LIFOSA AB

FINANCIAL STATEMENTS AND ANNUAL REPORT,
PRESENTED TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2017

Translation note:

This version of the accompanying documents is a translation from the original, which was prepared in Lithuanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the accompanying documents takes precedence over this translation.

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Independent auditor's report

To the shareholders of AB "LIFOSA"

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of AB "LIFOSA" ("the Company") as at 31th of December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited
The Company's financial statements comprise:

- the statement of financial position as at 31th of December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) the Law of the Republic of Lithuania on the Audit of Financial Statements that are relevant to our audit of the financial statements in the Republic of Lithuania. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Law of the Republic of Lithuania on the Audit of Financial Statements.

Reporting on other information including the annual report

Management is responsible for the other information. The other information comprises the annual report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, including the annual report.

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In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the annual report, we considered whether the annual report includes the disclosures required by the Law of the Republic of Lithuania on Financial Reporting by Undertakings implementing Article 19 of Directive 2013/34/EU.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the annual report for the financial year ended 31th of December 2017, for which the financial statements are prepared, is consistent with the financial statements; and
- the annual report has been prepared in accordance with the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the annual report which we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

On behalf of PricewaterhouseCoopers UAB

Rasa Radzevičienė
Partner
Auditor's Certificate No.000377

Vilnius, Republic of Lithuania
12 April 2018

STATEMENT OF COMPREHENSIVE INCOME

(in EUR thousands)

	Notes	Year ended 31 December 2017	2016
Sales revenue	1	311,989	367,421
Cost of sales	4	(284,194)	(345,130)
Gross profit		**27,795**	**22,291**
Selling and distribution expenses	2, 4	(10,209)	(10,732)
Administrative expenses	3, 4	(5,953)	(5,226)
Net foreign exchange gain/(loss)	5	(546)	24
Other income/(loss), net	6	893	796
Operating profit		**11,980**	**7,153**
Finance income/(costs)		(3,814)	(2,663)
Profit/(loss) before income tax		**8,166**	**4,490**
Income tax	7	(461)	1,647
Net profit/(loss) for the year		**7,705**	**6,137**
Other comprehensive income		-	-
Total comprehensive income/(loss)		**7,705**	**6,137**

The financial statements set out on pages 5 to 28 were approved by the Company's Chief Executive Officer, Chief Financial Officer and Chief Accountant on 12 April 2018.

Jonas Dastikas Chief Executive Officer	Regvita Ivanovienė Chief Financial Officer	Asta Aleinikovienė Chief Accountant

The accounting policies and notes on pages 9 to 28 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

(in EUR thousands)

	Notes	As at 31 December 2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	8	137,319	127,890
Intangible assets	9	359	373
Deferred income tax assets	7	1,812	1,734
Prepayments	10	2,834	1,924
		142,324	**131,921**
Current assets			
Inventories	11	53,901	41,355
Trade and other amounts receivable	12.13	38,119	80,031
Cash and cash equivalents	14	1,546	1,561
Overpayment of income tax		445	4,594
		94,011	**127,541**
Total assets		**236,335**	**259,462**
EQUITY			
Share capital	15	60,960	60,960
Share premium		23	23
Legal reserve		6,088	6,088
Retained earnings		14,800	7,095
Total equity		**81,871**	**74,166**
LIABILITIES			
Non-current liabilities			
Grants	16	1,691	2,018
		1,691	**2,018**
Current liabilities			
Trade and other amounts payable	17	46,588	48,926
Short-term loans received	18	106,185	134,352
		152,773	**183,278**
Total liabilities		**154,464**	**185,296**
Total equity and liabilities		**236,335**	**259,462**

The accounting policies and notes on pages 9 to 28 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

(in EUR thousands)

	Notes	Share capital	Share premium	Legal reserve	Retained earnings	Total
Balance at 31 December 2015		**60,960**	**23**	**6,088**	**165,958**	**233,029**
Total comprehensive income for the period					6,137	6,137
Dividends paid		-	-	-	(165,000)	(165,000)
Balance at 31 December 2016		**60,960**	**23**	**6,088**	**7,095**	**74,166**
Total comprehensive income for the period		-	-	-	7,705	7,705
Dividends paid		-	-	-	-	-
Balance at 31 December 2017	15	**60,960**	**23**	**6,088**	**14,800**	**81,871**

The accounting policies and notes on pages 9 to 28 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

(in EUR thousands)

	Note	Year ended 31 December 2017	2016
Cash flows from operating activities			
Cash flows from operating activities	19	50,922	53,027
Income tax paid		3,609	(14,783)
Net cash flows from operating activities		**54,531**	**38,244**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	8, 9	(22,472)	(28,894)
Proceeds from disposal of property, plant and equipment		10	25
Loans granted to related parties	13	-	-
Repayments of loans granted to related parties received	13	-	14,962
Interest received for loans granted to related parties	13	-	168
Interest received for emission allowances		7	0
Net cash flows used in investing activities		**(22,455)**	**(13,739)**
Cash flows from financing activities			
Loans received from related parties	18	106,000	137,000
Loans repaid to related parties	18	(134,000)	(3,000)
Interest paid for loans received	18	(4,091)	(2,311)
Dividends paid		-	(165,000)
Net cash flows used in financing activities		**(32,091)**	**(33,311)**
Net increase (decrease) in cash and cash equivalents		**(15)**	**(8,806)**
Movement in cash and cash equivalents			
At the beginning of the year		1,561	10,367
Net increase (decrease)		(15)	(8,806)
Cash and cash equivalents at the end of the year	14	**1,546**	**1,561**

The accounting policies and notes on pages 9 to 28 form an integral part of these financial statements.

A. GENERAL INFORMATION

Lifosa AB, company code 161110455 (hereinafter "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

Until 31 December 2011, the Company's shares were listed in the Secondary Trading List of NASDAQ Vilnius AB Stock Exchange. Following the buy-out of all minor shareholdings by the majority shareholder, the shares of Lifosa AB were de-listed from NASDAQ Vilnius AB Stock Exchange. The Company's principal activity is the production of phosphate fertilisers, mainly diammonium phosphate (DAP). As at 31 December 2016 and 31 December 2017, the Company's sole shareholder was as follows:

Shareholder	*Number of shares*	*Ownership interest, %*
EuroChem Group AG	21,020,564	100%
	21,020,564	**100%**

As at 31 December 2016 and 31 December 2017, the Company's main controlling shareholder was Mr Andrey Melnichenko, who directly controls 100% of the shares of AIM Capital SE, a company registered in Cyprus. AIM Capital SE directly controls 90% of the shares of EuroChem Group AG. Mr Dmitry Strezhnev, who is Chief Executive Officer and Chairman of the Board of EuroChem Group AG, controls 100% of the shares of Midstream Group Limited, a company which controls 10% of the shares of EuroChem Group AG.

All the shares of the Company are fully paid.

As at 31 December 2017, the Company had 978 (2016: 954) employees.

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). These financial statements have been prepared under the historical cost convention.

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 periods 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 judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these financial statements, are disclosed in Note D.

The financial statements have been prepared on the assumption that the Company will be able to continue its activities in the foreseeable future.

The Company's financial year coincides with the calendar year.

Adoption of new and/or amended IFRS and IFRIC interpretations

Accounting policies applied in the preparation of these financial statements are consistent with those applied in the previous financial year, except for as follows:

a) *Adoption of new and/or amended IFRS and interpretations of the International Financial Reporting Interpretations Committee (IFRIC)*

The following IFRSs and amendments thereto were adopted by the Company for the first time for the financial year ended 31 December 2017:

B.1 Basis of preparation (continued)

Disclosure Initiative – Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. Reconciliation of movements in liabilities arising from financing activities is disclosed in Note 18.

Other standards, amendments and interpretations that became effective for the financial year beginning on 01 January 2017 are not relevant to the Company.

b) *New standards, amendments and interpretations that are not yet effective*

Other new standards, amendments and interpretations that are mandatory for annual periods beginning on 1 January 2018 or later and that have not been adopted when preparing these financial statements:

IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.
Amendments to IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the commitment to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

The Company will apply IFRS 15 starting from 1 January 2018 using the modified retrospective approach. The Company is of the opinion that the requirements of the new standard will have no impact on revenue recognition.

