

LIFOSA AB

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

31 DECEMBER 2019

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 shareholder of Lifosa AB

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Lifosa AB ("the Company") as at 31 December 2019 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 31 December 2019
- 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 significant accounting policies and other explanatory information.

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) and 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).

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



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.

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

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

Eleonora Čaikovskaja
Certified auditor
Auditor's Certificate No. 000629

Vilnius, Republic of Lithuania
8 April 2020

STATEMENT OF COMPREHENSIVE INCOME

(in EUR thousands)

	Notes	Year ended 31 December	
		2019	2018
Revenue from contracts with customers	1	352,500	366,454
Cost of sales	4	(316,464)	(300,472)
Gross profit		36,036	65,982
Selling and distribution expenses	2,4	(11,533)	(10,378)
Administrative expenses	3,4	(5,305)	(5,539)
Net foreign exchange gain/(loss)	5	221	598
Other income/(expenses), net	6	2,505	6,052
Operating profit		21,924	56,715
Finance income/(costs)		(1,512)	(1,796)
Profit/(loss) before income tax		20,412	54,919
Income tax	7	(2,436)	(7,449)
Profit/(loss) for the period		17,976	47,470
Other comprehensive income		-	-
Total comprehensive income/(loss) for the period		17,976	47,470

The financial statements set out on pages 5 to 30 were approved by the Company's Chief Executive Officer, Chief Financial Officer and Chief Accountant on 8 April 2020.



Jonas Dastikas
Chief Executive Officer



Regvita Ivanovienė
Chief Financial Officer



Asta Aleinikovienė
Chief Accountant

The accounting policies and notes on pages 9 to 30 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

(in EUR thousands)

		At 31 December	
	Notes	2019	2018
ASSETS			
Non-current assets			
Property, plant and equipment	8	155,799	149,611
Intangible assets	9	290	310
Deferred income tax assets	7	-	-
Prepayments	10	1,311	2,162
		157,400	152,083
Current assets			
Inventories	11	43,025	59,892
Trade and other amounts receivable	12,13	76,700	49,049
Overpayment of income tax		314	0
Cash and cash equivalents	14	438	289
		120,477	109,230
Total assets		277,877	261,313
EQUITY			
Share capital	15	60,960	60,960
Share premium		23	23
Legal reserve	15	6,096	6,088
Retained earnings		80,238	62,270
Total equity		147,317	129,341
LIABILITIES			
Non-current liabilities			
Deferred income tax liability	7	1,128	891
Grants	16	1,197	1,444
		2,325	2,335
Current liabilities			
Income tax liabilities		-	3,951
Trade and other amounts payable	17	38,232	35,541
Short-term loans received	18	90,003	90,145
		128,235	129,637
Total liabilities		130,560	131,972
Total equity and liabilities		277,877	261,313

The accounting policies and notes on pages 9 to 30 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 2017		60,960	23	6,088	14,800	81,871
Total comprehensive income for the period		-	-	-	47,470	47,470
Dividends paid		-	-	-	-	-
Balance at 31 December 2018	15	60,960	23	6,088	62,270	129,341
Total comprehensive income for the period		-	-	-	17,976	17,976
Increase of compulsory reserve				8	(8)	-
Dividends paid		-	-	-	-	-
Balance at 31 December 2019	15	60,960	23	6,096	80,238	147,317

The accounting policies and notes on pages 9 to 30 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

(in EUR thousands)

		Year ended 31 December	
		2019	2018
	Notes		
Cash flows from operating activities			
Cash flows from operating activities	19	28,808	43,308
Income tax paid		(6,463)	(350)
Net cash flows generated from operating activities		22,345	42,958
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	8,9	(20,306)	(26,196)
Proceeds from disposal of property, plant and equipment		23	26
Loans granted to related parties	13	-	-
Repayments of loans granted to related parties received	13	-	-
Interest received for loans granted to related parties	13	-	-
Interest received for emission allowances		-	-
Net cash flows used in investing activities		(20,283)	(26,170)
Cash flows from financing activities			
Loans received from related parties	18	26,811	0
Loans repaid to related parties	18	(26,860)	(16,000)
Interest paid on loans received	18	(1,864)	(2,045)
Net cash flows used in financing activities		(1,913)	(18,045)
Net increase (decrease) in cash and cash equivalents		149	(1,257)
Movement in cash and cash equivalents			
At the beginning of the year		289	1,546
Net increase (decrease)		149	(1,257)
Cash and cash equivalents at the end of the year	14	438	289

The accounting policies and notes on pages 9 to 30 form an integral part of these financial statements.

LIFOSA AB
FINANCIAL STATEMENTS
31 DECEMBER 2019

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. The main product produced by Lifosa AB is nitrogen-phosphorus fertiliser – diammonium phosphate (DAP 18-46-0). The Company also produces soluble, crystalline monoammonium phosphate fertilisers (MAP 12-61-0), aluminium fluoride (AlF₃), monocalcium phosphate (MCP), phosphoric acid and technical sulphuric acid. As at 31 December 2018 and 31 December 2019, the Company's sole shareholder was as follows:

<i>Shareholder</i>	<i>Number of shares</i>	<i>Ownership interest, %</i>
EuroChem Group AG	21,020,564	100%
	21,020,564	100%

As at 31 December 2019, trust fund (LineTrust PTC Ltd.), the main shareholder of which is Andrey Melnichenko, indirectly controlled 100% of the shares of the company registered in Cyprus AIM Capital SE. AIM Capital SE directly controls 90% of the shares of EuroChem Group AG. EuroChem MCC is a company registered in the Russian Federation which controls 10% of the shares of EuroChem Group AG.

All the shares of the Company are fully paid.

As at 31 December 2019, the Company had 1,005 (31 December 2018: 999) 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.

The accounting policies and notes on pages 9 to 30 form an integral part of these financial statements.

B.1 Basis of preparation (continued)

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 2019:

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 applies IFRS 16 starting from 1 January 2019. The Company has low-value leased assets in respect of which the exemption was applied and it did not recognise the related assets and liabilities in the balance sheet, and the Company leases land. The Company's management assessed that the lease of the state-owned land is not in compliance with the criteria of IFRS 16 and that future lease payments should not be recognised as assets and liabilities. The adoption of IFRS 16 had no impact on equity as at 1 January 2019 and comparatives of 2018.

IFRIC 23, *Uncertainty over Income Tax Treatments* (effective for annual periods beginning on or after 1 January 2019). 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. The adoption of the interpretation had no impact on the Company's financial statements.

Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost. The amendments had no impact on the Company's financial statements.

Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's portion of ordinary shares. The amendments are not relevant to the Company's financial statements.

Annual Improvements to IFRSs 2015-2017 cycle (effective for annual periods beginning on or after 1 January 2019). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The improvements had no impact on the Company's financial statements.

The accounting policies and notes on pages 9 to 30 form an integral part of these financial statements.

Plan amendment, Curtailment or Settlement – Amendments to IAS 19 (effective for annual periods beginning on 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan—an amendment, curtailment or settlement—takes place, IAS 19 requires to remeasure net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The amendments had no impact on the financial statements.

Other new standards, amendments and interpretations that are mandatory for annual periods beginning on or after 01 January 2020 that have not yet been adopted by the European Union and have not been adopted when preparing these financial statements, are not relevant to the Company or are not expected to have significant impact on the Company:

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (effective date to be determined by the IASB; not yet adopted by the EU). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary and the shares of the subsidiary are transferred during the transaction. The standard is not relevant to the Company.

