroChem-Ukraina	2,817	-	-	-
	<u>592,641</u>	<u>410,345</u>	<u>455,080</u>	<u>429,649</u>

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), purchase of transportation services (Harvester Shipmanagement Ltd ir UAB EuroChem Baltic Logistics) and sales of production (Eurochem Trading GmbH and DP Agrocentr EuroChem – Ukraina).

The accounting policies and the notes on pages 9 to 31 form an integral part of these financial statements.

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During 2010, the Company also granted loan to related party Eurochem A.M. Limited and EuroChem International Holding (Note 14).

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
OAo Kavdorskiy GOK	27	6,887	-	15,138
OAo NAK Azot	-	-	-	6,104
Eurochem A.M. Limited	414,833	-	342,972	-
UAB EuroChem Baltic Logistics	50	2,348	2	129
	525,924	10,269	413,507	22,313

The balances of receivables include receivables for production sold (Eurochem Trading GmbH) and short-term loan granted (Eurochem A.M. Limited and EuroChem International Holding). The balances of payables include accounts payable for raw materials purchased (OAo Kavdorskiy GOK and Eurochem Trading GmbH) and for transportation services purchased (EuroChem Baltic Logistics UAB). Details regarding loans granted to EuroChem A.M. Limited and EuroChem International Holding B.V. were disclosed in note 14.

Key management compensation

Based on management working regulations of the Company, top management employees are considered key management personnel. During 2010, the Company accounted for LTL 2,958 thousand (2009: LTL 3,516 thousand) of key management remuneration expenses, including salary expenses of LTL 1,424 thousand (2009: LTL 1,438 thousand), bonuses of LTL 832 thousand (2009: LTL 1,244 thousand) and social security expenses of LTL 702 thousand (2009: LTL 834 thousand). Average number of key management personnel was 4 in 2010.

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 of Lithuania, 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 2,468 thousand as at 31 December 2010 (2009: LTL 2,703 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 2,468 thousand (Note 11).

Waste gypsum product is stored on a special site dedicated for its storage. Currently used storage site should be sufficient to accommodate additional waste gypsum product for the coming 1 – 3 years. The management expects that the Company will find an appropriate new storage site by that time which will ensure continuous operations of production facilities.

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 end of the reporting period but not recognized in the financial statements amounted to LTL 8,035 thousand (31 December 2009: LTL 13,136 thousand).

The accounting policies and the notes on pages 9 to 31 form an integral part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS
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Contingent tax liabilities

The tax authorities have not carried out full-scope tax audits at the Company since the year 2009. 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.

	<u>2010</u>	<u>2009</u>
Accumulated emission rights brought forward from prior years, tons	6,323	56,243
Emission allowances granted for year, tons	99,939	99,939
Actual emissions, tons	(965)	-
Emission allowances sold or transferred to third parties during the year, tons	(92,859)	(149,859)
Expired emission rights, tons	-	-
Remaining unused and unsold emission rights relating to prior periods carried forward, tons	12,438	6,323
Market value of the above emissions as at the balance sheet date, LTL thousand	551	269
Income from unused emission allowances sold, LTL thousand	3,697	6,098

For the period 2008 – 2012, the Company was issued allowances to emit a total of 499 696 tons of carbon dioxide (99 939 tons per year). Emission rights unused and unsold at year-end may be carried forward to the next year till end of the 2012 when they would expire.

Annual Report

1. Reporting period

This annual report covers the period from January 01, 2010 until December 31, 2010. All numbers in the report are given as of December 31, 2010, unless otherwise stated. In this report AB "Lifosa" is hereinafter referred to as the Entity, the Company or the Issuer.

2. The Issuer and its contact information

Title	"Lifosa" Public Limited Company
Legal status	Legal entity, Public Limited Company
The authorised capital	210,205,640 LTL
Date and place of registration	October 30, 1996, at the Register of Legal Entities of the Republic of Lithuania
Registration Certificate No.	025806
Enterprise Register Number	161110455
VAT identifier	611104515
Head-office address	Juodkiškio str. 50, LT-57502 Kėdainiai
Phone	(8~347) 66 483
Fax	(8~347) 66 166
E-mail	info@lifosa.com
Website	www.lifosa.com

The Company has no branches or representative offices.

3. The nature of the Issuer's principal activities

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

4. Agreements with the intermediaries of public trading in securities

On June 8, 2010 AB "Lifosa" concluded the Issuer's Service Agreement with bank AB *SEB Bankas* (Gedimino str. 12, Vilnius). Earlier AB "Lifosa" had a contract with financial brokerage firm AB *FM| Finasta* (Konstitucijos ave. 23, Vilnius) on the administering of securities issued by the Company.

5. Data about trading in the Issuer's securities within the regulated markets

The ordinary registered shares of AB "Lifosa" are listed in the Supplementary Trading List of NASDAQ OMX Vilnius Stock Exchange. No trading of shares of the Company takes place in any other stock exchanges.