IFRS 9, *Financial instruments: Classification and measurement* (effective for annual periods beginning on or after 1 January 2018). The main features of the new standard are as follows:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Company will apply IFRS 9 starting from 1 January 2018 using the modified retrospective approach. Based on the estimates of the Company, the standard will not have any impact on the classification of the Company's financial assets as at 31 December 2017, as the impact of the standard on the impairment allowance for trade receivables is not material.

B.1 Basis of preparation (continued)

IFRS 16, *Leases* (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company will apply IFRS 16 starting from 1 January 2019 and is currently assessing the impact of the standard, which is expected to be immaterial.

IFRIC 22, Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The interpretation clarifies that the date of transaction, i.e. the date when the exchange rate is determined, is the date on which the entity initially recognises the non-monetary asset or liability from advance consideration. However, the entity needs to apply judgement in determining whether the prepayment is monetary or non-monetary asset or liability based on guidance in IAS 21, IAS 32 and the Conceptual Framework. The amendments will have no significant impact on the Company's financial statement.

IFRIC 23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgements or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the Interpretation. The Company is assessing the impact of the new interpretation on its financial statements.

Other standards and their improvements issued but not yet effective are not expected to have significant impact on the Company.

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 euro was adopted in the Republic of Lithuania on 1 January 2015. These financial statements are presented in the euro (EUR), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

B.3 Property, plant and equipment

Property, plant and equipment is stated at acquisition cost, which does not include daily maintenance costs, less accumulated depreciation and estimated impairment losses. The carrying amount of property, plant and equipment is reviewed for impairment whenever certain events or changes in circumstances indicate that the carrying amount cannot be recoverable. Subsequent costs are added to the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income 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	3-8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

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 categories 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 derecognised and any related gains or losses are determined by reference to proceeds less the carrying amount and are included in profit of loss.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

B.4 Intangible assets

Computer software expected to provide economic benefits to the Company in future periods is carried at acquisition cost less subsequent amortisation. Software is amortised on the straight-line basis over the useful life of 3 years.

B.5 Impairment of non-financial assets

Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

B.6 Financial assets

Loans and receivables

Loans granted 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 amounts receivable' in the statement of financial position.

Loans and receivables are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method, less impairment loss. An impairment loss is recognised in respect of amounts receivable when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the impairment loss is recognised in the statement of comprehensive income 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 and net realisable value. The cost is determined using the weighted average cost method. The cost of finished products and work in progress comprises raw materials, direct labour and other direct costs and related indirect production overheads, but excludes borrowing costs.

Net realisable value of finished products is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. Raw materials and other consumables 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 consumables will exceed the net realisable value of finished products. In such circumstances, the best estimate of net realisable value of raw materials and consumables is deemed to be the value for which raw materials of the same nature can be purchased. 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 on hand, cash held at call with banks, 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 amounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

B.12 Income tax

Current and previous year income tax assets and liabilities are recognised at the amount expected to be recovered from or paid to the tax authorities. Income tax is estimated using the tax rates and laws that have been enacted or substantively enacted at the date of the statement of financial position.

Income tax was estimated on profit for the year, net of deferred income tax. Income tax is calculated in accordance with the Lithuanian regulatory legislation on taxation

Based on the Lithuanian Law on Corporate Profit Tax, the taxable profit is subject to income tax rate of 15%.

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 discontinued if the Company terminates the activities that have caused these losses, except when the Company discontinues its activities due to the reasons that are beyond its control. 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 tax assets are recognised in the statement of financial position to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is probable that part of the deferred tax asset is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

Deferred income tax relating to items recognised in other comprehensive income is also recognised 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 tax liabilities and the deferred income tax relates to the same fiscal authority.

B.13 *Leases – where the Company is the lessee*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

B.14 *Leases – 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 freehold 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 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 elimination of 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 standard commercial terms 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 flows 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 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the amount at initial recognition and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. The interest expenses are recognised in profit or loss, except for capitalised interest (see B.3).

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 month after the balance sheet date.

B.19 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. Revenue from sale of surplus allowances is recognised on the actual trade date.

B.20 Grants

Grants are recognised where there is reasonable assurance that the grant will be received and the Company will comply with all the attached conditions.
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.21 Statement of cash flows

For the purpose of cash flow statement, interest received on deposits held with banks and on cash balances in current bank accounts is classified as income from financing activities, whereas interest received on loans granted is classified as income from investing activities.

C. FINANCIAL RISK MANAGEMENT

C.1 Financial risk factors

The Company's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, 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.

The Company's management is responsible for risk management. The Company's 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 transactions and from assets and liabilities recognised.
The Company's foreign exchange risk management is based on matching the expected cash flows in principal currencies. Since most of the transactions carried out by the Company, i.e. sales of goods and purchases of raw materials, are denominated in the US dollars, fluctuations in the US dollar exchange rate do not affect the Company's cash flows. However, these fluctuations are reflected in the carrying amount of financial assets and liabilities which are originally denominated in foreign currencies and subsequently translated into the functional currency (the euro (EUR).

Financial assets and financial liabilities denominated in USD:	2017	2016
Cash and cash equivalents (Note 14)	1,051	1,084
Loans granted and accrued interest	0	0
Amounts receivable (Note 13)	22,021	57,132
Amounts payable (Note 17)	(31,248)	(30,478)
Net open position	(8,176)	27,738

US dollar exchange rate (USD/1EUR)	As at 31 December	Average exchange rate during the year
2016	1.0453	1.1072
2017	1.1993	1.1297

No significant transactions in other foreign currencies were conducted by the Company.

(ii) 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. The Company has interest-bearing liabilities. The Company pays fixed interest rates, therefore it is not exposed to cash flow interest rate risk, yet it faces fair value interest rate risk.
The Company's significant interest-bearing financial assets include as follows:
short-term bank deposits and letters of credit which can be easily converted to a known amount of cash and are subject to an insignificant risk of changes in fair value. These deposits are held with banks for a period of up to three months for cash

flow management purposes and are classified as cash equivalents (details are disclosed in Note 14).

C.1 Financial risk factors (continued)

(b) Credit risk

The Company's management is responsible for credit risk management. Credit risk arises from loans granted to the related parties, cash and 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 goods are made only to customers with an appropriate credit history. The Company always makes an assessment of the credit quality of its customer, taking into account its financial position, past experience and other factors. The majority of sales to non-related parties are performed upon receipt of full advance payment from a customer. 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 mainly to Eurochem Trading GmbH and EuroChem Agro GmbH which act as wholesale distributors of products of the Company in non-EU markets. No other significant sales to other related companies are performed by the Company. In the event of granting loans to the EuroChem Group companies the Company does not perform additional credit risk assessment procedures.

There were no difficulties in collecting amounts receivable from customers or withdrawing cash from banks during the reporting period (except for those disclosed in Note 13) and the Company's management does not expect any material losses from non-performance by these counterparties in the foreseeable future. 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 equal to the carrying amount of each category of financial assets disclosed in Note 12.

(c) Liquidity risk

The Company is exposed to liquidity risk due to different maturity profiles of receivables and payables. In managing its liquidity risk, 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. The Company's current liabilities exceeded its current assets by EUR 58,761 thousand (2016: EUR 737 thousand). According to the latest cash flow estimates, the Company is not expected to face any significant liquidity problems in the foreseeable future. If necessary, the short-term loans of related parties might be covered.

The Company has no other financial liabilities except for borrowings, trade and other amounts payable. All trade and other amounts payable reported in the statement of financial position are due within 12 months and their fair value substantially approximates their carrying amounts since the impact of discounting would be insignificant. The Company's loans received bear a fixed interest rate. Since the maturity date of the loans is one year and there were no significant changes in the economic environment, the Company is of the opinion the fair value of the loans does not significantly differ from their carrying value.

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 its shareholders and benefits for other stakeholders.