IFRS 17, Insurance Contracts (effective for annual periods beginning on or after 1 January 2021; not yet adopted by the EU). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare the financial performance of similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard is not relevant to the Company.

Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Company is assessing the impact of these amendments on the financial statements.

Definition of a Business – Amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). The amendments revise the definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The standard currently is not relevant to the Company.

Definition of Materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Company is assessing the impact of these amendments on the financial statements.

Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. The Company has no hedging instruments, therefore these amendments are not relevant.

The accounting policies and notes on pages 9 to 30 form an integral part of these financial statements.

Classification of Liabilities as Current or Non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022, not yet adopted by the EU). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The Company is currently assessing the impact of these amendments on its financial statements.

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 cost, excluding the expenses costs of day-to-day servicing, less accumulated depreciation and estimated impairment. The carrying amount of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not 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 other assets 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 and machinery	10-25 years
Vehicles and machinery	4-10 years
Other PP&E	5-8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note B.5).

Construction in progress is reclassified to corresponding categories of property, plant and equipment when it is completed and ready for the intended use.

When property is written off or otherwise disposed, the cost and accumulated depreciation are removed from the financial statements and any related gains or losses are determined by comparing the proceeds with the carrying amount and are included in operating profit.

Borrowing costs directly attributable to the acquisition, construction or production of assets are added to the cost of those assets over the duration of their construction and preparation for use.

The accounting policies and notes on pages 9 to 30 form an integral part of these financial statements.

B.4 Intangible assets

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

B.5 Impairment of non-financial assets

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recovered. 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 its 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

Classification

The Company classifies its financial assets in the following new three categories:

- (i) financial assets subsequently measured at amortised cost;
- (ii) financial assets subsequently measured at fair value through other comprehensive income; and
- (iii) financial assets subsequently measured at fair through profit or loss.

Subsequent to initial recognition, financial assets are classified into the afore-mentioned categories based on the business model the Company applies when managing its financial assets.

Recognition and derecognition

The Company recognises a financial asset in its statement of financial position when, and only when, it becomes party to the contractual provisions of the instrument. The purchase or sale of financial assets is recognised using trade date accounting. Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

Assessment

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs comprise all charges and commission that the Company would not have paid if it had not entered into an agreement on the financial instrument.

In view of the business model applied for managing the group of financial assets, the accounting for debt financial assets is as follows:

Financial assets measured at amortised cost

The Company's trade receivables and other receivables, loans granted are accounted for under the business model the purpose of which is to hold financial assets in order to collect contractual cash flows that can contain cash flows related to the payment of the principal amount and interest inflows. These assets are stated at amortised cost using the effective interest method. Interest income calculated on these financial assets is recognised as finance income. Any gain or loss arising from the write-off of assets is recognised through profit or loss in the statement of comprehensive income. Impairment losses are presented separately as impairment and write-off expenses in the statement of comprehensive income.

Financial assets are recognised as current assets, except for trade and other receivables, loans with maturities greater than 12 months after the date of the preparation of the statement of financial position, in which case they are classified as non-current assets.

Amortised cost and effective interest method

Amortised cost is the amount at which the financial instrument was recognised at initial recognition minus principal repayments, plus accrued interest, and, for financial assets, minus any write-down for expected credit losses. Effective interest rate method is a method applied to allocate interest income over the relevant period so as to achieve a constant periodic rate of interest (effective interest) on the carrying amount. The effective interest rate exactly discounts estimated future cash inflows or outflows (excluding future expected credit losses) to gross carrying amount of the financial instrument over the expected life of the financial instrument or a shorter period, if necessary.

Expected credit losses

For trade receivables without a significant financing component, the Company applies a simplified approach required by IFRS 9 and measures expected lifetime credit losses from initial recognition of the receivables the moment. The Company uses the provision matrix, according to which provisions for losses are calculated on trade receivables with different ageing and overdue periods. To measure expected credit losses, trade receivables are grouped based on shared credit risk characteristics into amounts receivable from related parties and amounts receivable from other customers.

The accounting policies and notes on pages 9 to 30 form an integral part of these financial statements.

The expected credit losses of other current amounts receivable are assessed using the coefficients established for trade receivables, non-current amounts receivable and other amounts receivable that are individually significant are measured on an individual basis.

The Company assesses and recognises 12-month expected credit losses relating to loans granted, cash and cash equivalents. In subsequent reporting periods, in case there is no significant increase in credit risk related to the borrower or the bank in which cash and cash equivalents are held, the Company adjusts the balance of 12-month expected credit losses in view of the outstanding balance of the loan at the assessment date. Having determined that the financial position of the borrower has deteriorated significantly compared to the financial position that existed upon the issue of the loan, the Company records all lifetime expected credit losses of the loan. The latest point at which the Company recognises all lifetime expected credit losses of the loan granted is identified when the borrower is late to pay a periodic amount or the total debt for more than 30 days. In case of other evidence available, the Company accounts for all lifetime expected credit losses of the loan granted regardless of the more than 30 days past due presumption. Loans, cash and cash equivalents for which lifetime expected credit losses are calculated are treated as credit-impaired financial assets.

B.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average unit cost method. The cost of finished products and work in progress comprises raw materials, direct labour, other direct costs and related indirect production costs, but excludes borrowing costs.

Net realisable value of finished goods is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. Raw materials and other substances used in the production of goods are not written down below their cost, only when it is probable that the cost of goods produced using these raw materials and substances will exceed the net realisable value. Under such circumstances, the best estimate of net realisable value of raw materials and substances is deemed to be the value in exchange of which the same raw materials could be acquired. Loss resulting from writing down of inventories to net realisable value is included in the cost of sales in the statement of comprehensive income.

B.8 Cash and cash equivalents

Cash and cash equivalents are carried at nominal value. Cash and cash equivalents comprise cash in hand, cash at bank held on call, letters of credit, and other short-term highly liquid investments with original maturities of three months or less.

B.9 Share capital

Ordinary shares are stated at their nominal value. Consideration received for the shares sold in excess over their nominal value is shown as share premium.

B.10 Legal reserve

A legal reserve is a compulsory reserve under the Lithuanian legislation. Annual transfers of 5 per cent of net profit are required until the reserve reaches 10 per cent of the share capital. The legal reserve cannot be used for payment of dividends, however, it may be used to cover future losses.

B.11 Trade and other payables

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

B.12 Income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Tax rates and tax laws used to compute income tax expenses are those applicable as of the date of the statement of financial position.

Income tax calculations are based on annual profit after estimation of deferred income tax. Income tax is calculated in accordance with the requirements set forth in the Lithuanian tax legislation.

Pursuant to the Lithuanian Law on Corporate Income Tax, taxable profit is subject to income tax at a rate of 15%.

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

The accounting policies and notes on pages 9 to 30 form an integral part of these financial statements.

Deferred tax assets are recognised in the statement of financial position to the extent that the Company's management expects to utilise such assets in the foreseeable future taking into consideration forecasts of taxable profit. When it is probable that a portion of deferred tax will not be utilised, this portion of deferred income tax is not recognised in the financial statements.

Deferred income tax related to items recognised in the statement of comprehensive income is also recognised in the statement of comprehensive income.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

B.13 Leases – where the Company is the lessee

Accounting policies applied from 1 January 2019

At the commencement date of the lease the lessee assesses lease liabilities at the present value of lease payments not paid at that date, including the following payments:

- fixed payments (including those equivalent to fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate initially measured using an index or a rate at the commencement date;
- amounts to be paid by the lessee under the residual value guarantees;
- fines for the termination of the lease, if it is assumed that the lessee will exercise the option to terminate the lease over the lease term.