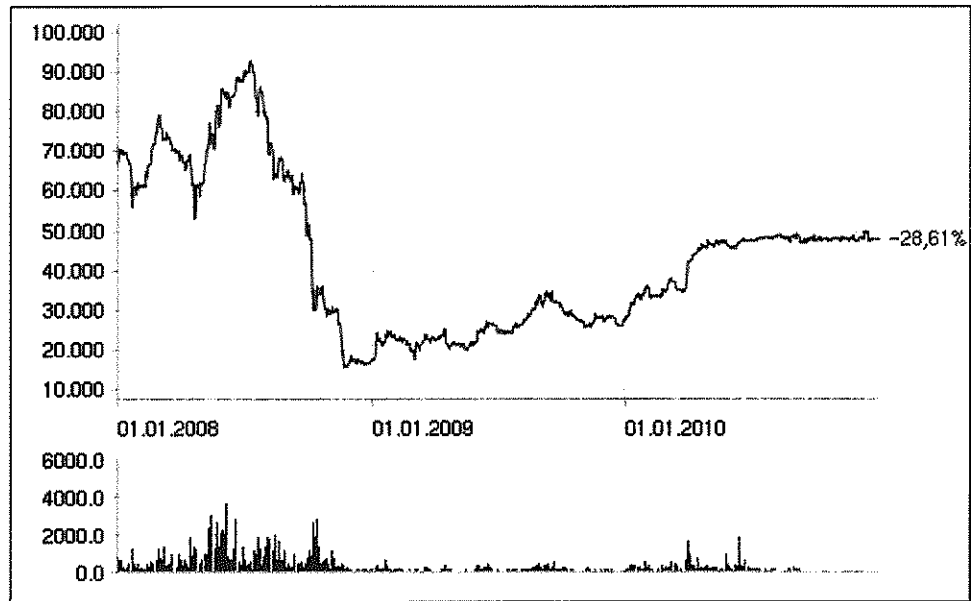
Main characteristics of the shares:

Type of shares	Ordinary registered shares
ISIN code	LT0000116691
Shortened name	LFO1L
Number of shares, in units	21,020,564
Nominal value, in LTL	10
Total nominal value, in LTL	210,205,640
The date of listing initiation	May 12, 1997

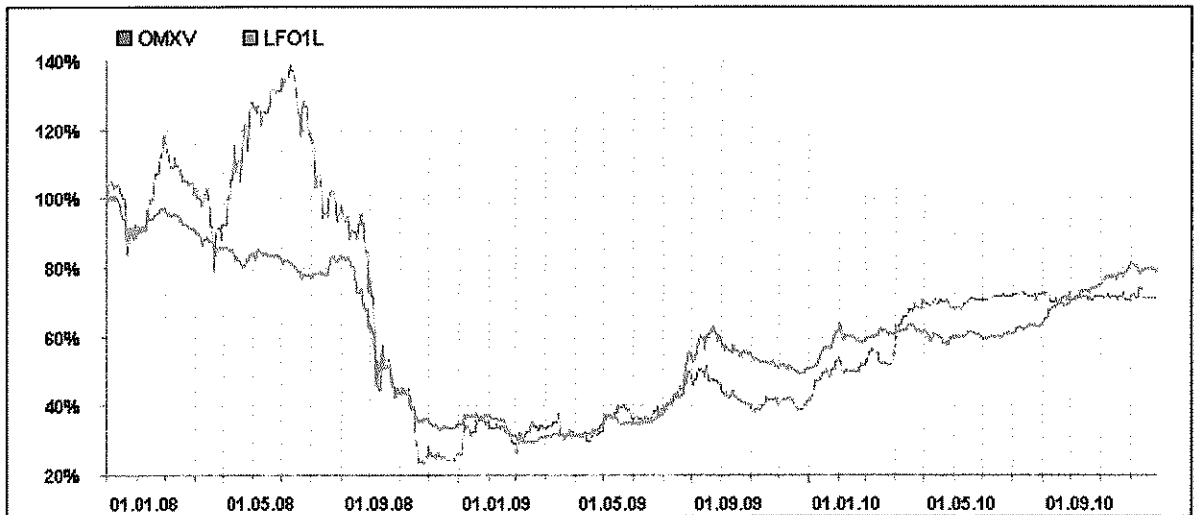
Classification under GICS:

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

Trading of AB "Lifosa" shares



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



Index / Shares	2008-01-01	2010-01-31	+/-%
—OMX Vilnius	514,23	409,65	- 20,34
—LFO1L	19,40 EUR	13,85 EUR	-28,61

6. Objective review of the Company's status, its performance and development; description of the main risks and uncertainties the Company is encountering

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 2010 the situation in the market of phosphate fertilizers was much more favourable for the manufacturers and it enabled improvement of the financial results compared to 2009. The trend of increase in demand and prices of diammonium phosphate remained during the whole year 2010. In the first half of 2010 situation in the market of phosphate fertilizers was determined by the increasing demand of fertilizers in India due to the effective sponsorship system for purchase of fertilizers. In the second half of 2010 the traditional markets for sales of fertilizers in Western Europe recovered.

At first glance it may look like in 2010 the trend of increase in prices of phosphate fertilizers is very similar to the one in years 2007/2008, but deeper analysis of the situation suggests that the growth of 2010 is based on the stronger fundamental grounds. In 2007/2008 the prices of fertilizers grew along with the prices of grain crops (maize, wheat), whereas 2010 was distinguished not only by increase in the prices of grain crops, but also vegetables, cotton, coffee and many food commodities. One of the most important factors that influenced the growth of the prices was the drought that damaged the yield in Russia and the subsequent export ban of the main grain crops in this country in 2010.

Assessment of the main risks and contravenes encountered by the Company

The phosphate fertilizer business is cyclic. Phosphate fertilizer prices fluctuate because of economic and natural factors, periodicity of end user businesses, decline in the purchasing power; therefore the Company's income and profit may drop, business may become unprofitable.

By 2012 the supply of phosphate 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, and Company's products then may become uncompetitive due to higher production costs, compared to the price offered by competitors. The major part of the production cost consists of the acquisition cost of the raw materials. Phosphates (apatite concentrate or phosphorite) are the main raw materials in phosphate fertilizer process, thus the least production costs are incurred by the manufacturers producing their own raw phosphates.