The Company defines its capital as equity less cash and cash equivalents. In 2016, the Company received a short-term loan from the shareholder EuroChem Group AG.

	2017	2016
Equity	81,871	74,166
Cash and cash equivalents	(1,546)	(1,561)
Less: cash and cash equivalents	**80,325**	**72,605**

Aiming 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 EUR 40 thousand and the shareholders' equity should not be lower than 1/2 of the Company's authorised share capital. As at 31 December 2016 and 31 December 2017, the Company complied with these requirements.

C.3 Fair value estimation

The nominal value less impairment loss of trade receivables and the nominal value of amounts payable are assumed to approximate their fair values. For the purpose of financial statements, loans granted carried at amortised cost and the fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

D. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Impairment loss for amounts receivable

Impairment loss for amounts receivable was determined based on the management's estimates on recoverability and timing relating to the amounts that will not be collected 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 13). Recoverability rate also highly depends on success rate and actions employed relating to recovery of significantly overdue amounts receivable. 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.

Write-down of inventories

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 estimate is performed in respect of each significant position of finished goods at the date of the statement of financial position. The Company's management determined the selling prices of goods expected after the end of the year based on available market information and / or existing agreements with customers.

Raw materials and consumables held for use in the production of inventories are not written down below their cost if the finished goods, in the production of which these raw materials and consumables are used, are expected to be sold at or above cost. However, when decline in prices of raw materials indicates that the cost of finished goods will exceed the net realisable value, these raw materials are written down to net realisable value. In such circumstances, the best estimate of net realisable value of raw materials and consumables is the value for which raw materials of the same nature can be purchased.

Management's current estimates regarding net realisable value of inventories could change because of changes in demand for goods produced by the Company and other unexpected market developments (Note 11).

OTHER EXPLANATORY NOTES

1. SALES

Breakdown of sales by category:	2017	2016
Sales of diammonium phosphate	236,096	283,495
Sales of monocalcium phosphate	57,545	68,333
Sales of aluminium fluoride	9,979	10,809
Sales of mono-ammonium phosphate	4,429	-
Total sales	**308,049**	**362,637**
Sales of goods	231	202
Sales of electricity, thermal energy and other	3,709	4,582
Revenue from sale of emission allowances	-	-
	311,989	**367,421**

2. SELLING AND DISTRIBUTION EXPENSES

	2017	2016
Transportation expenses	3,862	4,060
Loading and forwarding expenses	3,899	4,401
Employee benefits and social security contributions	1,702	1,598
Depreciation and amortisation	372	342
Other selling and distribution expenses	374	331
	10,209	**10,732**

3. ADMINISTRATIVE EXPENSES

	2017	2016
Employee benefits	2,226	1,972
Social security contributions	642	585
Depreciation and amortisation	396	426
Taxes (other than income tax)	742	509
Sponsorship	127	148
Consulting expenses	1,038	801
Other administrative expenses	781	785
	5,953	**5,226**

4. EXPENSES BY NATURE

	2017	2016
Raw materials and consumables used	246,806	266,832
Employee benefits and social security contributions	27,788	26,713
Change in finished goods, semi-manufactures and work in progress	(4,810)	38,949
Depreciation and amortisation	13,020	11,617
Transportation services	7,762	8,461
Energy and fuel	4,903	4,931
Repair and maintenance	959	746
Other expenses	355	334
Occupational safety expenses	17	14
Taxes (other than income tax)	745	512
Business trip, daily allowance, visa expenses	136	109
Expenses of social nature and professional qualification	228	276
Security services	317	316
Sponsorship	127	148
Office maintenance expenses	84	76
Marketing and representation	162	203
Telecommunication and IT maintenance expenses	92	103
Motor vehicle and property insurance	198	309
Professional consultation services	1,047	899
Vacation and bonus reserve accrual expenses	420	(460)
	300,356	**361,088**

Employee benefits and social security contributions comprise wages and salaries of EUR 21,194 thousand (2016: EUR 20,369 thousand), social security contributions of EUR 6,688 thousand (2016: EUR 6,422 thousand) and other employee benefits of EUR 548 thousand (2016: EUR 552 thousand), capitalised expenses of EUR 642 thousand (2016: EUR 630 thousand).

5. NET FOREIGN EXCHANGE GAIN/LOSS

In 2016–2017, fluctuations in foreign exchange rates were stable, thus no significant impact on operating profit was made.

6. OTHER INCOME, NET

	2017	2016
Interest income on short-term loans (Note 14)	0	136
Interest income, premium for emission allowances	330	248
Gain/(loss) on disposal of property, plant and equipment	50	(85)
Income from grants	326	383
Other income on disposal	187	114
	893	**796**

7. INCOME TAX

	2017	2016
Current income tax	(539)	(370)
Adjustment to previous year income tax	-	-
Deferred income tax	78	2,017
	(461)	**1,647**

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

	2017	2016
Profit/(loss) before tax	**8,166**	**4,490**
Tax calculated at a rate of 15%	(1,225)	(673)
Effect of non-taxable income and support granted	27	31
Effect of expenses not deductible for tax purposes	(78)	(98)
Adjustment to previous year income tax	5	-
Income tax relief on investment projects (Art 46.1, CIT Law)	544	370
Deferred income tax assets (not applied income tax relief on investment projects for 2016)	-	1,983
Adjustment of deferred income tax assets of previous reporting periods	78	34
Depreciation of non-current assets (Art 18 and 19, CIT Law)	188	-
Income tax	**(461)**	**1,647**

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

Deferred income tax	**Inventory write-down**	**Provisions**	**Income tax relief on investment projects**	**Differences in amortisation periods of non-current assets**	**TOTAL**
At 1 January 2016	-	**78**	-	**(362)**	**(284)**
Recognised in the statement of comprehensive income	-	(37)	1,983	72	2,018
At 31 December 2016	-	**41**	**1,983**	**(290)**	**1,734**
Recognised in the statement of comprehensive income	9	9	248	(188)	78
At 31 December 2017	**9**	**50**	**2,231**	**(478)**	**1,812**

In 2015 and 2017, deferred income tax liability was recognised which arose due to different amortisation periods of non-current assets in the financial and tax accounting (EUR 325 thousand in 2012-2014; EUR 37 thousand in 2015, EUR 245 thousand in 2017). The liability was covered at the amount of EUR 72 thousand in 2016 and EUR 57 thousand in 2017. In 2016, deferred income tax assets amounting to EUR 1,983 thousand were accumulated in respect of the income tax relief on investment projects (Art 46.1, CIT Law.). In 2017, the assets were covered at the amount of EUR 544 thousand. In 2017, deferred income tax assets amounting to EUR 787 thousand were accumulated in respect of the income tax relief on investment projects.

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Plant and machinery	Vehicles and equipment	Other PP&E	Construction in progress	Total
At 1 January 2016							
Cost	710	69,141	178,416	9,839	5,341	4,582	268,029
Accumulated depreciation	-	(36,820)	(111,785)	(5,251)	(3,514)	-	(157,370)
Net book amount	**710**	**32,321**	**66,631**	**4,588**	**1,827**	**4,582**	**110,659**
Year ended 31 December 2016							
Opening net book amount	**710**	**32,321**	**66,631**	**4,588**	**1,827**	**4,582**	**110,659**
Additions	-	-	1,889	335	312	26,204	28,740
Disposals and write-offs (cost)		(940)	(622)	(55)	(379)	-	(1,996)
Disposals and write-offs (accumulated depreciation)		940	622	55	379	-	1,996
Reclassifications		1,984	7,016	42	58	(9,100)	-
Depreciation charge		(1,787)	(8,553)	(651)	(518)	-	(11,509)
Closing net book amount	**710**	**32,518**	**66,983**	**4,314**	**1,679**	**21,686**	**127,890**
At 31 December 2016							
Cost	710	70,186	186,699	10,161	5,332	21,686	294,774
Accumulated depreciation	-	(37,668)	(119,716)	(5,847)	(3,653)	-	(166,884)
Net book amount	**710**	**32,518**	**66,983**	**4,314**	**1,679**	**21,686**	**127,890**
Year ended 31 December 2017							
Opening net book amount	**710**	**32,518**	**66,983**	**4,314**	**1,679**	**21,686**	**127,890**
Additions	-	-	3,349	114	498	18,402	22,363
Disposals and write-offs (cost)		(198)	(1,259)	(67)	(188)	-	(1,712)
Disposals and write-offs (accumulated depreciation)		198	1,259	67	188	-	1,712
Reclassifications		4,464	27,725	29	255	(32,473)	-
Depreciation charge		(1,907)	(9,843)	(622)	(562)	-	(12,934)
Closing net book amount	**710**	**35,075**	**88,214**	**3,835**	**1,870**	**7,615**	**137,319**