Lease payments are discounted using the interest rate implicit in the lease, if such an interest rate is readily determinable. If such an interest rate is not readily determinable, the lessee uses the lessee's incremental borrowing interest rate. The interest rate implicit in the lease is the interest rate due to which the present value of lease payments and non-guaranteed residual value is equal to the sum of the fair value of leased assets and any initial direct expenses of the lessor. Lease liability is measured using the interest rate that corresponds to the discount rate applied for the discounting of lease payments. Interest expenses related to lease liabilities are apportioned over the lease term and recognised in profit or loss.

At initial recognition, the cost of right-of-use assets comprises as follows:

- the amount of lease liabilities at initial measurement;
- any lease payments at the commencement date or prior to it, less any lease incentives received;
- any initial direct expenses incurred by the lessee; and
- estimate of the asset's restoration expenses.

Right-of-use assets are subsequently measured by the lessee at cost, less accumulated depreciation and all accumulated impairment losses. If the ownership right of the leased assets is transferred to the lessee before the end of the lease term or if the price of right-of-use assets indicates that the lessee will exercise the purchase option, the lessee calculates the depreciation of right-of-use assets from the commencement date until the end of the useful life of the leased assets. Otherwise, the lessee calculates the depreciation of right-of-use assets from the commencement date until the earlier of the date of the end of the useful life of the right-of-use assets and the date of the end of the lease term.

Payments related to short-term lease or lease of low-value assets are recognised on a straight-line basis as expenses in profit or loss. Short-term lease is defined as a lease that has a lease term of 12 months or less.

The land lease agreement falls within the scope of IFRS 16. In the management's opinion, land lease payments are variable because both the value in the cadastre and the lease payment can be changed and they do not depend on an index or a rate and therefore lease liabilities are not recognised.

Accounting policies applied until 1 January 2019

Leases where 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

Common accounting policies adopted for the periods from and until 1 January 2019

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Assets leased out under operating leases are included in property, plant and equipment in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Lease income is recognised on a proportionate basis over the entire lease term.

The accounting policies and notes on pages 9 to 30 form an integral part of these financial statements.

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 an accrual basis and are 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: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(c) Bonus plans

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

B.16 Revenue recognition

The Company is engaged in the production and wholesale trade of fertilisers. Revenue is recognised upon transferring the control of goods to the customer, the customer has discretion over the manner and price of selling the products and there is no unfulfilled obligation that could affect the customer's acceptance of the products. The transfer of control to the customer is normally carried out in accordance with the standard sale terms and conditions (INCOTERMS).

Revenue from these sales is recognised at the price indicated in the agreement, discounts are not applied, and no financing element is provided. The amount receivable is recognised upon the transfer of the control of goods, which is the moment at which consideration is unconditional.

Revenue from the provision of services is recognised in the reporting period in which the control of services is transferred to the customer, i.e. upon rendering the service. Revenue from transport services is recognised in the period in which the services are rendered. Revenue from sale of electricity and heat energy is recognised in each reporting period on the basis of meter readings.

Interest income is recognised on a proportionate basis using the effective interest method.

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 Financial liabilities

Financial liabilities

Liabilities are classified as financial liabilities at fair value through profit or loss, or other financial liabilities. The Company does not have any financial liabilities at fair value through profit or loss.

Other financial liabilities

Other financial liabilities comprise trade and other payables, loans received. These financial liabilities are initially carried at fair value, less transaction costs, and subsequently measured at amortised cost using the effective interest rate method. Interest expenses are recognised using the effective interest method.

Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. If a financing agreement concluded before the balance sheet date proves that the liability was non-current by its nature as of the date of the balance sheet, that financial liability is classified as non-current.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is settled, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability. The difference between the respective carrying amounts is recognised in the statement of comprehensive income.

The accounting policies and notes on pages 9 to 30 form an integral part of these financial statements.

B.19 Emission allowances

The Company participates in a carbon dioxide cap and trade scheme. The Company has target of reducing its carbon dioxide emissions to the atmosphere to a specified level (the cap). The Company is issued allowances by the Government equal in number to its cap. The rights are granted at no consideration. The Company measures both emission rights and government grants at cost, i.e. zero value. Revenue from sale of surplus emission rights 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:

	2019	2018
Cash and cash equivalents (Note 14)	343	223
Loans granted and accrued interest (Note 18)	30,026	0
Amounts receivable (Note 13)	20,880	23,230
Amounts payable (Note 17)	(15,408)	(13,557)
Net open position	35,841	9,896

US dollar exchange rate (USD/1EUR)	At 31 December	Average exchange rate during the year
2018	1.1450	1.1810
2019	1.1189	1.1196

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

The accounting policies and notes on pages 9 to 30 form an integral part of these financial statements.

C.1 Financial risk factors (continued)

(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 liabilities subject to interest. Interest payable by the Company is fixed, therefore, the Company is not exposed to cash flow risk, but is exposed to fair value risk.

The Company's major interest-bearing assets comprise short-term bank deposits and letters of credit which may be converted to a known amount of cash and are subject to an insignificant fair value interest rate risk. These deposits are held at banks for a period of up to three months for cash flow management purposes and classified as cash equivalents (details are disclosed in Note 14).

(b) Credit risk

The Company's management is responsible for credit risk management. Credit risk arises from cash and cash equivalents and short-term deposits with banks, as well as trade receivables from customers and loans granted to related parties. The Company only selects well-known Lithuanian banks evaluated by independent experts.

The Company sells the majority of its production to wholesalers and complies with internal rules ensuring that sales of products are made only to customers with an appropriate credit history. The Company always makes the assessment of the credit quality of the customer, taking into account its financial position, past experience and other factors. Sales to non-related parties are in most cases made only when the customer pays the entire amount in advance. Credit 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, EuroChem Agro GmbH, EuroChem Group AG which operate as wholesale distributors of the Company's products in the non-EU markets. No significant sales were conducted by the Company with other related parties. No additional credit risk assessment procedures are conducted in granting loans to related EuroChem group companies.

During the reporting period, the Company did not experience any significant difficulties in obtaining trade receivables or collecting cash from banks (except for those disclosed in Note 13). In the opinion of the Company's management, the Company does not expect any significant losses to arise in the foreseeable future due to default by these parties, as well as no significant difficulties in relation to loan repayments from related parties.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets indicated 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 exceed its current assets by EUR 7,758 thousand (2018: EUR 20,407 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.

	2019	2018
Equity	81,871	81,871
Cash and cash equivalents	(438)	(289)
Less: cash and cash equivalents	81,433	81,582

The accounting policies and notes on pages 9 to 30 form an integral part of these financial statements.

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 2018 and 31 December 2019, the Company complied with these requirements.

C.3 Fair value estimation

The nominal value less impairment provision of trade receivables and the nominal value of loans received and amounts payable is assumed to approximate their fair values. For the purposes of disclosure in the financial statements, loans granted that are stated at amortised cost and the fair value of financial liabilities are estimated by discounting 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 continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Expected impairment losses of financial assets

The Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost regardless of whether there are any impairment indicators. This determination requires significant judgement. The Company's expected credit losses are calculated with reference to the history of default and delinquency in payments, as well as the forecast situation in the market. The Company's current estimates might significantly change as a result of developments in the situation in the market and the overall situation in economy as a whole.