Poor climate conditions (e.g., 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 investments not only into new equipment, but also by implementing modern technologies, improving production processes, which enables fixed costs reduction, saving raw materials and energy consumption. The major part of raw materials is obtained from the subsidiaries of the key shareholder MCC *EuroChem*. When raw materials are purchased from third parties, several independent suppliers are selected. 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 encountered by the Company and management thereof are described in the explanatory notes of the audited financial statements.

7. Result analysis of the financial and non-financial activities

Key activity indicators:

	2008	2009	2010
Income from sales, in thous. of LTL	1,748,778	832,700	1,085,583
Cost of sales, in thous. of LTL	1,486,208	802,696	785,661
Gross profit, in thous. of LTL	262,570	30,004	299,922
<i>Gross profit margin, %</i>	15	4	28
Operating profit, in thous. of LTL	264,447	-18,420	283,304
<i>Operating profit margin, %</i>	15	-2	26
Profit before tax, in thous. of LTL	266,767	-18,047	283,493
<i>Profit before tax margin, %</i>	15	-2	26
Net profit, in thous. of LTL	237,231	-25,908	240,614
<i>Net profit margin, %</i>	14	-3	22
EBITDA, in thous. of LTL	297,125	12,772	313,929
<i>EBITDA mark-up, %</i>	17	2	29
Return on equity (ROE), %	28	-3	23
Return on assets (ROA), %	23	-3	21
Debt-equity ratio	0.24	0.07	0.07
Total liquidity ratio	3.77	10.38	12.83
Immediate cover ratio	2.99	8.90	10.01
Net coverage index	0.32	0.64	0.50
Profit per share, in LTL	11.29	-1.23	11.45
Stock market share prices end-of-period, in LTL	17.440	27.780	47.828
P/E	1.59	-22.59	4.18
Income per employee, in thous. of LTL	1,744	841	1,125

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

During the year 2010 the Company produced 854,963 tons of diammonium phosphate i.e. 5.9 percent less compared to the year 2009 (908,191 tons). The Company produced 69,800 tons of feed phosphates (only monocalcium phosphate was produced), i.e. 64.2 percent more compared to the year 2009 (42,500 tons). A new production plant of feed phosphates was launched in July of 2010. In 2010 the production capacity of sulphuric acid and phosphoric acid was completely exploited. 1,154,200 tons of sulphuric acid were produced in 2010, i.e. 0.2 percent less than in 2009 (1,156,000 tons); 430,700 tons of phosphoric acid were produced, i.e. 2 percent less than in 2009 (440,300 tons).

The Company also generates electricity, which is first of all used for own process needs, and the surplus amount is sold to other companies. 249,634 thous. kWh of electricity were generated during 2010, i.e. 7.8 percent less than in 2009 (270,756 thous. kWh).

Income from basic operations amounted to 1,085,583 thous. of LTL and increased by 30 percent compared to the year 2009 (832,700 thous. of LTL). Such an increase mainly resulted from the increased prices of diammonium phosphate in the global market. The average price of diammonium phosphate sold by the Company in 2010 increased by 36 percent compared to the average price in 2009, though the sales volumes of fertilizers decreased by 6.4 percent compared to year 2009. Income from product sales (diammonium phosphate, feed phosphates, aluminium fluoride, sulphuric and phosphoric acids) amounted to 1,068,794 thous. of LTL (818,097 thous. of LTL in 2009). The income from sales of diammonium phosphate amounted to 945,826 thous. of LTL (743,848 thous. of LTL in 2009), i.e. 87.13 percent of the total income (89.33 percent in 2009). The income from sales of feed phosphates amounted to 90,026 thous. of LTL (58,820 thous. of LTL in 2009), or 8.3 percent of the total income (7 percent in 2009).

Sales volumes of diammonium phosphate, in tons:

	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter	TOTAL
2010	194,744	232,668	229,265	195,343	852,020
2009	255,887	197,123	226,309	230,907	910,226
Change %, 2010/2009	76.1	118.0	101.3	84.6	93.6

The cost of sales amounted to 785,661 thous. of LTL, and decreased by 2 percent compared to the year 2009 (802,969 thous. of LTL). The reduction in cost of sales was mostly influenced by the change in the ready products, semi-finished products and work in progress, which decreased the cost in 2010 and amounted to 22,568 thous. of LTL, whereas in 2009 it increased the cost and amounted to 50,130 thous. of LTL.

The cost structure is composed mostly of expenses of the raw materials and materials, which amounted to 691,047 thous. of LTL in 2010 compared to 2009 (640,924 thous. of LTL), thus increased by 7.8 percent.

In 2010 the main market for sale of phosphate fertilizers remained the region of Asia (the largest share was sold to India). Sales volume in tons to the region of Asia constituted 40.8 percent of the total sales (49.4 percent in 2009), sales in Europe made up to 39.8 percent (38.9 percent in 2009), sales in South and North America made up to 17.7 percent (0.4 percent in 2009), and the remaining 1.7 percent of products were sold in Africa (11.3 percent in 2009).

69,113 tons of monocalcium phosphate were sold in 2010 (44,131 tons in 2009). 95 percent of feed phosphates were sold to European market (100 percent were sold to Europe in 2009).

During the reporting period 64,544 thous. kWh of electricity were sold, i.e. 27.6 percent less than in 2009 (89,160 thous. kWh).

Investments

In 2010 the capital investments to the fixed tangible and intangible assets amounted to 89,394 thous. of LTL. The key investment projects were as follows: "Increase of Production Efficiency at AB "Lifosa" and Implementation of Innovative Technologies by Updating the Manufacture process of Feed Phosphates" (the investment value amounted to 28,145 thous. of LTL in 2010); "Construction of Warehouse for Raw Phosphates with the Capacity of 100 thous. of Tons" (the investment value amounted to 24,227 thous. of LTL in 2010); and "Installation of the Phosphogypsum Conveyor in the Phosphoric Acid Plant" (the investment value amounted to 2,956 thous. of LTL in 2010). All three investment projects were launched in 2010. The depreciation deductions amounted to 30,625 thous. of LTL in 2010.