At 31 December 2017	**710**	**35,075**	**88,214**	**3,835**	**1,870**	**7,615**	**137,319**
Cost	710	74,452	216,514	10,237	5,897	7,615	315,425
Accumulated depreciation	-	(39,377)	(128,300)	(6,402)	(4,027)	-	(178,106)
Net book amount	**710**	**35,075**	**88,214**	**3,835**	**1,870**	**7,615**	**137,319**

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 EUR 78 thousand in 2017 (2016: EUR 78 thousand), and were recognised in the statement of comprehensive income within administrative expenses.
In September 2017, the investment project *Kristalinio MAP 12-60 Cecho Statyba* (*Construction of the Crystalline MAP12-60 Department*) was completed. The value of the investment project is EUR 23,137 thousand. The production of a new project, crystalline MAP 12-60, was launched.

In addition, the Company gives on lease its property, plant and equipment with the net book value amounting to EUR 176 thousand (2016: EUR 151 thousand). Annual income earned from lease amounted to EUR 37 thousand (2016: EUR 38 thousand), and depreciation charges for the year amounted to EUR 10 thousand (2016: EUR 9 thousand). In 2017, capitalised depreciation expenses of investment projects amounted to EUR 38 thousand (2016: EUR 37 thousand).In 2017, capitalised interest expenses included in the amount of property, plant and equipment amounted to EUR 110 thousand.

9. INTANGIBLE ASSETS

	Computer software
At 1 January 2016	
Cost	1,541
Accumulated amortisation	(1,177)
Net book amount	**364**
Year ended 31 December 2016	
Opening net book amount	364
Additions	154
Disposals and write-offs (cost)	(17)
Disposals and write-offs (accumulated depreciation)	17
Amortisation charge	(145)
Closing net book amount	**373**
At 31 December 2016	
Cost	1,678
Accumulated amortisation	(1,305)
Net book amount	**373**
Year ended 31 December 2017	
Opening net book amount	373
Additions	109
Disposals and write-offs (cost)	(77)
Disposals and write-offs (accumulated depreciation)	77
Amortisation charge	(123)
Closing net book amount	**359**
At 31 December 2017	
Cost	1,710
Accumulated amortisation	(1,351)
Net book amount	**359**

10. PREPAYMENTS

The balance of non-current amounts receivable comprises prepayments for non-current assets and construction in progress amounting to EUR 2,834 thousand (2016: EUR 1,924 thousand).

11. INVENTORIES

	Finished products	Raw materials and consumables	Work in progress and semi-manufactures	Total
At 31 December 2016				
Cost	14,343	25,425	1,587	**41,355**
Write-down to net realisable value	-	-	-	-
Net realisable value	**14,343**	**25,425**	**1,587**	**41,355**
At 31 December 2017				
Cost	18,825	33,161	1,977	53,963
Write-down to net realisable value	(62)	-	-	(62)
Net realisable value	**18,763**	**33,161**	**1,977**	**53,901**

As at 31 December 2017, write-downs were made to mono-ammonium phosphate in the amount of EUR 62 thousand. There were no write-downs as at 31 December 2016.

12. FINANCIAL INSTRUMENTS

(a) Financial instruments by category

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

	Loans and receivables
At 31 December 2017	
Assets as recorded in the statement of financial position	
Trade and other amounts receivable	32,870
Short-term loans granted	-
Cash and cash equivalents	1,546
Total	**34,415**
	Other financial liabilities
Liabilities as recorded in the statement of financial position	
Trade and other payables	38,825
Short-term loans received	106,185
Total	**145,010**

	Loans and receivables
At 31 December 2016	
Assets as recorded in the statement of financial position	
Trade and other amounts receivable	77,946
Short-term loans granted	-
Cash and cash equivalents	1,561
Total	**79,507**
	Other financial liabilities
Liabilities as recorded in the statement of financial position	
Trade and other payables	40,036
Short-term loans received	134,352
Total	**174,388**

Amounts receivable in the table above are reported less prepayments, taxes receivable and taxes overpaid and other non-financial assets, while accounts payable are reported less taxes payable and other non-financial liabilities.

As at 31 December 2017, the Company's cash balances in bank accounts and short-term deposits held with banks amounted to EUR 1,546 thousand (2016: EUR 1,561 thousand). As at 31 December 2017, all balances were held in Lithuanian banks with a long-term credit rating not lower than 'A' assigned by international rating agency *FitchRatings*, or in Lithuanian banks with no ratings assigned by international rating agency, but the parent companies of which have a long-term credit rating not lower than 'A'.

As at 31 December 2017, the Company's trade receivables neither past due nor impaired amounted to EUR 32,862 thousand (2016: EUR 77,946 thousand). These receivables may be split into the following groups:

	2017	2016
Trade receivables neither past due nor impaired		
Receivables from related party EuroChem Trading GmbH	2,715	22,214
Receivables from related party Agrocentr EuroChem Ukraine	-	215
Receivables from related party EuroChem Agro GmbH	28,380	54,398
Amounts receivable from unrelated customers	1,767	1,119
	32,862	**77,946**

More details about transactions with related parties are disclosed in Notes 13 and 20. EuroChem Trading GmbH has been the Company's customer for several years with no defaults in the past. In 2016 and 2017, a significant part of sales transactions were conducted through EuroChem Agro GmbH.

None of the financial assets that are fully performing and that would otherwise be past due or impaired has been renegotiated in the previous year (except for that disclosed in Note 13).

13. LOANS GRANTED, TRADE AND OTHER AMOUNTS RECEIVABLE

	2017	2016
Trade receivables, gross	32,869	77,946
Provision for trade receivables	-	-
VAT receivable	43	23
Prepayments to suppliers	4,875	1,757
Provision for prepayments to suppliers	-	-
Other amounts receivable	332	305
	38,119	**80,031**
Short-term loans granted	-	-
	38,119	**80,031**

As at 31 December 2016 and 31 December 2017, there were no outstanding balance of short-term loans granted.

Details of amounts receivable from related parties are disclosed in Note 20.

Trade receivables that are overdue less than six months are not considered impaired. The ageing analysis of these trade receivables is as follows.

Trade receivables past due but not impaired	2017	2016
Up to 3 months	7	0
3 to 6 months		
	7	**0**

In 2016 and 2017, no provisions for amounts receivable and amounts payable were established. The ageing analysis of receivables is as follows:

	2017	2016

Trade receivables impaired and provided for

6 to 12 months	-	-
Over 12 months	-	-
	-	-

Formation and reversal of impairment loss in respect of amounts receivable is accounted for within 'administrative expenses' in the statement of comprehensive income. The amounts in respect of which impairment loss is recognised are generally written off, when there is no expectation of recovering additional cash. Other classes of trade and other amounts receivable do not contain impaired assets.

The carrying amount of the Company's trade and other amounts receivable, prepayments to suppliers and loans granted denominated in USD totalled EUR 18,362 thousand (USD 22,021 thousand) as at 31 December 2017 (2016: EUR 54,656 thousand (USD 57,132 thousand)). Other amounts receivable are denominated in EUR.

14. CASH AND CASH EQUIVALENTS

	2017	2016
Cash at bank	1,546	1,561
Cash on hand		
Time deposits		
	1,546	**1,561**

The Company's cash and cash equivalents denominated in USD amounted to EUR 876 thousand as at 31 December 2017 (USD 1,051 thousand) (2016: EUR 1,037 thousand (USD 1,084 thousand)).