Impairment loss of inventories

Write-down of finished goods to net realisable value is performed based the management's estimate of expected sales price of finished goods after the end of the financial year. If the production cost of finished goods exceeds their expected prices, impairment loss is recognised. Such an estimate is performed in respect of each significant position of finished goods as at the date of the statement of financial position. The Company's management determined expected sales prices of goods after the end of the year with reference to the available market information and/or existing contracts with the buyers of goods.

Raw materials and other substances used in the production of goods are not written down below their cost if these goods, for the production of which these raw materials and other substances are used, are expected to be sold at cost or at a higher price. When decreasing prices of raw materials are indicative of the cost of goods produced using these raw materials and substances exceeding the net realisable value, raw materials are written down to their 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. REVENUE FROM CONTRACTS WITH CUSTOMERS

Breakdown of sales by category:	2019	2018
Sales of diammonium phosphate	212,493	254,453
Sales of monocalcium phosphate	72,483	75,428
Sales of aluminium fluoride	15,625	15,396
Sales of mono-ammonium phosphate	17,442	16,573
Urea phosphate	12,574	-
Ammonium phosphate (with sulphur)	17,475	-
Total sales	348,092	361,850
Sales of goods	1,407	912
Sales of electricity, thermal energy and other	3,001	3,692
	352,500	366,454

Sales of goods are recognised at a certain moment, upon the transfer of the control of the good. Sales of electricity and heat energy are recognised over the period.

2. SELLING AND DISTRIBUTION EXPENSES

	2019	2018
Transportation expenses	5,147	3,952
Loading and forwarding expenses	3,615	4,220
Employee benefits and social security contributions	1,889	1,616
Depreciation and amortisation	373	370
Other selling and distribution expenses	509	220
	11,533	10,378

3. ADMINISTRATIVE EXPENSES

	2019	2018
Employee benefits	2,418	2,097
Social security contributions	237	640
Depreciation and amortisation	351	366
Taxes (other than income tax)	688	687
Sponsorship	135	141
Consulting expenses	462	907
Other administrative expenses	1,014	701
	5,305	5,539

4. EXPENSES BY NATURE

	2019	2018
Raw materials and consumables used	268,541	253,313
Employee benefits and social security contributions	30,340	28,795
Change in finished goods, semi-manufactures and work in progress	(44)	1,911
Depreciation and amortisation	14,943	13,902
Transportation services	8,756	8,173
Energy and fuel	5,580	5,787
Repair and maintenance	865	1,210
Other expenses	1,247	352
Occupational safety expenses	28	24
Taxes (other than income tax)	688	687
Business trip, daily allowance, visa expenses	118	88
Expenses of social nature and professional qualification	242	237
Security services	350	345
Sponsorship	135	141
Office maintenance expenses	179	110
Marketing and representation	121	165
Telecommunication and IT maintenance expenses	100	90
Motor vehicle and property insurance	138	133
Professional consultation services	622	630
Vacation and bonus reserve accrual expenses	353	296
	333,302	316,389

The accounting policies and notes on pages 9 to 30 form an integral part of these financial statements.

Employee benefits and social security contributions comprise wages and salaries of EUR 29,525 thousand (2018: EUR 22,141 thousand), social security contributions of EUR 523 thousand (2018: EUR 7,006 thousand) and other employee benefits of EUR 1,084 thousand (2018: EUR 580 thousand), capitalised expenses of EUR 792 thousand (2018: EUR 932 thousand).

In 2019, expenses for the lease of low-value assets amounted to EUR 74 thousand; expenses related to short-term leases amounted to EUR 10 thousand (applied to the contracts with the term of 1 to 12 months).

5. NET FOREIGN EXCHANGE GAIN/LOSS

In 2018-2019, fluctuations in foreign exchange rates were stable, thus no significant impact on operating profit was made.

6. OTHER INCOME, NET

	2019	2018
Interest income, premium for emission allowances	180	530
Revenue from emission allowances, net	1,820	5,591
Gain/(loss) on disposal of property, plant and equipment	(13)	(70)
Expenses of sale and write-off of inventories	(5)	(502)
Income from grants	247	247
Other income on disposal	276	256
	2,505	6,052

7. INCOME TAX

	2019	2018
Current income tax	(2,203)	(4,494)
Adjustment of previous year income tax	4	(253)
Deferred income tax	(237)	(2,702)
	(2,436)	(7,449)

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:

	2019	2018
Profit/(loss) before tax	20,412	54,919
Tax calculated at a rate of 15%	(3,062)	(8,238)
Effect of non-taxable income and support granted	29	30
Effect of expenses not deductible for tax purposes	(36)	(131)
Adjustment of previous year income tax	4	(252)
Income tax relief on investment projects (Art 46.1, CIT Law)	629	1,142
Realisation of deferred income tax assets of previous reporting periods	-	-
Depreciation of non-current assets (Art 18 and 19, CIT Law)	-	-
Income tax	(2,436)	(7,449)

The movement in deferred income tax assets and liabilities during the period:

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 2018	9	50	2,231	(478)	1,812
Recognised in the statement of comprehensive income	(9)	5	(2,231)	(468)	(2,702)
At 31 December 2018	-	55	-	(946)	(891)
Recognised in the statement of comprehensive income	513	21	-	(771)	(237)
At 31 December 2019	513	76	-	(1,717)	(1,128)

Deferred income tax liability was recognised which arose due to different amortisation periods of non-current assets in the financial and tax accounting during 2015-2019 (EUR 1,717 thousand).

The accounting policies and notes on pages 9 to 30 form an integral part of these financial statements.

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Plant and machinery	Vehicles and equipment	Other PP&E	Construction in progress	Total
At 1 January 2018							
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
Year ended 31 December 2018							
Opening net book amount	710	35,075	88,214	3,835	1,870	7,615	137,319
Additions	-	-	3,298	566	542	21,763	26,169
Disposals and write-offs (cost)	-	(19)	(1,634)	(2)	(225)	-	(1,880)
Disposals and write-offs (accumulated depreciation)	-	19	1,623	2	225	-	1,869
Reclassifications	-	6,144	14,998	120	414	(21,676)	-
Depreciation charge	-	(1,971)	(10,716)	(620)	(559)	-	(13,866)
Closing net book amount	710	39,248	95,783	3,901	2,267	7,702	149,611
At 31 December 2018							
Cost	710	80,577	233,176	10,921	6,628	7,702	339,714
Accumulated depreciation	-	(41,329)	(137,393)	(7,020)	(4,361)	-	(190,103)
Net book amount	710	39,248	95,783	3,901	2,267	7,702	149,611
Year ended 31 December 2018							
Opening net book amount	710	39,248	95,783	3,901	2,267	7,702	149,611
Additions	-	-	3,949	111	595	16,455	21,110
Disposals and write-offs (cost)	-	-	(1,919)	(515)	(434)	-	(2,868)
Disposals and write-offs (accumulated depreciation)	-	-	1,919	515	434	-	2,868
Reclassifications	-	2,619	11,087	202	356	(14,264)	-
Depreciation charge	-	(2,117)	(11,511)	(647)	(647)	-	(14,922)
Closing net book amount	710	39,750	99,308	3,567	2,571	9,893	155,799
At 31 December 2019							
Cost	710	83,194	246,294	10,717	7,145	9,893	357,953
Accumulated depreciation	-	(43,444)	(146,986)	(7,150)	(4,574)	-	(202,154)
Net book amount	710	39,750	99,308	3,567	2,571	9,893	155,799

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. Lease payments for the land amounted to EUR 92 thousand in 2019 (2018: EUR 78 thousand), and were recognised as administrative expenses in the statement of comprehensive income. In 2017, the investment project *The Construction of the Unit of Urea Phosphate UP 17:44; Reconstruction of the Third Technical Line of the Unit to the New Technical Line for the Production of NPK Fertilisers; Construction of Warehouses of NPK Fertilisers and KCl Raw Materials* was started. Investments in this project amounted to EUR 23,464 thousand during the period from 2017 to 2019. In 2018, stage 1 (*The Construction of the Unit of Urea Phosphate UP 17:44*) of the investment project was finalised. The production of a new product, that is urea phosphate UP 17:44, was launched. In 2019, stage 2 (*The AC Reconstruction to the Production Line of NPK Fertilisers*) was finalised with the investment amount of EUR 2,540 thousand.

