B.16 Employee benefits

(a) Social security contributions

The Company pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Company pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. Social security contributions are recognised as expenses on an accrual basis and included in payroll expenses.

(b) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(c) Bonus plans

The Company recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

B.17 Revenue recognition

Sales revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminated sales within the Company. Revenue from sales of goods is recognised only when all significant risks and benefits arising from ownership of goods is transferred to the customer.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

B.18 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

B.19 Earnings per share

Basic earnings per share are calculated by dividing net profit attributed to the shareholders from average weighted number of ordinary registered shares in issue, excluding ordinary registered shares purchased by the Company and held as treasury shares.

B.20 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Company's single business segment is production of mineral fertilizers; therefore, information on key business segments is not presented. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

B.21 Emission allowances

The Company participates in a carbon dioxide cap and trade scheme. It is set a target to reduce its emissions of carbon dioxide to a specified level (the cap). The Company is issued allowances equal in number to its cap by the Government. Allowances are issued free of charge. The Company measures both emission allowances and government grants at cost, i.e. zero value. As actual emissions are made, a liability is recognised for the obligation to deliver allowances. Liabilities to be settled using allowances on hand are measured at the carrying amount of those allowances. Any excess emissions are measured at the market value of allowances at the period end. Surplus of emission allowances, if any, can be traded on the market. Revenues from sale of surplus allowances are recognised on actual trade date.

B.22 Grants

Grants are recognised where there is reasonable assurance that the grant will be received and the Company will comply with all conditions established.

Grants relating to purchase of property, plant and equipment are included in current liabilities and are credited to the income statement on a straight-line basis over the depreciation period of the related assets.

C. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors
The Company's activities are exposed to a variety of financial risks. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

Market risk: foreign exchange risk
The Company's foreign exchange risk management is based on matching the expected cash flows in principal currencies. The majority of business transactions carried out by the Company, including sales of production and purchases of raw materials, are denominated in US dollars (USD).

Credit risk
The Company has no significant concentrations of credit risk. The Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

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.

Interest rate risk
The Company has no significant interest-bearing assets and no interest bearing liabilities. The Company's policy is to maintain a diversified debt portfolio. Distribution between fixed and floating interest rate depends on the actual situation in the market.

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

D. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are regularly reviewed and assessed based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment provision for accounts receivable

Impairment provision for accounts receivable was determined based on the management's estimates on recoverability and timing relating to the amounts that will not be collectable according to the original terms of receivables. This determination requires significant judgement. Judgement is exercised based on significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. Current estimates of the Company could change significantly as a result of change in situation in the market and the economy as a whole. Recoverability rate also highly depends on success rate and actions employed relating to recovery of significantly overdue amounts receivable.

Estimates of useful lives of property, plant and equipment

The Company has old buildings and machinery, the useful lives of which are estimated based on the projected product lifecycles. However, economic useful lives may differ from the currently estimated as a result of technical innovations and competitors actions.

NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENT REPORTING

Primary reporting format – business segments
The Company's single business segment is production of mineral fertilizers.

Secondary reporting format – geographical segments
All the Company's assets are located in Lithuania. The Company's sales by market can be analysed as follows:

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

Sales are allocated between the segments based on the country in which the buyers are located.

Analysis of sales by category:

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

2. SELLING AND DISTRIBUTION COSTS

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

3. ADMINISTRATIVE EXPENSES

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

4. EXPENSES BY NATURE

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

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

5. NET FOREIGN EXCHANGE GAIN/LOSS

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

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

6. OTHER INCOME/GAINS

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

7. INCOME TAX

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

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

	2007	2006
Profit before tax	**270,065**	**45,530**
Tax calculated at a rate of 18% (2006: 19%)	48,612	8,651
Effect of non-taxable income	(1,740)	(1,786)
Effect of expenses not deductible for tax purposes	2,276	2,190
Tax charge	**49,148**	**9,055**

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

Deferred tax assets

	Adjustment of sales and cost of sales for tax purposes	Accrued charges	Total
At 1 January 2006	-	1,058	1,058
To be credited/(charged) to net profit	-	746	746
At 31 December 2006	-	1,804	1,804
To be credited/(charged) to net profit	408	(223)	185
At 31 December 2007	408	1,581	1,989

Deferred income tax assets are recognised to the extent that realisation of the related tax benefit through future taxable profits is probable.