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 the previous financial year

None.

11. Planned and forecasted activities of the Company

In 2011 the Company will strive to completely exploit the available process capacities of sulphuric and phosphoric acids, to produce and sell 755 thous. tons of diammonium phosphate and approximately 150 thous. tons of feed phosphates. If the average price of the main product diammonium phosphate in 2011 amounts to ~ 500 USD/t, the estimated income of the Company will be ~ 1,200 mill. of LTL in 2011.

The changes in prices of raw materials in 2011 will depend on the trends of prices of phosphate fertilizers: the larger production of phosphate fertilizers causes increased demand of the raw materials (raw phosphates, ammonia, and sulphur) and usually underlies increase of the prices of raw materials. Besides, when the increasing prices of raw materials enhance expectations of the sellers with regard to higher prices of their products, and thus the pressure on buyers to pay more for raw materials becomes stronger.

12. Structure of the Issuer's authorized capital

Type of shares	Number of shares, in units	Nominal value, in LTL	Total nominal value, in LTL	Weight in the authorized capital, in percentage
Ordinary registered shares	21,020,564	10	210,205,640	100.00

13. Stock transfer restrictions

There are no restrictions regarding transfer of the shares.

14. Shareholders

On December 31, 2010 the total number of the shareholders amounted to 494.

The shareholders who have owned or controlled more than 1 percent of the Company's authorized capital as of December 31, 2010 are listed below:

Name, registered office, and enterprise register code of the company	Number of ordinary registered shares owned by the shareholder	Share of the authorised capital, in percentage	Share of votes, in percentage
Eurochem, Mineral and Chemical Company Joint Stock UL. DUBININSKAYA DOM 53, STROENIE 6, 115054 MOSC, MOSCOW, RUSSIA 102770002659	20,064,912	95.45	95.45
Eurochem A.M. Limited Cristodoulou Chatzipalvou 205,Louloupis Court 2nd Floor,Office 201, p.c. 3036, Limassol	767,250	3.65	3.65

15. Shareholders holding the 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

At the end of 2010 the number of the Company's employees amounted to 959. The average employee age is 46.14 years. During the year 2010 employment relationship ended with 48 employees. The Company allocated funds for improvement of the employees' skills and qualification training. 146 thous. of LTL were spent for the employee training in 2010, and totally 436 employees were trained.

Average number of employees:	2007	2008	2009	2010
Managers	117	119	120	111
Specialists	78	77	76	75
Workers	824	807	794	779
Total	1,019	1,003	990	965

Average monthly salary, in LTL:	2007	2008	2009	2010
Managers	6,669	7,846	8,118	7,845
Specialists	3,557	4,324	4,706	5,352
Workers	2,729	3,592	3,991	4,008
Total	3,273	4,151	4,580	4,552

Grouping of the personnel according to the educational background (year end):	2007	2008	2009	2010
Personnel with university education	176	180	178	187
Personnel with special secondary education	201	192	186	173
Personnel with secondary education	514	524	526	418
Other	128	103	99	181
Total	1,019	999	989	959

Environmental Protection

In 2010 stationary sources (process installations) emitted 2,171 tons (2,182.6 tons in 2009) of pollution to the atmosphere. In comparison with 2009 discharge of pollutants was reduced by 11.6 t due to reduced production volumes of sulphuric and phosphoric acids and diammonium phosphate. The emissions of sulphur dioxide (SO₂) amounted to 1,940 tons or 89% of the total pollutants.

In 2010 the emissions of greenhouse gases (CO₂) amounted to 965 tons.

2,300 thous. m³ of sewage was emitted to the Obelis river, i.e. ~ 268 thous. m³ more than in 2009. During the year 623 tons of accounted pollutants were emitted with wastewater. In 2010 the comparative emissions (kg/t of product) to the atmosphere and water did not change and remained at the same level.

During the reporting year the following waste was handled in the Company's own dumps: phosphogypsum - 2,043,604 tons, silicone gel - 5,980 tons, sulphur sludge - 519 tons. Other waste generated by the Company are sorted and transferred to waste handlers, and mixed domestic waste is transported to the Zabieliškis regional landfill.

During 2010 the Company paid 1,044 thous. of LTL pollution taxes, i.e. 2 thous. of LTL more than in 2009.

19. Procedure of amending the Statutes of the Issuer

The Statute can be amended in accordance with the Law on Companies of the Republic of Lithuania. The Statute can be amended only by the resolution of the General Meeting of the shareholders, taken under the majority of votes – more than 2/3 of votes. The amended Statute is valid only after it has been registered at the Register of Legal Entities according to the procedure established by the law.

20. Bodies of the Issuer

The principal Body of the Company is the General Meeting of the Shareholders. The Management Bodies of the Company are as follows: the Board and the Manager of the Company (General Director). There is no Board of Observers. The Board is elected by the General meeting of shareholders for the period of 4 years. The Board of the company is composed of 5 members. The General Director is appointed, recalled and dismissed by the Board of the Company. The Board may select the General Director through the contest.