In addition, the Company leased certain items of its property, plant and equipment with the net book value amounting to EUR 210 thousand (2018: EUR 230 thousand). Annual income earned from the lease of these items of assets amounted to EUR 45 thousand (2018: EUR 38 thousand), and depreciation expenses incurred amounted to EUR 11 thousand (2018: EUR 12 thousand). In 2019, capitalised depreciation expenses of the investment projects amounted to EUR 46 thousand (2018: EUR 53 thousand). In 2019, capitalised interest expenses included in the amount of property, plant and equipment amounted to EUR 258 thousand (2018: EUR 209 thousand).

9. INTANGIBLE ASSETS

	Computer software
At 1 January 2018	
Cost	1,710
Accumulated amortisation	(1,351)
Net book amount	359
Year ended 31 December 2018	
Opening net book amount	359
Additions	40
Disposals and write-offs (cost)	(232)
Disposals and write-offs (accumulated depreciation)	232
Amortisation charge	(89)
Closing net book amount	310
At 31 December 2018	
Cost	1,518
Accumulated amortisation	(1,208)
Net book amount	310
Year ended 31 December 2019	
Opening net book amount	310
Additions	48
Disposals and write-offs (cost)	(363)
Disposals and write-offs (accumulated depreciation)	363
Amortisation charge	(68)
Closing net book amount	290
At 31 December 2019	
Cost	1,204
Accumulated amortisation	(914)
Net book amount	290

10. PREPAYMENTS

The balance of non-current amounts receivable comprises prepayments for non-current assets amounting to EUR 1,311 thousand (2018: EUR 2,162 thousand), prepayments for construction in progress amounting to EUR 396 thousand, and prepayments for materials under construction projects in progress amounting to EUR 915 thousand.

11. INVENTORIES

	Finished products	Raw materials and consumables	Work in progress and semi- manufactures	Total
At 31 December 2018				
Cost	15,871	41,062	2,959	59,892
Write-down to net realisable value	-	-	-	-
Net realisable value	15,871	41,062	2,959	59,892

The accounting policies and notes on pages 9 to 30 form an integral part of these financial statements.

At 31 December 2019

Cost	19,955	24,969	1,524	46,448
Write-down to net realisable value	(2,570)	(853)	-	(3,423)
Net realisable value	17,385	24,116	1,524	43,025

As at 31 December 2019, inventory of finished goods stored in the warehouse was written down to net realisable value: values after the adjustment: diammonium phosphate – EUR 7,483 thousand; monocalcium phosphate – EUR 1,460 thousand; ammonium phosphate with sulphur – EUR 3,699 thousand. As at 31 December 2018, inventory of finished goods stored in the warehouse was not written down.

As at 31 December 2019, the cost of raw material inventory stored in the warehouse was restated and measured at the net realisable value. The value of technical sulphur, Kirovsk apatite and phosphorite after the adjustment is equal to EUR 3,233 thousand, EUR 2,484 thousand and EUR 1,966 thousand, respectively. As at 31 December 2018, the value of raw material inventory stored in the warehouse was not restated (there was no impairment).

12. FINANCIAL INSTRUMENTS

(a) Financial instruments by category

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

	Financial assets measured at amortised cost
At 31 December 2019	
Assets as recorded in the statement of financial position	
Trade and other amounts receivable	75,673
Cash and cash equivalents	438
Total	76,111
	Financial liabilities measured at amortised cost
Liabilities as recorded in the statement of financial position	
Trade and other payables	29,923
Short-term loans received	90,003
Total	119,926
	Loans and receivables
At 31 December 2018	
Assets as recorded in the statement of financial position	
Trade and other amounts receivable	44,291
Cash and cash equivalents	289
Total	44,580
	Other financial liabilities
Liabilities as recorded in the statement of financial position	
Trade and other payables	27,114
Short-term loans received	90,145
Total	117,259

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.

The accounting policies and notes on pages 9 to 30 form an integral part of these financial statements.

As at 31 December 2019, the Company's cash balances in bank accounts and short-term deposits held with banks amounted to EUR 438 thousand (2018: EUR 289 thousand). As at 31 December 2019, 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'. Although expected credit losses must be established in relation to cash and cash equivalents, the impairment calculated was immaterial.

As of 1 January 2019, the Company applied a simplified approach for the measurement of expected credit losses, on the basis of which lifetime expected credit losses were calculated in relation to trade receivables. The analysis on the non-recoverability of trade receivables is conducted for the last 3 years in order to determine the general default ratio. As the liabilities of all parties were fulfilled during the last 3 years and the Company does not expect any exacerbation of economic conditions, the expected credit loss coefficients are equal to 0%.

As at 1 January 2019, the Company applied the following loss coefficients in relation to trade receivables:

At 31 December 2019	Not past due	Up to 3 months	Total
Expected loss coefficient	0%	0%	0%
Amounts receivable from related parties before impairment	73,598	-	73,598
Amounts receivable from non-related parties before impairment	2,013	62	2,075
Impairment	-	-	-

At 1 January 2019	Not past due	Up to 3 months	Total
Expected loss coefficient	0%	0%	0%
Amounts receivable from related parties before impairment	42,808	-	42,808
Amounts receivable from non-related parties before impairment	1,456	27	1,483
Impairment	-	-	-

Trade receivables are non-interest bearing and are normally settled over the term of 5 to 60 days.

As at 31 December 2019, the Company's trade receivables not past due amounted to EUR 75,611 thousand (2018: EUR 44,264 thousand). These receivables may be split into the following groups:

Trade receivables not past due	2019	2018
Receivables from related party EuroChem Group AG	839	-
Receivables from related party Agrocentr Eurochem S.R.L.	20	-
Receivables from related party EuroChem Group Trading	15,460	-
Receivables from related party EuroChem Trading GmbH	3	2,123
Receivables from the related party EuroChem Belorechenskie MU	-	120
Receivables from related party EuroChem Agro GmbH	57,276	40,565
Amounts receivable from unrelated customers	2,013	1,456
	75,611	44,264

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 2018 and 2019, 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. TRADE AND OTHER AMOUNTS RECEIVABLE

	2019	2018
Trade receivables, gross	75,673	44,291
VAT receivable	-	-
Prepayments to suppliers	525	4,081
Provision for prepayments to suppliers	-	-
Other amounts receivable	502	677
	76,700	49,049

The accounting policies and notes on pages 9 to 30 form an integral part of these financial statements.