On 11 June 2013, a credit line agreement No 001/04821L/13 was signed with UniCredit bank branch in Moscow, under which a credit limit of USD 25,000 thousand was granted for issuing letters of credit and guarantees. On 16 February 2016, the agreement was extended. The agreement No is 001/0096L/16. The agreement expires on 16 February 2019.

15. SHARE CAPITAL

As at 31 December 2017 and 2016, the Company's authorised share capital comprised 21,020,564 ordinary shares with the par value of EUR 2.90 each.

Based on the proposal of the Board dated 25 April 2016, the Shareholders' Meeting passed a decision to pay dividends of EUR 165,000 thousand. Dividends were paid in May 2016. In 2017, the Shareholders' Meeting did not pass any decisions on the calculation and payment of dividends.

16. GRANTS

The Company has a grant of LTL 5,976 thousand (EUR 1,731 thousand) from the EU structural funds to finance acquisition of equipment relating to the project: "The usage of local and renewable energy sources for electricity generation at the Sulphur Acid Department" (the grant was received in 2007) and a grant of LTL 238 thousand (EUR 69 thousand) from Environment Protection Investments Fund to finance in part the acquisition of waste cleaning equipment (the grant was received in 2008). In 2010, a grant of LTL 13,712 thousand (EUR 3,971 thousand) was received from the EU structural funds to finance the modernisation of Feed Phosphate Department.

The grants are amortised over the useful life of the related property, plant and equipment. Income of EUR 326 thousand was recognised in 2017 as compared to the total amount of grants received (2016: EUR 383 thousand) to cover the depreciation expenses of the related property, plant and equipment.

17. TRADE AND OTHER AMOUNTS PAYABLE

	2017	2016
Trade payables	38,825	40,036
Import VAT payable, customs duty	472	2,176
Other amounts payable and accrued charges	6,321	5,880
Advance amounts received	1	1
Other taxes payable	267	195
Social security contributions	702	638
	46,588	**48,926**

The Company's trade and other amounts payable denominated in USD totalled EUR 26,055 thousand (USD 31,248 thousand) as at 31 December 2017 (2016: EUR 29,157 thousand (USD 30,478 thousand)).

18. Short-term loans received

- Under agreement No #504-0092479 of 25 April 2016 EuroChem Group AG granted to Lifosa AB a loan of EUR 137,000 thousand on 11–13 May 2016. The loan bears an interest rate of 3.1%. Interest for a current month is payable by the 10th day of the next month.
- The Company repaid part of the loan, i.e. EUR 3,000 thousand, on 26 July 2016. The outstanding balance of the loan amounted to EUR 134,000 thousand as at 31 December 2016. Interest calculated for 2016 amounted to EUR 2,663 thousand. Interest paid amounted to EUR 2,311 thousand. Unpaid interest for December amounted EUR 352 thousand.
- In August 2017, EUR 134,000 was repaid to EuroChem Group AG according to the Agreement No 504-0092479 of 25 April 2016. Interest paid according to this agreement in 2017 amounted to EUR 3,508 thousand.
- On 24 August 2017, the Company received a loan of EUR 90,000 from EuroChem Group AG according to Agreement No #504-0119519. The loan bears an interest rate of 2.05%.Interest calculated for 2017 amounted to EUR 652 thousand. Interest paid amounted to EUR 495 thousand. Unpaid interest for December amounted EUR 157 thousand.
- On 24 August 2017, the Company received a special purpose loan of EUR 16,000 from EuroChem Group AG according to Agreement No #504-0119522. The loan bears an interest rate of 2.05% (capitalised). Interest calculated for 2017 amounted to EUR 116 thousand. Interest paid amounted to EUR 88 thousand. Unpaid interest for December amounted EUR 28 thousand.

Details of amounts payable to related parties are presented in Note 20.

19. CASH FLOWS FROM OPERATING ACTIVITIES

	2017	2016
Profit/(loss) before tax	8,166	4,490
Depreciation and amortisation (Notes 9, 10)	13,057	11,654
Finance charges	3,917	2,527
Net profit (loss) on disposal of property, plant and equipment, net	(10)	(25)
Foreign exchange gain (loss)	-	601
Changes in working capital:		
– trade and other amounts receivable	41,020	(25,814)
– trade and other amounts payable	(2,356)	1,652
– grants	(326)	(383)
– inventories	(12,546)	58,325
Cash flows from operating activities	**50,922**	**53,027**

There were no significant non-cash transactions during the years 2016 and 2017.

In the statement of cash flows, proceeds from disposal of property, plant and equipment comprise as follows:

	2017	2016
Gain on disposal of property, plant and equipment (Note 6)	50	(85)
	50	**(85)**

20. RELATED-PARTY TRANSACTIONS

The Company is under control of the main shareholder EuroChem Group AG, which owns 100% of shares in the Company.

Other related parties are deemed to be EuroChem group entities and the Company's key management.

The following transactions were conducted with related parties:

	2017		2016	
	Sales	**Purchases**	**Sales**	**Purchases**
EuroChem Trading GmbH	25,429	1,089	55,577	-
Harvester Shipmanagement Ltd	-	12,181	-	10,589
EuroChem Agro GmbH	277,847	-	303,695	-
Eurochem-Karatau LLC	-	-	-	4,665
EuroChem Group AG	-	3,948	138	2,662
Kovdorskiy GOK OAO	-	78,162	-	95,079
Murmansk Bulk Terminal JSC	-	899	-	146
NAK Azot OAO	-	4,208	-	7,728
EuroChem Logistics International UAB	-	17,753	-	15,020
Agrocentr EuroChem Ukraine DP	2,120	-	910	-
Nevinomyssky Azot OJSC	-	4,318	-	3,174
Fosforit OOO	29	-	21	-
Novomoskovskij Chlor OAO	-	196	-	38
MCC EuroChem OJSC	-	809	-	622
Agrocenter Ukraine LLC	379	-	-	-
	305,804	123,563	360,341	139,723

Related parties in the table above belong to the Mineral and Chemical Company EuroChem (Russia) group. Transactions with related parties include the purchase of raw materials (EuroChem-Karatau LLC, Kovdorskiy GOK, NAK Azot OAO, Nevinomyssky Azot OJSC, Novomoskovskij Chlor OAO), purchase of transportation services (Harvester Shipmanagement Ltd, EuroChem Logistics International UAB, Murmansk Bulk Terminal JSC), sales of products (EuroChem Trading GmbH and Agrocentr EuroChem Ukraine DP, EuroChem Agro GmbH, Agrocenter Ukraine LLC, Fosforit OOO), and interest on the loan granted (EuroChem Group AG), consultation services (MCC EuroChem OJSC).

Year-end balances of transactions with related parties:

	2017		2016	
	Receivables	**Payables**	**Receivables**	**Payables**
Murmansk Bulk Terminal JSC	-	146	-	146
EuroChem Trading GmbH	2,715	662	22,214	-
EuroChem Agro GmbH	28,382	-	54,399	-
Kovdorskiy GOK OAO	4	17,100	6	27,682
NAK Azot OAO	-	111	-	96
Nevinomyssky Azot OJSC	-	24	-	316
EuroChem Group AG	-	106,185	-	134,352
EuroChem Logistics International UAB	-	923	-	695
Harvester Shipmanagement Ltd	-	794	-	303
Novomoskovskij Chlor OAO	-	12	-	14
Fosforit OOO	-	-	25	-
MCC EuroChem OJSC	-	74	-	44
Agrocenter Ukraine LLC	-	94	215	-
	31,101	126,125	76,859	163,645

The balances of receivables include receivables for products sold (EuroChem Trading GmbH, EuroChem Agro GmbH, Fosforit OOO, Agrocentr EuroChem Ukraine DP, Agrocenter Ukraine LLC). The balances of payables include amounts payable for raw materials purchased (Kovdorskiy GOK OAO, NAK Azot OAO, Nevinomyssky Azot OJSC, Novomoskovskij Chlor OAO) and for transportation services purchased (EuroChem Logistics International UAB, Harvester Shipmanagement Ltd, Murmansk Bulk Terminal JSC), consultation services (MCC EuroChem OJSC), short-term loans received (EuroChem Group AG). Details of the loans received from EuroChem Group AG are disclosed in Note 18.