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

Members of the Board of the Company

Name	Position	Share of the capital / votes available, in percentage
The Board		
Aleksandr Tugolukov	The Chairman	-
Valery Rogalskiy	Member	-
Andrey Popov	Member (up to 2010-04-30)	-
Valery Sidnev	Member (from 2010-04-30)	-
Jonas Dastikas	Member	-
Regvita Ivanovienė	Member	0.0049

The beginning date and the end date of the term of office of members of the Company's Board

Name	Start date of the office term	End date of the office term
Aleksandr Tugolukov	2008-04-25	April, 2012
Valery Rogalskiy	20 8-04-25	April, 2012
Andrey Popov	2009-04-29	2010-04-30
Valery Sidnev	2010-04-30	April, 2012
Jonas Dastikas	2008-04-25	April, 2012
Regvita Ivanovienė	2008-04-25	April, 2012

Head of the Company, Chief Financial Officer

Name	Position	Share of the capital / votes available, in percentage
Jonas Dastikas	Managing Director	-
Regvita Ivanovienė	Finance Manager	0.0049

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 Financial Officer. Information about the remuneration awarded to the main Management is presented in Note 20 of the Notes to the Financial Statements.

22. Information on significant agreements

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

23. Information on compliance with the Code of Corporate Governance

AB "Lifosa" basically complies with the principles of the Code of Corporate Governance approved by NASDAQ OMX 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 approved by NASDAQ OMX Vilnius Stock Exchange for listed companies, after the end of reporting year 2010. The Company's entire notification on compliance with the Code of Corporate Governance approved by NASDAQ OMX Vilnius Stock Exchange for listed companies is provided in separate written statement.

24. Information on the transactions between the related parties

Information on the related persons is presented in item 20 of the explanatory notes of the audited Financial Statements of 2010.

25. Data on the publicly announced information

In the period from January 01, 2010 until December 31, 2010, AB "Lifosa" reported publicly the announcements via NASDAQ OMX Vilnius Stock Exchange. For the content of public announcements, please visit the website of NASDAQ OMX Vilnius Stock Exchange:
<http://www.nasdaqomxbaltic.com/market/?pg=news&lang=lt>

Rimantas Prosevičius

Technical Director (by proxy)



2011 April 7

Disclosure form concerning the compliance with the Corporate Governance Code for the Companies Listed on NASDAQ OMX Vilnius

The public company „Lifosa“, following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 24.5 of the Listing Rules of AB NASDAQ OMX Vilnius, discloses its compliance with the Corporate Governance Code for the Companies Listed on NASDAQ OMX Vilnius, and its specific provisions. In the event of non-compliance with the Code or with certain provisions thereof, it must be specified which provisions are not complied with and the reasons of non-compliance.

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
<p>Principle I: Basic Provisions</p> <p>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</p>		
<p>1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.</p>	<p>Yes</p>	<p>The Company's development strategy and objectives are disclosed in the Annual Reports of the Company; some information is available on the Company's website, in articles of the daily newspapers, reports, press conferences, on TV.</p>
<p>1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.</p>	<p>Yes</p>	<p>The Management Board and the Managers of the Company act in furtherance of the declared strategic objectives, optimizing the shareholders value. The Company consistently and successfully maintained its strategic position in the world fertilizer markets and increased manufacture of feed additives and other products.</p>
<p>1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.</p>	<p>Yes</p>	<p>The Company's Management Board is in close co-operation with the Head of the enterprise. The Board Members of the company are the managing persons from the key shareholder's and from the Company. The Head of the Company is the Board Member. Board of the Company takes the resolutions on the strategic issues and the Board Members report to the Board on their activities.</p>
<p>1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.</p>	<p>Yes</p>	<p>The Company has implemented the Quality Management System (ISO 9001), the Environmental Management System (ISO 14001), the Occupational Health and Safety Management System (OHSAS 18001) and two GMP (Good Manufacture Practice) standards; the Collective Bargaining Agreement is signed between the Company and the representatives of</p>

		<p>trade unions, existing in the company; the Head of the Company reports on the fulfillment of the Collective Bargaining Agreement provisions to the employees and to the representatives of the employees during the Annual Meetings. Every year the Company arranges the Open Days' sessions for the society and meetings with the local community. The Company aims for the advancement in the field of social responsibility and publicly has announced the statement on the social responsibility. The Company continually supports the cultural, education & science, sports & health programmes, arrangements and exhibitions initiated and organized in Kaunas region and by Kėdainiai town municipality, also invests into cultural activities of the local community. The surveys of the Company's clients and the Buyers are carried out annually aiming to know their opinion about the quality of the products produced by the Company and to improve the means of communication with the clients. The Company considers that on basis of the above mentioned documents and provisions the management bodies secure the interests of suppliers, clients, employees and local community.</p>
<p>Principle II: The corporate governance framework</p> <p>The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.</p>		
<p>2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.</p>	<p>No</p>	<p>The Company has a collegial management body - the Board and the sole-person management body – the Head of the Company (General Director). There is no collegial supervisory body – the Supervisory Board. The review of the Company's performance, accountability and control is secured by the Board while analyzing and estimating the required material on the performance of Company's key activities, and is presented by the General Director of the Company at monthly Board meetings. Hereby, the Board of the Company secures the strategic management of the Company on a constant basis and controls the implementation of the annual business and production plans, investments, etc., executed by General Director and Management. There is the Audit Committee in the Company, its main functions are as follows: review the processes of the Company's activities, financial accountability and auditing, compliance with the legal acts; provide the Board with recommendations concerning the efficiency of the internal control at the Company and improvement of the risk management.</p>

<p>2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.</p>	<p>No</p>	<p>See the comments of the item 2.1</p>
<p>2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.</p>	<p>No</p>	<p>See the comments of the item 2.1</p>
<p>2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.¹</p>	<p>No</p>	<p>The set up and the performance of the Company's Board do not fully meet the recommendations defined in Principles III and IV. The compliance or non-compliance with the recommendations is disclosed in the further comments.</p>
<p>2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.²</p>	<p>Yes</p>	<p>The Board of the Company comprises five members. The number of the Board Members is considered sufficient, as there were no cases that small group of individuals would dominate on the Board; the Board's decisions on most issues are taken unanimously. The Board Members are elected for the maximum intervals provided for in the Lithuanian legislation (4 years) and the number of terms for the members is not limited in conformity with the Company's Articles and the established practice.</p>