As at 31 December 2006 nor as at 31 December 2007, the Company had not recognise deferred tax asset on tax losses from financing activities (which arose on disposal of associate and subsidiary) amounting to LTL 963 thousand because the Company does not expect no earn sufficient profit from financing/investing activities and the loss from financing activities could only be used to offset profit from financing/investing activities as defined in the Lithuanian Law on Corporate Profit Tax.

Deferred tax asset recognised for the adjustment of sales and cost of sales for tax purposes and for accrued charges is expected to be realised during the year 2008.

8. EARNINGS PER SHARE

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

(All tabular amounts in LTL thousand unless otherwise stated)

9. INTANGIBLE ASSETS

	Computer software
At 31 December 2005	
Cost	420
Accumulated amortisation	(145)
Net book amount	275
Year ended 31 December 2006	
Opening net book amount	275
Additions	183
Disposals and write-offs	(71)
Amortisation charge	(92)
Closing net book amount	295
At 31 December 2006	
Cost	600
Accumulated amortisation	(305)
Net book amount	295
Year ended 31 December 2007	
Opening net book amount	295
Additions	524
Disposals and write-offs	(3)
Amortisation charge	(166)
Closing net book amount	**650**
At 31 December 2007	
Cost	1,121
Accumulated amortisation	(471)
Net book amount	**650**

(All tabular amounts in LTL thousand unless otherwise stated)

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Vehicles and equipment	Other PP&E	Construc-tion in progress	Total
At 31 December 2005						
Cost	170,888	330,073	11,619	11,610	3,146	527,336
Accumulated depreciation	(78,347)	(214,830)	(10,093)	(8,481)	-	(311,751)
Net book amount	92,541	115,243	1,526	3,129	3,146	215,585
Year ended 31 December 2006						
Opening net book amount	92,541	115,243	1,526	3,129	3,146	215,585
Additions	3,096	10,404	4,944	1,024	25,974	45,442
Disposals and write-offs	(94)	-	-	(43)	-	(137)
Reclassifications	199	7,922	-	51	(8,172)	-
Depreciation charge	(4,620)	(19,702)	(477)	(1,172)	-	(25,971)
Closing net book amount	91,122	113,867	5,993	2,989	20,948	234,919
At 31 December 2006						
Cost	174,059	342,163	16,549	12,065	20,948	565,784
Accumulated depreciation	(82,937)	(228,296)	(10,556)	(9,076)	-	(330,865)
Net book amount	91,122	113,867	5,993	2,989	20,948	234,919,
Year ended 31 December 2007						
Opening net book amount	91,122	113,867	5,993	2,989	20,948	234,919
Additions	6,896	10,105	2,515	479	26,139	46,134
Disposals and write-offs	-	(45)	-	(18)	-	(63)
Reclassifications	7,172	29,547	-	81	(36,800)	-
Depreciation charge	(4,672)	(21,338)	(968)	(1,214)	-	(28,192)
Closing net book amount	100,518	132,136	7,540	2,317	10,287	252,798
At 31 December 2007						
Cost	188,128	375,026	16,748	11,660	10,287	601,849
Accumulated depreciation	(87,610)	(242,890)	(9,208)	(9,343)	-	(349,051)
Net book amount	100,518	132,136	7,540	2,317	10,287	252,798

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

In addition, the Company was a lessor for certain of its property, plant and equipment, and the net book value of these assets was equal to LTL 3,496 thousand as at 31 December 2007 (2006: LTL 1,307 thousand). Annual revenues of LTL 79 thousand (2006: LTL 163 thousand) were earned and depreciation expenses of LTL 99 thousand (2006: LTL 177 thousand) were incurred.