Compensation of key management personnel
Based on the Company's management work regulations, key management personnel are deemed to include top level management personnel. In 2017, the Company accounted for employee benefits to key management personnel totalling EUR 1,508 thousand (2016: EUR 1,389 thousand), whereof wages and salaries amounted to EUR 680 thousand (2016: EUR 583 thousand), bonuses amounted to EUR 460 thousand (2016: EUR 476 thousand), and social security contributions amounted to EUR 368 thousand (2016: EUR 330 thousand).

There were no outstanding balances of amounts due to key management personnel as at 31 December 2016 and 2017.
The number of key management personnel was 6 in 2016 and 2017.

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 Lithuanian Minister of Environment, the Company has prepared the plan for utilisation of waste products in case the Company ceased its operations, and has made an assessment of the expected waste management costs. Waste gypsum is stored on a special site designated for its storage. In 2013, the investment project for the Extension of fields of phosphogypsium FRC was completed, and the storage area of phosphogypsium was enlarged. The project value was equal to LTL 8,607 thousand (EUR 2,493 thousand). After the storage area enlargement the amount of the guarantee was increased up to EUR 998,500 on 6 November 2015. The guarantee is valid until 2 January 2017.
With effect from 1 April 2016 amendments were introduced to the legal acts regulating the activity of waste recovery and disposal. After the application of the amendments the bank guarantee is issued only for the handling of hazardous waste. Phosphogypsium makes up the largest portion of waste produced by the Company. This waste is classified as non-hazardous waste, therefore the amount of the guarantee issued by SEB Bankas was reduced from EUR 998 thousand as at 31 December 2015 to EUR 70 thousand as at 31 December 2016. The guarantee was extended until 31 December 2018. The amount of the guarantee as at 31 December 2017 was equal to EUR 70 thousand.
Based on the above-mentioned plan, the outflow of the Company's resources for waste management purposes is under full control of the Company. Such outflow is considered to be unlikely because it would happen only if the Company ceased its operations. The Company's management and shareholders have no intentions to put into liquidation the Company or terminate its production and trade activities in the foreseeable future, nor do they expect that such situation would be inevitable. In view of this, no provision was recognised in these financial statements for the expected waste management costs.

Capital expenditure commitments
Capital investment commitments related to property, plant and equipment for which agreements were signed at the balance sheet date, yet which were not recognised in the financial statements amounted to EUR 5,788 thousand as at 31 December 2017 (31 December 2016: EUR 5,538 thousand).

Contingent tax liabilities

On 5 March 2018, the State Tax Inspectorate initiated a tax investigation on the calculation, declaration and payment of value added tax for 2013–2015 for the purpose of identifying and eliminating deficiencies. The Company's management is not aware of any circumstances that might result in a potential material liability in this respect.

Emission allowances

The Company participates in a carbon dioxide cap and trade scheme. The Company receives emission allowances from the Government in an amount equal to its cap. Allowances are issued free of charge.

	2017	2016
Accumulated emission allowances brought forward from prior years, tons	633,760	466,888
Emission allowances granted during the year, tons	161,642	166,138
Actual emissions, tons	(305)	(266)
Emission allowances sold or transferred to third parties during the year, tons		
Emission allowances granted with expired term (tons)		
Emission allowances purchased from third parties during the year, tons	0	1,000
Emission allowances not used and not sold during the previous year that can be carried forward (tons)	795,097	633,760
Market value of emission allowances not used and not sold as at the date of the statement of financial position (EUR thousand)	6,401	4,157
Income from disposal of emission allowances (EUR thousand)	0	0

Emission allowances granted to the Company for the period from 2013 to 2020 totalled 1,312,198 tons, of which 179,954 tons were granted for 2013; 175,295 tons for 2014; 170,688 for 2015; 166,138 for 2016; and 161,642 tons for 2017 in such a declining sequence until 2020. Emission allowances not used and not sold at the year-end may be carried forward till the end of 2020, i.e. until their expiry.

22. EVENTS AFTER THE END OF THE REPORTING PERIOD

There were no significant events after the end of the reporting period.

Annual report

1. Reporting period

This annual report covers the period from 1 January 2017 to 31 December 2017. All numbers in the annual report are given as of 31 December 2017, unless otherwise stated. In this report Lifosa AB is referred to as the Company.

2. The Company and its contact details

Name	Akcinė bendrovė „Lifosa"
Legal form	Legal entity, public limited liability company
The authorised share capital	EUR 60,959,635.60
Date and place of registration	30 October 1996, Register of Legal Entities
Registration Certificate No.	025806
Company code	161110455
VAT payer's code	611104515
Head office address	Juodkiškio g. 50, LT-57502 Kėdainiai
Telephone	(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 Company's profile of activities

The Company's core line of business is the production and wholesale of nitrogen-phosphorus fertilizers (diammonium phosphate, monoammonium phosphate MAP 12-61), feed phosphates, and aluminium fluoride. Interim products are sulphuric acid and wet-process phosphoric acid used in the production of the main products. The Company's non-typical activities are production and sales of electric and thermal power.

4. Agreements with the intermediaries of public trading in securities

On 8 June 2010, Lifosa AB concluded the agreement on service of the issuer with SEB Bankas AB (Gedimino 12, Vilnius). Before that date, Lifosa AB had an agreement with the financial brokerage firm Finasta AB FMĮ (Konstitucijos pr. 23, Vilnius) on handling the accounting of securities issued by the Company.

5. Data about trading in the Company's securities on regulated markets

The ordinary registered shares of Lifosa AB were listed in the Supplementary Trading List of NASDAQ OMX Vilnius Stock Exchange until 31 December 2011. The Company's shares were de-listed from the Supplementary Trading List based on the Decision of the Board of NASDAQ OMX Vilnius AB (dated 28 December 2011, Minutes No. 41). The basis for the Company's withdrawal from the stock exchange became effective on 16 December 2011 upon the completion of transfer of title of ownership to the Company's shares from the minority shareholders to Mineral and Chemical Products Company EuroChem AB.

Main characteristics of the shares:

Type of shares	Ordinary registered shares
ISIN	LT0000116691
Ticker	LFO1L
Number of shares, in units	21,020,564
Nominal value, in EUR	2.90
Total nominal value, in EUR	60,959,635.60
Listing start date	12 May 1997
Listing end date	31 December 2011

6. Objective overview of the Company's financial position, performance and development; description of its exposure to key risks and uncertainties

Overview of the Company's financial position and performance

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 significantly affected by economic situation in agricultural sector and the policy on subsidies, i.e. the factors that are beyond the influence of producers.

The start of the season for the purchase of spring fertilisers in the first quarter of 2017 was favourable to producers due to a prevailing tendency of increase in prices of products. At the beginning of 2017, the majority of producers had comparatively low quantities of goods produced that resulted in a limited supply of phosphate fertilisers.

In the third quarter of 2017, expectations for lower prices of goods prevailed in the market of phosphate fertilisers. Importers of fertilisers continuously postponed purchases of fertilisers hoping that there will be a significant rise in supply in the second half of 2017 as a result of the introduction of new phosphate fertilisers production capacities in Saudi Arabia (the project of Ma'aden Wa'ad al Shamal Phosphate Company) and in Morocco (Jorf Lasfar Phosphate Hub IV project of OCP).

When it became evident in the fourth quarter of 2017 that due to a delayed introduction of new production capacities in Saudi Arabia and Morocco a substantially lower than projected quantity of phosphate fertilisers will be supplied to the market, prices of phosphate fertilisers began to rise. The tendency in price increase was also affected by the US-based producer of fertilisers Mosaic that announced about the closure of the Plant City production facility for an indefinite term. The annual production capacity of the Plant City facility is 1.5 million tons of diammonium phosphate (DAP).

During the reporting period the Company's sales in euro decreased by 15.1% as compared to the year 2016, the cost of realised products decreased by 17.7%.