<p>2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.</p>	<p>Not applicable</p>	<p>The Articles of Association do not state the set up of the Supervisory Board.</p>
<p>2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to depart from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.</p>	<p>Yes</p>	<p>The Chairman of the Company's Board is not and never was the Head of the Company.</p>
<p>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</p> <p>The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the</p>		

company's operation and its management bodies.		
<p>3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.</p>	<p>Yes</p>	<p>It is considered, that the mechanism of the formation of the Board ensures objective and fair monitoring of the Company's Head. The minority shareholders are not limited the right to nominate their representative to the collegial body.</p>
<p>3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.</p>	<p>Yes</p>	<p>The Company collects the data about the members of the collegial body and information about their education, professional background, qualification and potential conflicts of interest in accordance with the Company's Board regulations and discloses the relevant portion of information in the publicly announced draft resolutions of the general shareholders meetings and during the general shareholders' meeting.</p>
<p>3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.</p>	<p>Yes</p>	<p>The composition of the Board is declared in the Company's annual reports. The Board Members take improvement courses and participate in seminars, workshops gaining the information about changes in the legislation and rules, regulating the Company's activities.</p>

<p>3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.</p>	<p>Yes</p>	<p>All the Board Members have the higher education of different specialities and qualifications and are engaged in different fields of activities. It is considered that the members of different professional experience and having the required diversity of knowledge assure the qualification balance of the Board. The Audit Committee, elected in 2009, is formed of the members having the required diversity of higher education and work experience, therefore it is considered, that they have competent authority, knowledge and experience in the fields of audit, accountability and finance. The Remuneration Committee is not formed at the Company.</p>
<p>3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.</p>	<p>No</p>	<p>New Board Members are introduced the actual Company's documentation, they are provided with all the relevant information inevitable for efficient activities. The annual review of members skills and knowledge is not planned nor included in the Company's documents and is not conducted within the Board.</p>
<p>3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.</p>	<p>No</p>	<p>Based on the data available as of 31 December 2010, one shareholder holds directly 95,45 percent of all the Company's shares and votes. Board Member elected by the general shareholders meeting can not be treated as an independent member following the independence criteria as identified in item 3.7.</p>
<p>3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:</p> <p>1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;</p>	<p>No</p>	<p>See the comments of the item 3.6.</p>

<p>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;</p> <p>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);</p> <p>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);</p> <p>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group;</p> <p>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;</p> <p>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p>		
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<p>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.</p>	<p>No</p>	<p>Actually the Company's Board has a right to determine the content of the independence notion. All the currently acting Board Members are associated either with the Company or with its shareholder holding the portfolio therefore the independence notion is not defined.</p>
<p>3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.</p>	<p>Not applicable</p>	<p>See the comments of the item 3.8.</p>
<p>3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.</p>	<p>Not applicable</p>	<p>See the comments of the item 3.8.</p>
<p>3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds.³ The general shareholders' meeting should approve the amount of such remuneration.</p>	<p>Not applicable</p>	<p>See the comments of the item 3.8.</p>
<p>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</p> <p>The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring⁴ of the company's management bodies and protection of interests of all the company's shareholders.</p>		
<p>4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial</p>	<p>Yes</p>	<p>The Board analyses, assesses the Company's draft annual financial statements and draft profit (loss) allocation and presents to the general shareholders meeting. The Board periodically discusses and approves</p>

<p>statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.</p>		<p>the most important investment projects and agreements, production programmes of the Company. The Company's Articles of Association and the Board's operating rules define the responsibility of the management bodies to act fairly, transparently, reasonably and exceptionally for the benefit and in the interests of the Company and the shareholders, being loyal to the Company, avoiding the conflicts of the interests.</p>
<p>4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).</p>	<p>Yes</p>	<p>To the Company's information, the Board Members act in good faith towards the Company and the Company has no any knowledge or background to doubt about the Board Members who could act conversely. In case the Board meeting discusses the subject related to the Board Member, the interested member opts out of the discussion and voting.</p>
<p>4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half⁶ of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>	<p>Yes</p>	<p>The dates for the Board meetings are agreed with the Board Members. The Board Members attend the Board meetings and at the Company's point of view, each member devotes sufficient time to perform his duties as a member of the board.</p>
<p>4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.</p>	<p>Yes</p>	<p>The Company's Board treats the Company's shareholders fairly and impartially. The information placed on the website of the Company is continually updated. The Board Members answer to the inquiries of the shareholders.</p>

<p>4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.</p>	<p>Yes</p>	<p>The Company concludes the common business transactions between the Company and the related persons under the standard provisions, valid at the Company. The Company's Board approves the transactions, exceeding the defined transaction value as per Articles of Association. The resolutions are taken in accordance with the provisions of the Law on Companies.</p>
<p>4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies⁶. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive directors or collegial management organs of the company concerned.</p>	<p>Yes</p>	<p>The Company's Board is independent in passing the decisions that are significant for the Company's operations and strategy. Majority of the Board Members are not job or otherwise related with the Head of the Company who is a Board Member. The Company ensures that the Board is provided with sufficient administrative and financial resources to execute their duties. The employees of the company provide the Board Members with all the information necessary to fulfil their functions properly and to solve the issues pertaining to their competence. The Remuneration Committee is not formed and consulting services are not exercised.</p>