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

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 denominated in USD totalled EUR 18,662 thousand (USD 20,880 thousand) as at 31 December 2019 (2018: EUR 20,292 thousand (USD 23,230 thousand)). Other amounts receivable are denominated in EUR.

14. CASH AND CASH EQUIVALENTS

	2019	2018
Cash at bank	438	289
	438	289

The Company's cash and cash equivalents denominated in USD amounted to EUR 306 thousand as at 31 December 2019 (USD 343 thousand) (2018: EUR 195 thousand (USD 223 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 will expire on 19 March 2021.

15. SHARE CAPITAL

As at 31 December 2019 and 2018, the Company's authorised share capital comprised 21,020,564 ordinary shares with the par value of EUR 2.90 each.

A legal reserve is a compulsory reserve under the Lithuanian legislation. Annual transfers of 5 per cent of net profit are required until the reserve reaches 10 per cent of the share capital. The legal reserve cannot be used for payment of dividends, however, it may be used to cover future losses.

In 2018 and 2019, the Shareholders' Meeting did not pass any decisions on the calculation and payment of dividends.

16. GRANTS

The Company has received a grant of LTL 5,976 thousand (EUR 1,731 thousand) from the EU structural funds to finance the implementation of 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 the 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 247 thousand was recognised in 2019 as compared to the total amount of grants received (2018: EUR 247 thousand) to cover the depreciation expenses of the related property, plant and equipment.

17. TRADE AND OTHER AMOUNTS PAYABLE

	2019	2018
Trade payables	29,923	27,114
Import VAT payable, customs duty	743	980
Other amounts payable and accrued charges	6,673	6,450
Advance amounts received	67	37
Other taxes payable	292	283
Social security contributions	534	677

The accounting policies and notes on pages 9 to 30 form an integral part of these financial statements.

38,232 **35,541**

The Company's trade and other amounts payable denominated in USD totalled EUR 13,770 thousand (USD 15,408 thousand) as at 31 December 2019 (2018: EUR 11,836 thousand (USD 13,557 thousand)).

18. Short-term loans received

- On 24 August 2017, the Company received a loan of EUR 90,000 thousand from EuroChem Group AG according to Agreement No #504-0119519. Interest calculated for 2017-2019 under this agreement amounted to EUR 2,338 thousand. Interest paid amounted to EUR 2,218 thousand. On 22 August 2018, the Company repaid a part of the loan, i.e. EUR 16,000 thousand. The loan was extended until 21 August 2020. Interest rate was set within the range of 1.90%-2.05% in 2019. Interest calculated for 2019 under this agreement amounted to EUR 1,441 thousand. Interest paid amounted to EUR 1,532 thousand. On 23 December 2019, the Company repaid a part of the loan, i.e. EUR 10,860 thousand. **As at 31 December 2019**, current liability under this loan agreement amounted to EUR 63,168 thousand (the amount of the loan totalled EUR 63,140 thousand, interest – EUR 28 thousand).
- On 24 August 2017, the Company received a special purpose loan of EUR 16,000 thousand from EuroChem Group AG according to Agreement No #504-0119522. Interest is capitalised. Interest calculated for 2017-2018 under this agreement amounted to EUR 435 thousand. Interest paid amounted to EUR 409 thousand. The loan was extended until 21 August 2020. Interest rate was set within the range of 1.90%-2.05%. Interest calculated for 2019 under this agreement amounted to EUR 305 thousand. Interest paid amounted to EUR 331 thousand. On 23 December 2019, the loan was repaid (EUR 16,000 thousand).
- On 23 December 2019, the Company received a loan of USD 30,000 thousand from EuroChem MCC according to Agreement No #101-0867705. Interest rate was set at 3.95%. Interest calculated for 2019 amounted to USD 26 thousand. **As at 31 December 2019**, current liability under this loan agreement amounted to EUR 26,834 thousand (USD 30,026 thousand) (the amount of the loan totalled EUR 26,811 thousand, interest – EUR 23 thousand).

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

19. CASH FLOWS FROM OPERATING ACTIVITIES

	2019	2018
Profit/(loss) before tax	20,412	54,919
Depreciation and amortisation (Notes 8, 9)	14,990	13,954
Finance charges	1,769	2,005
Net profit (loss) on disposal of property, plant and equipment, net	(23)	(26)
Foreign exchange gain (loss)	-	-
Changes in working capital:		
– trade and other amounts receivable	(27,651)	(10,301)
– trade and other amounts payable	2,691	(11,005)
– grants	(247)	(247)
– inventories	16,867	(5,991)
Cash flows from operating activities	28,808	43,308

There were no significant non-cash transactions during the years 2018 and 2019.
In the statement of cash flows, proceeds from disposal of property, plant and equipment comprise as follows:

	2019	2018
Gain on disposal of property, plant and equipment (Note 6)	(13)	(70)
	(13)	(70)

The accounting policies and notes on pages 9 to 30 form an integral part of these financial statements.

20. RELATED-PARTY TRANSACTIONS

The Company is controlled by the main shareholder EuroChem Group AG, which owns 100% of the Company's shares.

Other related parties include the EuroChem group entities and the Company's key management.

The following transactions were conducted with related parties:

	<u>2019</u>		<u>2019</u>	
	Sales	Purchases	Sales	Purchases
	(all transactions)	(all transactions)	(excl. reimbursable)	(excl. reimbursable)
EuroChem Trading GmbH	28,793	17,883	27,018	17,306
EuroChem Belorechenskie MU	303	-	303	-
Harvester Shipmanagement Ltd		11,074		11,074
EuroChem Agro GmbH	278,456	16	278,432	2
EuroChem Terminal Sillamae				
Aktsiaselts	-	2	-	2
EuroChem Group AG	28,582	7,427	28,582	1,775
Kovdorsky GOK OAO	6	51,520	-	51,520
Gostinica Uyut OOO	-	1	-	1
NAK Azot OAO	906	3,244	-	2,559
EuroChem Logistics International				
UAB	-	5,960	-	5,960
Agrocentr EuroChem Ukraine DP				
Nevinomyssky Azot OJSC	54	2,797	-	2,019
Fosforit OOO	97	-	-	-
Novomoskovskij Chlor OAO	-	345	-	299
MCC Eurochem OJSC		260		260
Agrocenter EuroChem S.R.L.	94	-	94	-
EuroChem Antwerpen NV	-	12	-	-
	337,291	100,541	334,429	92,777
	<u>2018</u>		<u>2018</u>	
	Sales	Purchases	Sales	Purchases
	(all transactions)	(all transactions)	(excl. reimbursable)	(excl. reimbursable)
EuroChem Trading GmbH	32,600	3,414	31,084	-
EuroChem Trading RUS LLC	231	-	231	-
EuroChem Belorechenskie MU	954	-	954	-
Harvester Shipmanagement Ltd	-	10,625	-	10,625
EuroChem Agro GmbH	324,051	-	324,029	-
EuroChem Northwest JSC	30	-	5	-
EuroChem Group AG	-	2,034	-	2,006
Kovdorsky GOK OAO	78	46,256	18	46,223
Murmansk Bulk Terminal JSC	-	43	-	43
NAK Azot OAO	654	870	-	458
EuroChem Logistics International				
UAB	-	16,685	-	16,680
Agrocentr EuroChem Ukraina DP	-	-	-	-
Nevinomyssky Azot OJSC	43	838	-	661
Fosforit OOO	27	-	27	-
Novomoskovskij Chlor OAO	-	300	-	282
MCC EuroChem OJSC	-	376	-	376
Agrocenter Ukraine				
LLC	672	-	672	-
Agrocenter EuroChem S.R.L.	56	-	56	-
EuroChem Antwerpen NV	-	12	-	-
	359,396	81,453	357,076	77,354

The accounting policies and notes on pages 9 to 30 form an integral part of these financial statements.