The price in USD of diammonium phosphate, which is the main product sold by the Company, increased as compared to the previous quarter: 1Q of 2017 – 0.5%, 2Q of 2017 – 14.4%, 4Q of 2017– 1%; decreased by 9.4% in 3Q of 2017.

	2016, USD/tons	Change over the quarter, %	2017, USD/tons	Change over the quarter, %
1Q	414.45		319.91	0.5
2Q	350.72	-15.4	365.98	14.4
3Q	328.75	-6.3	331.56	-9.4
4Q	318.37	-3.2	334.72	1.0

The price in USD of diammonium phosphate and monocalcium phosphate sold by the Company decreased by 4.9% in 2017.

	2016, USD/tons	2017, USD/tons	Change, %
Diammonium phosphate	353.84	336.50	-4.9
Monocalcium phosphate	400.77	381.08	-4.9

In 2017, the prices in USD of the main raw materials (phosphate rock and sulphur) used by the Company in the production process decreased by 10.3% and 2.9% as compared to 2016, respectively, whereas the price of ammonia increased by 6.2%.

	2016, USD/tons	2017, USD/tons	Change, %
Phosphate rock	151.49	135.94	-10.3
Ammonia	253.41	269.02	6.2
Sulphur	86.82	84.30	-2.9

Assessment of the Company's exposure to key risks and uncertainties

The phosphate fertiliser business is of a cyclical nature. Phosphate fertiliser prices fluctuate because of economic and natural factors, the end user's cyclical business, and decline in the purchasing power; therefore the Company's sales revenue and profit may drop, and business may become unprofitable during the periods unfavourable to the producers of phosphate fertilisers.

It is projected that in 2018-2019 the supply in phosphate products offered by the low cost producers in Morocco and Saudi Arabia may significantly increase. The Ma'aden Wa'ad al Shamal Phosphate Company's project that launched DAP production in Saudi Arabia in 2017 may increase production volume up to two million tons per year in 2018 and reach a projected capacity of three million tons of DAP per year in 2019. The producer of phosphate fertilisers OCP will complete its new project in Morocco in 2018, i.e. the Jorf Lasfar Phosphate Hub IV is projected to have a production capacity of around one million tons per year.

Overproduction may reduce sale prices of fertilisers and the Company's products may, therefore, become uncompetitive due to higher production cost as compared to that of the competitors. The major component of the production cost is the acquisition cost of the raw materials. Raw phosphates (apatite concentrate or phosphorite) are the main raw materials used in phosphate fertiliser production process, therefore, the lowest production cost is ensured by manufacturers producing their own raw phosphates.

Poor climate conditions (e.g., heavy sea conditions limiting the movement of ships), unrest in the regions may hinder the delivery of raw materials resulting in reduced production outputs.

Business risks are managed through regular investment not only in replacement of obsolete equipment with new one, but also through installation of modern technologies, improvement of production processes, which on turn, allows saving costs, raw materials and energy. The major part of raw materials is obtained from related-party companies, controlled by EuroChem Group. 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 fertilisers widely recognised among the buyers and consumers. Goods are promptly delivered to different regions under agreed delivery terms.

The Company's exposure to financial risks and their management are described in the notes to the audited financial statements.

7. Analysis of the financial and non-financial performance

Key financial indicators:

	2015	**2016**	**2017**
Sales, '000 EUR	412,687	367,421	311,989
Cost of sales, '000 EUR	332,566	345,130	284,194
Gross profit, '000 EUR	80,121	22,291	27,795
Gross profit margin, %	*19*	*6*	*9*
Operating profit, '000 EUR	72,583	7,153	11,980
Operating profit margin, %	*18*	*2*	*4*
Profit before tax, '000 EUR	72,583	4,490	8,166
Profit before tax margin, %	*18*	*1*	*3*
Net profit, '000 EUR	61,617	6,137	7,705
Net profit margin, %	*15*	*2*	*2*
EBITDA, '000 EUR	83,802	18,770	25,000
EBITDA margin, %	*20*	*4*	*7*
Return on equity (ROE), %	26	8	9
Return on assets (ROA), %	21	2	3
Debt-to-equity ratio	0.26	2.50	1.89
Current liquidity ratio	3.15	0.70	0.62
Quick liquidity ratio	1.40	0.47	0.26
Cash ratio	0.18	0.01	0.01
Earnings per share, EUR	2.93	0.29	0.37
Income per employee, '000 EUR	433	387	321

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

During the year 2017, the Company produced 807,339 tons of diammonium phosphate, i.e. 2.4% more compared to the year 2016 (788,073 tons). The Company produced 165,689 tons of feed phosphates during the reporting year, i.e. 12.4% less compared to the year 2016 (189,170 tons). In 2017, the Company produced 11,909 tons of aluminium fluoride, i.e. 0.7% less compared to 2016 (11,994 tons). In 2017, the Company produced 1,239,100 tons of sulphuric acid, i.e. 0.7% more than in 2016 (1,230,825 tons); 468,038 tons of phosphoric acid, i.e. 0.7% more than in 2016 (464,660 tons). During the reporting year 12,274 tons of a new product – mono-ammonium phosphate, soluble crystalline MAP 12-61– were produced.

The Company also produces electricity, which is first used for its own needs, and the remaining quantity is sold to other companies. During 2017, the Company produced 250,174 thousand kWh of electricity, i.e. 7.2% less than in 2016 (269,702 thousand kWh).

Sales revenue during the reporting period amounted to EUR 311,989 thousand and decreased by 15.1% compared to the year 2016 (EUR 367,421 thousand). Such decrease was driven by lower sales volumes and prices of diammonium phosphate. The average price of diammonium phosphate sold by the Company was equal to EUR 297.97 per ton in 2017 and, compared to the average price of EUR 320.30 per ton in 2016, decreased by 7%. In 2017, the Company sold 792,337 tons of diammonium phosphate, which is 10.5% less than in 2016 (885,094 tons). During the reporting year, stocks of diammonium phosphate increased by 15 thousand tons and in 2016 these stocks decreased by 97.5 thousand tons. Revenue from sales of main products (diammonium phosphate, monoammonium phosphate, feed phosphates, aluminium fluoride) amounted to EUR 308,049 thousand (EUR 362,637 thousand in 2016). Revenue from sales of diammonium phosphate amounted to EUR 236,096 thousand (EUR 283,495 thousand in 2016), i.e. 75.7% of total sales revenue (77.2% in 2016). Revenue from sales of feed phosphates amounted to EUR 57,545 thousand (EUR 68,333 thousand in 2016), or 18.4% of total sales revenue (18.6% in 2016). Revenue from sales of aluminium fluoride amounted to EUR 9,979 thousand (EUR 10,809 thousand in 2016), or 3.2% of total sales (2.9% in 2016). In 2017, revenue from sales of a new product, i.e. monoammonium phosphate, amounted to EUR 4,429 thousand.

Sales of diammonium phosphate, in tons:

	1Q	**2Q**	**3Q**	**4Q**	**TOTAL**
2017	210,663	166,287	211,991	203,396	792,337
2016	241,291	171,213	257,706	214,884	885,094
Change %, 2017/2016	87.3	97.1	82.3	94.7	89.5

The cost of sales amounted to EUR 284,194 thousand and decreased by 17.7% compared to the year 2016 (EUR 345,130 thousand). The decline of cost of the production sold was caused by lower sales volume of diammonium phosphate and feed phosphate and prices of raw materials. Expenses of raw materials and consumables used for the production of products amounted to EUR 246,806 thousand in 2017 and decreased by 7.5% compared to 2016 (EUR 266,832 thousand). Decline in expenses for raw materials resulted from lower prices of main raw materials (sulphur and phosphate rock).

In 2017, the main markets for sale of phosphate fertilisers remained Europe (with the largest sales to France, Great Britain, Belgium, Spain, Ireland, Germany), South and North America (Argentina, Uruguay) and Asia (Turkey). Sales in tons to Europe accounted for 86.7% (82.1% in 2016) of total sales revenue, sales in tons to Asia accounted for 8.3% (10.3% in 2016), sales in tons to South and North America accounted for 4.9% (7.3% in 2016) of total sales revenue.