<p>4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.</p>	<p>No</p>	<p>As it has been mentioned, there are no independent members in the Company's board. The Committees are not formed in the Company's Board, however according to common practice the Board is set up of the members having different experience, education and of different specialities and qualifications therefore it can be stated that the Board, while executing its duties and functions, partially covers the functions of the nomination and remuneration committee. The Company's Board elects and nominates the Head of the Company and also defines the remuneration to be paid him and other directors. The Board announce the competition to select the person for the company's head position and also for the positions of other directors, may consider and approve or not approve the candidates to be nominated for the Company's directors positions suggested by the head of the company, qualifies their experience, professional skills and assesses the implementation of the Company's strategic goals, reviews the reports. The Company's Board selects the candidate for the Company's auditor position and suggests the general shareholders meeting to approve it. As mentioned above, in 2009 the Company formed the Audit Committee composed of three members, one of them being an independent member.</p>
<p>4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to move it to the committees. The collegial body itself remains fully responsible for the decisions taken in its field of competence.</p>	<p>Yes</p>	<p>The regulations of the audit committee specify the presentation of recommendations concerning the selection, nomination and withdrawal of the external audit company also briefing on the significant internal control drawbacks associated with the financial reports and accountability control established by the external and internal audit as well as presentation of recommendations concerning correctional actions.</p>

<p>4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.</p>	<p>No</p>	<p>The Company partially observes this recommendation as the audit committee is composed of three members. Only one member may act as consulting director, because he is not an employee at the Company. Committee members' rotary problem is not topical for the Company so far.</p>
<p>4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p>	<p>Yes</p>	<p>The regulations for the Audit committee activities were approved by the general shareholders' meeting. The Committee provides its reports to the Board.</p>
<p>4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.</p>	<p>Yes</p>	<p>Board members do not participate in the meetings, except when audit committee decides to invite them. Under demand, the Company shall take care that the chairman could maintain direct communication with the shareholders.</p>

<p>4.12. Nomination Committee.</p> <p>4.12.1. Key functions of the nomination committee should be the following:</p> <ol style="list-style-type: none"> 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. <p>4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.</p>	<p>Not applicable</p>	<p>The Nomination Committee is not formed at the Company.</p>
<p>4.13. Remuneration Committee.</p> <p>4.13.1. Key functions of the remuneration committee should be the following:</p> <ol style="list-style-type: none"> 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's 	<p>Not applicable</p>	<p>The Remuneration Committee is not formed at the Company.</p>

remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies;

3) Ensure that remuneration of individual executive director or member of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company;

4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration and its implementation;

5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;

6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);

7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.

4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:

1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;

2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;

3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.

4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.

4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general shareholders meeting for this purpose.

<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ol style="list-style-type: none"> 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. <p>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different</p>	<p>Yes</p>	<p>Actually, the recommendations of this principle are specified in the regulations of the audit committee or in legal acts.</p> <p>Implementation of the recommendation 4.17.4. to report to the collegial body is restricted, because in such a case the Company's audit committee should have to report to the body it was elected by, i.e. to the general shareholders' meeting.</p>
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approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.

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

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

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

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

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

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

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

<p>5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.</p>	<p>Yes</p>	<p>This recommendation is included into the Company's Board rules and regulations and it is observed.</p>
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<p>5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.</p>	<p>Yes</p>	<p>The meetings of the Company's collegial body - the Board – are carried out according to the approved schedule, usually monthly.</p>
<p>5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.</p>	<p>Yes</p>	<p>The agendas of the Board meetings are prepared in advance. The issues, also the draft resolutions of the Board, to be discussed at the meeting, are prepared and submitted by the Head of the Company, by the Board Members or by the experts of the Company under the order of the Board or of the Head of the Company. The draft projects may also be arranged by the outside experts, not only the employees of the Company. Each member of the management body has an access to the material of the meeting before the date of the meeting. The draft resolutions and other relevant information on the meeting is presented in advance, on the date of the meeting announcement. The agenda of the meeting normally is not changed, unless supplemented during the meeting under the presence of all the Board Members of the Company and then it is decided to include into discussions the additional issues.</p>
<p>5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-ordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.</p>	<p>No</p>	<p>The Company does not observe this recommendation as only one collegial body – the Board is set up.</p>

Principle VI: The equitable treatment of shareholders and shareholder rights

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

<p>6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.</p>	<p>Yes</p>	<p>The authorised capital of the Company consists of the ordinary intangible registered shares that grant the same personal ownership and intangible rights to all their holders.</p>
<p>6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.</p>	<p>Yes</p>	<p>The rights attached to the shares are observed as per the Articles of Association. The edit of the Articles in force is included into the Company's website. In case of the new issue of the shares, granting different rights to their holders, the Company announces publicly about the rights attached to the newly issued or to already existing shares.</p>
<p>6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.⁷ All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.</p>	<p>No</p>	<p>The Board approves important to the Company or great value transactions, such as transfer, investment and pledge of the Company's assets, mortgage, sponsorship and granting, loans in accordance with the order defined by the Articles of Association.</p>
<p>6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.</p>	<p>Yes</p>	<p>The venue, date and time for the Company's meetings are agreed so to ensure equal opportunities for the shareholders to effectively participate at the meetings. Each shareholder may participate at the meeting in person or through the authorised representative and may require an advanced voting on the meeting agenda's issues. On the shareholders' request, the Company prepares and submits the advanced voting bulletin.</p>