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 Trading GmbH, Kovdorskiy GOK, NAK Azot OAO, Nevinomyssky Azot OJSC, Novomoskovskij Chlor OAO), purchase of transportation services (Harvester Shipmanagement Ltd, EuroChem Logistics International UAB, EuroChem Group AG), sales of products (EuroChem Trading GmbH and Agrocentr EuroChem S.R.L, EuroChem Agro GmbH, EuroChem Group Trading, Fosforit OOO), and interest on the loan granted (EuroChem Group AG, MCC EuroChem OJSC), consultation services (MCC EuroChem OJSC).

Year-end balances of transactions with related parties:

	2019		2018	
	Receivables	Payables	Receivables	Payables
EuroChem Group Trading	15,618	-	-	-
EuroChem Trading GmbH	5	2,816	2,483	8
EuroChem Agro GmbH	57,308	14	40,579	-
Kovdorskiy GOK OAO	-	9,701	-	10,478
NAK Azot OAO	123	23	135	151
EuroChem Group AG	839	63,168	-	90,145
EuroChem Logistics International UAB	-	137	-	828
Harvester Shipmanagement Ltd	-	-	-	890
Novomoskovskij Chlor OAO	-	4	-	18
Fosforit OOO	-	-	-	35
MCC EuroChem OJSC	-	26,863	-	25
AgrocenterEurochem S.R.L	21	-	-	-
EuroChem Belorechenskie MU	-	-	120	-
	73,914	102,726	43,317	102,578

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 2019, the Company accounted for employee benefits to key management personnel totalling EUR 1,366 thousand (2018: EUR 1,357 thousand), whereof wages and salaries amounted to EUR 743 thousand (2018: EUR 586 thousand), bonuses amounted to EUR 611 thousand (2018: EUR 448 thousand), and social security contributions amounted to EUR 12 thousand (2018: EUR 323 thousand).

There were no outstanding balances of amounts due to key management personnel as at 31 December 2018 and 2019.

The number of key management personnel was 6 in 2018 and 2019.

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.

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. Phosphogypsum makes up the largest portion of waste produced by the Company. This waste is classified as non-hazardous waste. On 21 December 2018, the terms and conditions of the guarantee issued by SEB Bankas were changed as follows: the amount of the guarantee is equal to EUR 194 thousand and the validity term of the guarantee was extended until 31 December 2020.

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 1,671 thousand as at 31 December 2019 (31 December 2018: EUR 3,073 thousand).

The accounting policies and notes on pages 9 to 30 form an integral part of these financial statements.

Contingent tax liabilities

In 2018, the State Tax Inspectorate carried out a tax audit on the calculation, declaration and payment of value added tax for 2013–2015. The deficiencies identified during the tax audit were eliminated. The Company's management is not aware of any circumstances that might result in a potential material liability in this respect. No full-scope tax audit was conducted in 2019.

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.

	2019	2018
Accumulated emission allowances brought forward from prior years, tons	171,713	795,097
Emission allowances granted during the year, tons	152,808	157,199
Actual emissions, tons	(1,124)	(833)
Emission allowances sold or transferred to third parties during the year, tons	(100,000)	(780,000)
Emission allowances granted with expired term (tons)		-
Emission allowances purchased from third parties during the year, tons	3,220	250
Emission allowances not used and not sold during the previous year that can be carried forward (tons)	226,617	171,713
Market value of emission allowances not used and not sold as at the date of the statement of financial position (EUR thousand)	5,915	4,238
Income from disposal of emission allowances (EUR thousand)	1,900	5,875

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 tons for 2016; 161,642 tons for 2017, 157,199 tons for 2018 and 152,808 tons for 2019 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.

Late in 2019 news first emerged from China about the COVID-19 (Coronavirus). The situation at year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020 the virus had spread globally and its negative impact has gained momentum. While this is still an evolving situation at the time of issuing these financial statements, it appears that the negative impact on global trade and on the Company may be more severe than originally expected. The Company's production volumes, supply, transportation of raw materials depend on the Group's decision, therefore the Company's management is not able to assess the impact. Management is closely monitoring the situation and seeking ways to minimise a possible negative impact on the Company. Management considers this outbreak to be a non-adjusting post balance sheet event.

Annual Report

1. Reporting period

This annual report covers the period from 1 January 2019 to 31 December 2019. All numbers in the annual report are given as of 31 December 2019, unless otherwise stated. In this report Lifosa AB is referred to as the Company.

2. The Company and its contact details

Name	AB Lifosa
Legal status	Legal entity, public limited liability company
The authorised share capital	60 959 635,60 EUR
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
Phone number	(8~347) 66 483
Fax number	(8~347) 66 166
E-mail address	info@lifosa.com
Website address	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, ammonium phosphate with sulfur, monoammonium phosphate MAP 12-61, urea phosphate UP 17-44), 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. Information about trade of company's securities

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.

At the beginning of 2019, many phosphate fertilizer markets recorded a downward trend in prices. A particularly unfavorable situation for phosphate fertilizer producers was in the 2nd half 2019, when the prices of phosphate fertilizers started to fall even more rapidly than in the 1st half 2019. The decline in raw materials was less marked. One of the main factors contributing to the decline in phosphate fertilizer prices was the adverse weather conditions in North America during fall 2019 season. Importers of phosphate fertilizers postponed their purchases in anticipation of a further decline in fertilizer prices. Producers of phosphate fertilizers needed to reduce production volumes, stock up on finished goods or sell at significantly lower prices.

During the reporting period, Company's sales revenue in EUR, compared to 2018, decreased by 3,8% while cost of goods sold increased by 5,3%.

The price of Company's main product, diammonium phosphate, in USD (compared to previous quarter) decreased in 1Q 2019 – 3,1%, 2Q 2019 – 4,2%, 3Q 2019 – 13,3%, 4Q 2019 – 10,9%:

	2018, USD/tons	Change over the quarter, %	2019, USD/tons	Change over the quarter, %
1Q	377,45		410,81	-3,1
2Q	387,51	2,7	393,39	-4,2
3Q	407,76	5,2	341,13	-13,3
4Q	423,74	3,9	304,03	-10,9

The annual average prices in EUR of diammonium phosphate sold by the Company decreased by 4,6% in 2019, monocalcium phosphate prices decreased by 4,1%:

	2018, EUR/tons	2019, EUR/tons	Change, %
Diammonium phosphate	338,40	322,71	-4,6
Monocalcium phosphate	373,08	357,76	-4,1

The consumption price in EUR of phosphate rock in 2019, as compared to the year 2018, increased by 5,3%, the consumption prices of ammonia and sulphur decreased respectively by 10% and 0,1%:

	2018, EUR/tons	2019, EUR/tons	Change, %
Phosphate rock	113,16	119,18	5,3
Ammonia	265,42	238,92	-10,0
Sulphur	106,30	106,21	-0,1

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

It is expected that in 2020 tendencies of phosphate fertilisers market will be influenced by these main supply factors:

1. It is expected that due to coronavirus pandemy production of phosphate fertilisers in China will decrease by 2 million tones in first quarter of 2020. Prominent part of phosphate fertilisers production capacities of China is located in Hubei province which is affected by virus the most. Export of China's phosphate fertilisers may plunge by 0,5 million tones this year;

2. In 2020 Moroccan and Saudi Arabian low cost phosphate production supply may grow by 0,8 million tones. Ma'aden Wa'ad al Shamal Phosphate Company's project kicked off in 2017 is accelerating. In 2020 its production may increase by 0,4 million tones. Moroccan OCP Jorf Lasfar Phosphate Hub producer may increase its production by 0,4 million tones.