In 2017,169,297 tons of feed phosphates were sold (188,635 tons in 2016). Feed phosphates were mainly sold to Europe: 157,581 tons or 93.1% of feed phosphates were sold to Europe (113,589 tons or 60.2% in 2016). In 2017, sales of feed phosphates to USA amounted to 10,000 tons and decreased by 86.3% (2016: 73,031 tons).

During the reporting period, 60,002 thousand kWh of electricity were sold, i.e. 24.2% less than in 2016 (79,107 thousand kWh).

Investments

In 2017, capital expenditure incurred in relation to property, plant and equipment and intangible assets amounted to EUR 22,472 thousand (EUR 28,894 thousand in 2016). The major investment projects in 2017 were as follows:

Title of the project	Capital expenditure in 2017, in thousands EUR
Construction of a new unit for water-soluble monoammonium phosphate fertilisers MAP 12-61	8,087
Construction of a new unit for water-soluble urea phosphate fertilisers UP 17:44	2,218

In 2017, the amortisation deductions amounted to EUR 13,020 thousand (EUR 11,617 thousand in 2016).

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

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

10. Significant events after the end of the reporting financial year

None.

11. The Company's operational plans and forecasts

In 2018, the Company will focus on a full exploitation of the available production capacity of sulphuric and phosphoric acids and plans to produce and sell 767 thousand tons of diammonium phosphate, approx. 30 thousand tons of crystalline mono-ammonium phosphate and approx. 163 thousand tons of feed phosphates. The production of a new product, i.e. crystalline water-soluble urea phosphate UP 17-44 is projected to start in 3Q of 2018. According to the business plan for 2018 prepared by the Company, the average price of the main product, diammonium phosphate, will be ~ USD 334 per ton in 2018 and the Company's revenue will reach ~ EUR 307 million in 2018.

The changes in prices of raw materials in 2018 will depend on the trends of prices of phosphate fertilisers: the increased production of phosphate fertilisers results in increased demand for the raw materials (phosphate rock, ammonia, and sulphur) and usually leads to higher prices of raw materials. In addition, higher fertiliser prices enhance expectations of the raw materials sellers to increase prices of their products, and the pressure on buyers to pay more for raw materials becomes stronger.

12. The Company's authorised share capital structure

Type of shares	Number of shares, in units	Nominal value, in EUR	Total nominal value, in EUR	Weight in the authorised share capital, %
Ordinary registered shares	21,020,564	2.90	60,959,635.60	100.00

13. Restrictions on disposal of shares

There are no restrictions on disposal of shares.

14. Shareholders' structure

As at 31 December 2017, the Company had in total 1 shareholder.
The shareholders whose ownership interest exceeded 1% of the Company's authorised share capital as of 31 December 2017 are listed below:

Company name, code, registered office address	Number of ordinary registered shares owned by the shareholder	Ownership interest, %	Voting shares, %
EUROCHEM GROUP AG, CH306864578, Baarerstrasse 37, 6300 Zug, SWITZERLAND	21,020,564	100	100

15. Shareholders holding special control rights and description of these rights

None.

16. All restrictions of voting rights

None.

17. Agreements between shareholders, which to the best knowledge of the Company, may restrict disposal of shares and/or voting rights

None.

18. Employees and environment protection

Employees

At the end of 2017, the Company had 978 employees. The average age of employees is 47.85 years. During the year 2017, employment relations were terminated with 18 employees. The Company allocated funds for improvement of the professional skills and qualification of its employees. In 2017, training expenses amounted to EUR 45 thousand, and external training courses were attended by 500 employees.

Average number of employees on payroll:

	2014	2015	2016	2017
Managers	114	113	112	111
Specialists	75	76	76	78
Workers	765	763	762	782
Total	**954**	**952**	**950**	**971**

Average monthly salary, in EUR:

	2014	2015	2016	2017
Managers	2,834	2,868	2,929	3,029
Specialists	2,111	2,093	2,056	2,174
Workers	1,414	1,456	1,466	1,497
Total	**1,627**	**1,675**	**1,684**	**1,727**

Breakdown of employees by educational background:

	2014	2015	2016	2017
Employees with high education	223	238	242	263
Employees with special secondary education	165	160	153	148
Employees with secondary education	533	528	532	543
Other	33	26	23	17
Total	**954**	**952**	**950**	**971**

Environmental protection

In 2017, 1,151 tons (1,091 tons in 2016) of pollutants were emitted to atmosphere from stationary pollution sources (production facilities). As compared to 2016, the emission of pollutants increased by 60 tons due to higher production volume of sulphuric acid (more SO_2 was emitted that comprise 83% of the Company's total emissions).

In 2017, emissions of greenhouse gases (CO_2) amounted to 303 tons (unaudited).

Overall 2,505 thousand m^3 of sewage were discharged to the Obelis river, i.e. ~ 656 thousand m^3 more than in 2016 (due to higher precipitation). During the year, 675.5 tons of recorded pollutants were discharged with waste water.

During the reporting year, the following waste were handled in the Company's own dumps: phosphogypsum – 2,207,657 tons, silicogel – 4,251 tons, sulphur sludge – 203 tons, neutralisation sludge (mud) – 1,393 tons. Other waste of the Company are sorted and transferred to waste management companies, whereas mixed domestic waste is transported to the Zabieliškis regional landfill.

During 2017, pollution taxes paid by the Company amounted to EUR 201.248 thousand, i.e. EUR 24.53 thousand more than in 2016 due to higher H_2SO_4 production and SO_2 emissions, and higher quantity of sewage discharged to the Obelis river.

19. Procedure for amending the Company's by-laws

The by-laws of the Company are amended in accordance with the Law on Companies of the Republic of Lithuania. The by-laws can be amended only by the resolution of the general shareholder's meeting voted in favour by the majority of votes - more than 2/3 of votes. The amended by-laws of the Company are valid only if they have been registered with the Register of Legal Entities according to the procedure established by the law.

20. The Company's bodies

The principal body of the Company is the General Meeting of Shareholders. The Company's managerial bodies are as follows: the Board and the Head of the Company (Chief Executive Officer). There is no Supervisory Council. The Board is elected by the General Meeting of Shareholders for the term of office of 4 years. The Board is composed of 5 members. The Chief Executive Officer is appointed, recalled and dismissed by the Company's Board. The Board may organise recruitment competition to elect the Chief Executive Officer.

21. Members of collegiate bodies, chief executive officer, chief financial officer

Members of the Board of the Company

Full name	Position	Shareholding and votes represented by shares owned, %
Board		
Aleksandras Tugolukovas	Chairman	-
Andrejus Savčiukas	Member	-
Valerijus Sidnevas	Member	-
Jonas Dastikas	Member	-
Regvita Ivanovienė	Member	-

Term of office start and end dates for members of the Company's Board

Full name	Term of office start date	Term of office end date
Aleksandras Tugolukovas	25 April 2016	April 2020
Andrejus Savčiukas	25 April 2016	April 2020
Valerijus Sidnevas	25 April 2016	April 2020
Jonas Dastikas	25 April 2016	April 2020
Regvita Ivanovienė	25 April 2016	April 2020

Chief Executive Officer, Chief Financial Officer

Full name	Position	Shareholding and votes represented by shares owned, %
Jonas Dastikas	Chief Executive Officer	-
Regvita Ivanovienė	Chief Financial Officer	-

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 shareholders' structure.

23. Information on compliance with the Code of Corporate Governance

Since 2012, the shares of Lifosa AB have been de-listed from NASDAQ OMX Vilnius Stock Exchange, and its compliance with the Code of Corporate Governance is no longer obligatory.

24. Information on the transactions between the related parties

Information on the related parties is presented in Note 20 of the Company's audited financial statements for the year 2017.

25. Data on information placed in public domain

Since 2012, the shares of Lifosa have been de-listed from NASDAQ OMX Vilnius Stock Exchange, and placement of information in public domain about the major events at the Company is no longer obligatory.

Jonas Dastikas

Chief Executive Officer

12 April 2018