<p>6.5. If possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended, that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but also in English and/or other foreign languages in advance.</p> <p>It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.</p>	<p>Yes</p>	<p>The Company places on the publicly accessible website and on the Stock Exchange website system the agenda and draft resolutions of the shareholders meeting in Lithuanian and English languages and also already adopted resolutions of the shareholders meeting also in both the languages.</p>
<p>6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.</p>	<p>Yes</p>	<p>The Company's shareholders may exercise the right to participate at the general shareholders meeting either in person or through the representative provided the person has an appropriate authorisation or he has an agreement on the transfer of his voting right in accordance with the legal order; also the Company furnishes the shareholders with the opportunity to vote by filling in the general voting bulletin as per provisions of the Law on Companies.</p>
<p>6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via electronic means of communications. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.</p>	<p>No</p>	<p>The Company does not observe this recommendation as it does not have yet the technologies available to ensure the security of transmitted information and has not got yet such kind of suggestions on the side of the shareholders to watch the meeting using modern technologies.</p>

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

7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	This recommendation is obligatory to the members of the Company's management body under the guidance of the Company's documents and Board members follow it.
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Principle VIII: Company's remuneration policy

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

8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.	No	The Company does not make a public statement on the company's remuneration policy.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	Not applicable	See the comments of the item 8.1
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods applied in order to determine whether assessment criteria have been fulfilled; 5) Sufficient information on deferment periods with	Not applicable	See the comments of the item 8.1

<p>regard to variable components of remuneration;</p> <p>6) Sufficient information on the linkage between the remuneration and performance;</p> <p>7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;</p> <p>8) Sufficient information on the policy regarding termination payments;</p> <p>9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code;</p> <p>10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code;</p> <p>11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned;</p> <p>12) A description of the main characteristics of supplementary pension or early retirement schemes for directors;</p> <p>13) Remuneration statement should not include commercially sensitive information.</p>		
<p>8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p>	<p>Not applicable</p>	<p>See the comments of the item 8.1.</p>
<p>8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p>	<p>No</p>	<p>The Company makes a remuneration statement on the total remuneration paid to the Head and senior Management of the Company in its annual financial statements under the existing laws and regulations. The Company observes the approved policy, stating that the remuneration and bonus system, including other allowances related to the labour relations, make a commercial secret and is not to be disclosed publicly.</p>

<p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ol style="list-style-type: none"> 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the points 1-5. <p>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <ol style="list-style-type: none"> 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <ol style="list-style-type: none"> 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. <p>8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p>		
<p>8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component (s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance assessment criteria are not met.</p>	Yes	The Company observes this recommendation.
<p>8.7. Award of variable components of remuneration should be subject to predetermined and measurable assessment criteria.</p>	Yes	The Company observes this recommendation.
<p>8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.</p>	Yes	The Company observes this recommendation.

8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	No	In a case indicated in this recommendation it is possible to reclaim remuneration, applying the legal liability.
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	Not applicable	During the year 2010 the Company did not terminate any employment agreement with the executive directors so the termination payments were not paid.
8.11. Termination payments should not be paid if the termination is due to inadequate performance.	Not applicable	See the comments of the item 8.10.
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	Not applicable	See the comments of the item 8.1.
8.13. Shares should not vest for at least three years after their award.	Not applicable	The remuneration schemes mentioned in this recommendation are not applied in the Company.
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Not applicable	See the comments of the item 8.13.
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	Not applicable	See the comments of the item 8.13.
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Yes	The Company observes this recommendation.
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	No	Information with regard to the venue and agenda of the shareholders meetings is announced following the existing Laws. Company observes the uniform policy for all the shareholders therefore institutional shareholders are not encouraged and/or agitated to attend and vote at the meetings.
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other	No	See the comments of the item 8.1.

<p>significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.</p>		
<p>8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.</p>	<p>Not applicable</p>	<p>The remuneration schemes mentioned in this recommendation were not applied in the Company.</p>
<p>8.20. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. <p>Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.</p>	<p>Not applicable</p>	<p>See the comments of the item 8.19.</p>
<p>8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>		

<p>8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.</p>		
<p>8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.</p>		
<p>Principle IX: The role of stakeholders in corporate governance</p> <p>The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.</p>		
<p>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</p>	<p>Yes</p>	<p>The methods and means of implementation of these recommendations are disclosed while describing the implementation of the provisions of the Principle I of this Governance Code.</p>

<p>9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.</p>	<p>Yes</p>	<p>See the comments of the item 9.1.</p>
<p>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p>	<p>Yes</p>	<p>See the comments of the item 9.1.</p>

Principle X: Information disclosure and transparency

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

<p>10.1. The company should disclose information on:</p> <ul style="list-style-type: none"> • The financial and operating results of the company; • Company objectives; • Persons holding by the right of ownership or in control of a block of shares in the company; • Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; • Material foreseeable risk factors; • Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; • Material issues regarding employees and other stakeholders; • Governance structures and strategy. <p>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.</p> <p>10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.</p> <p>10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also</p>	<p>Yes</p>	<p>The Company states that actually observes this recommendation because the information is disclosed and available on the website, on the information system at the Stock Exchange, in the Company's activity reports, except for the recommendation of the item 10.3 and this is explained while disclosing the observance of the recommendations of the Principles I, VI and VIII. The Company aobserves the recommendations of the items 10.4 and 10.5 of this Principle while disclosing the relevant information to the outside sources, also announcing it through the internal information systems of the Company, accessible to all the employees.</p>
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<p>recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.</p> <p>10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.</p>		
<p>10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.</p>	Yes	The Company announces the information via Central regulated information data basis both in Lithuanian and English languages simultaneously before or after a trading session on NASDAQ OMX Vilnius Stock Exchange.
<p>10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.</p>	Yes	The information on the Company's website is announced in Lithuanian, English and Russian languages.
<p>10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.</p>	Yes	All the information described in this recommendation is placed on the Company's website.

Principle XI: The selection of the company's auditor

The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.

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