11. OTHER RECEIVABLES

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

(All tabular amounts in LTL thousand unless otherwise stated)

12. INVENTORIES

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

13. TRADE AND OTHER RECEIVABLES

	2007	2006
Trade receivables, gross	182,844	73,270
Less: provision for impairment of trade receivable	(294)	(601)
VAT tax receivable	12,268	11,685
Short-term loan granted	12,865	13,669
Prepayments made to suppliers	12,466	6,884
Grants receivable	0	4,092
Other receivables	1,206	3,966
	221,355	**112,965**

The short-term loan amounting to LTL 12,865 thousand (USD 5,000 thousand) represents a loan granted to related party Eurochem A.M.Limited under the agreement signed on 23 December 2005. Under the amended terms of agreement in December 2006, the loan was provided for the period until 31 December 2007 subject to interest rate of 5.3%. Under the amended terms of agreement in December 2007, the loan was provided for the period until 31 December 2008 subject to interest rate of 4.3%. As at 31 December 2007, the balance of short-term loan granted comprised accumulated interest of LTL 11,786 thousand and LTL 1,079 thousand (USD 5,000 thousand and USD 458 thousand, respectively). Total interest charged on this loan amounted to LTL 665 thousand in 2007.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

15. CASH AND CASH EQUIVALENTS

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

16. SHARE CAPITAL

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

17. GRANTS

Under the order of the Lithuanian Minister of National Economy, dated 24 November 2006, the Company obtained the right to receive grant amounting to LTL 6,000 thousand from the EU structural funds to finance expenses relating to the project: "The usage of current and regenerating sources of energy of sulphur acid department for production of electrical power". The project was started on 1 July 2006 and completed on 1 August 2007. As at 31 December 2006, the Company accounted for grant receivable under trade and other receivables, and the grant under liabilities to the extent of costs eligible for compensation incurred to 31 December 2006. As at 31 December 2007, the Company had received full amount of the grant, i.e. LTL 5,976 thousand. Due to the fall in US dollar exchange rate, amount of LTL 24 thousand remained unutilised. Income of LTL 289 thousand was recognised in 2007 from the total amount of grant received.

(All tabular amounts in LTL thousand unless otherwise stated)

18. TRADE AND OTHER PAYABLES

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

19. CASH FROM OPERATING ACTIVITIES

	2007	2006
Profit before tax	270,065	45,529
Adjustments for:		
Depreciation and amortisation (Notes 9, 10)	28,358	26,063
Write-off of inventory	55	-
Finance charges (interest)	(2317)	(1,267)
Write-off of and provision for impairment of trade receivables	-	-
Loss on disposal of property, plant and equipment, net	(155)	(17)
Unrealised foreign exchange loss	22,829	10,860
Changes in working capital:		
– trade and other receivables	(133,158)	(32,075)
– payables	17,654	(11,633)
– inventories	(14,955)	19,525
Cash from operating activities	188,376	56,985

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

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

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

20. RELATED-PARTY TRANSACTIONS

The Company is controlled by Mineral and Chemical Company Eurochem (Russia), which owns 91.15% of shares of the Company. As at 31 December 2006, the principal shareholders of Mineral and Chemical Company Eurochem, each holding 50 per cent of shares of this company was Mr. Andrej Melnichenko and Mr. Sergey Popov. Mr. Andrey Melnichenko became the controlling beneficiary of the Company effective from May 2007.

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

The following transactions were carried out with related parties:

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

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

Year-end balances of transactions with related parties:

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

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

Key management compensation

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

(All tabular amounts in LTL thousand unless otherwise stated)

21. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

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

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

Capital expenditure commitments

Capital expenditure commitments contracted for property, plant and equipment at the balance sheet date but not recognized in the financial statements amounted to LTL 3,807 thousand (31 December 2006: LTL 6,789 thousand).

Contingent tax liabilities

The tax authorities have not carried out full-scope tax audits at the Company since the year 2003. The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Emission allowances

The Company participates in a carbon dioxide cap and trade scheme. In 2005 the Company was set a target by the Government to reduce its emissions of carbon dioxide to 57,793 tons (the cap) in 2005 - 2007. The Company is issued allowances by the Government equal in number to its cap. Allowances are issued free of charge. Allowances obtained at no cost are recorded at a zero value by the Company. In 2007 actual emissions of the Company amounted to 612 tons (2006: 1,110 tons). The market value of remaining unused allowances amounted to LTL 0.2 thousand as at 31 December 2007 (2006: LTL 629 thousand). Income from emission allowances sold and unused (for the previous period) amounted to LTL 60 thousand in 2007.

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