The phosphate fertilizer business is cyclic. Phosphate fertilizer prices fluctuate because of economic and natural factors, end user's cyclic 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 fertilizers.

Overproduction may reduce fertilizer sale prices, 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 fertilizer 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 fertilizers 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:

	2017	2018	2019
Sales, '000 EUR	311.989	366.454	352.500
Cost of sales, '000 EUR	284.194	300.472	316.464
Gross profit, '000 EUR	27.795	65.982	36.036
<i>Gross profit margin, %</i>	9	18	10
Operating profit, '000 EUR	8.166	56.715	21.924
<i>Operating profit margin, %</i>	3	15	6
Profit before tax, '000 EUR	8.166	54.919	20.412
<i>Profit before tax margin, %</i>	3	15	6
Net profit, '000 EUR	7.705	47.470	17.976
<i>Net profit margin, %</i>	2	13	5
EBITDA, '000 EUR	21.186	70.617	36.867
<i>EBITDA margin, %</i>	7	19	10
Return on equity (ROE), %	9	37	12
Return on assets (ROA), %	3	18	6
Debt-to-equity ratio	1,89	1,02	0,89
Current liquidity ratio	0,62	0,84	0,94
Quick liquidity ratio	0,26	0,38	0,60
Cash ratio	0,01	0,00	0,00
Earnings per share, EUR	0,37	2,26	0,86
Income per employee, '000 EUR	321	374	355

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

During the year 2019 the Company produced 661 100 tons of diammonium phosphate, i.e. 9,1% less compared to the year 2018 (726 982 tons). In 2019, the production of diammonium phosphate decreased due to the production of 72 842 tonnes of a new alternative product – ammonium phosphate with sulfur. In 2019, the Company produced 30 157 tons of monoammonium phosphate, i.e. 0,7 % less compared to 2018 (30 366 tons). In 2019, the Company produced 18 740 tons of urea phosphate, i.e. 356,4 % more compared to 2018 (4 106 tons). The Company produced 200 610 tons of feed phosphates, i.e. 1,3 % less compared to the year 2018 (203 350 tons). In 2019, the Company produced 15 239 tons of aluminium fluoride, i.e. 16,4 % more compared to 2018 (13 094 tons). In 2019, the Company produced: 1 230 525 tons of sulphuric acid, i.e. 0,1 % less than in 2018 (1 232 355 tons); 466 190 tons of phosphoric acid, i.e. 0,4% more than in 2018 (464 418 tons).

The Company also produces electricity, which is first of all used for own needs, and the remaining amount is sold to other companies. During 2019, The Company produced 223 009 thousand KWh of electricity, i.e. 3,8% less than in 2018 (231 732 thousand kWh).

Sales revenue during the reporting period amounted to 352 500 thousand EUR and decreased by 3,8% compared to the year 2018 (366 454 thousand EUR). Such decrease was mainly driven by smaller sales prices of

diammonium phosphate and feed phosphates. The average price of diammonium phosphate sold by the Company was equal to 322,71 EUR per ton in 2019 and, compared to the average price 338,40 EUR per ton in 2018, decreased by 4.6%. The average price of feed phosphates sold by the Company was equal to 357,76 EUR per ton in 2019 and, compared to the average price 373,08 EUR per ton in 2018, decreased by 4.1%. Revenue from sales of main products (diammonium phosphate, ammonium phosphate with sulfur, monoammonium phosphate, urea phosphate, feed phosphates, aluminium fluoride) amounted to 348 092 thousand EUR (361 850 thousand EUR in 2018). Revenue from sales of diammonium phosphate amounted to 212 493 thousand EUR (254 453 thousand EUR in 2018), i.e. 60,3% of total sales revenue (69,4% in 2018). Revenue from sales of feed phosphates amounted to 72 483 thousand EUR (75 428 thousand EUR in 2018), or 20,6% of total sales revenue (20,6% in 2018). Revenue from sales of aluminium fluoride amounted to 15 625 thousand EUR (15 396 thousand EUR in 2018), or 4,4% of total sales (4,2% in 2018). Revenue from sales of monoammonium phosphate in 2019 amounted to 17 442 thousand EUR (16 573 thousand EUR in 2018), i.e. 4,9% of total sales revenue (4,5% in 2018). Revenue from sales of ammonium phosphate with sulfur and urea phosphate in 2019 amounted to 17 475 thousand EUR (ammonium phosphate with sulfur) and 12 574 thousand EUR (UP 17-44).

Sales of diammonium phosphate, in tons:

	1Q	2Q	3Q	4Q	TOTAL
2019	199.377	120.659	162.039	176.385	658.461
2018	218.819	144.287	196.367	192.454	751.927
Change %, 2019/2018	91,1	83,6	82,5	91,7	87,6

The cost of sales amounted to 316 464 thousand EUR and increased by 5,3% compared to the year 2018 (300 472 thousand EUR). Consumption of raw materials and materials in 2019 amounted to 268 541 thousand EUR (2018 – 253 313 thousand EUR). Raw materials costs in 2019 increased 6% due to:

- 1) Costs for phosphate raw material aimed to produce phosphoric acid increased by 11 507 thousand Eur. (price of phosphate raw material increased by 5,3% from 113,16 EUR per tone in 2018 to 119,18 EUR per tone in 2019);
- 2) Costs for boric acid and zinc sulphate in order to produce a new product consisted of ammonium phosphate with sulphur and microelements increased 3 091 thousands Eur;
- 3) Costs for urea due to increased production of urea phosphate hiked by 2 178 thousands Eur.

In 2019, the main markets for sale of diammonium phosphate fertilizers remained Europe (with the largest sales to France, Germany, Great Britain, Ireland, Spain, Poland, Belgium). Sales in tons to Europe accounted for 99,97% (93,96% in 2018).

In 2019, 202 601 tons of feed phosphates were sold (202 179 tons in 2018). Feed phosphates were mainly sold to Europe: 181 478 tons (or 89,57%) of feed phosphates were sold to Europe (181 159 tons or 89,60% in 2018). In 2019 feed phosphate sales to Mexico amounted to 17 780 tons or 8,8% total sales of feed phosphates. In 2018 feed phosphate sales to USA amounted to 14 000 tons or 6,9% total sales of feed phosphates and 4 200 tons or 2,1% total sales of feed phosphates to Mexico.

In 2019, 27 723 thousand kWh of electricity were sold, i.e. 26,1% less than in 2018 (37 532 thousand kWh).

Investments

In 2019, capital expenditure incurred in relation to property, plant and equipment and intangible assets amounted to 21 158 thousand EUR (26 209 thousand EUR in 2018). The basic investment projects in 2019 were as follows:

Title of the project	Capital expenditure in 2019, in thousands EUR
Reconstruction of ammonium phosphate plant 3rd line into NPK fertilizer production line	5 824
Construction of a phosphoric acid evaporation system	1 793

In 2019 the amortisation deductions amounted to 14 943 thousand EUR (13 902 thousand EUR in 2018).

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 2020, the Company will focus on full exploitation of the available production capacity of sulphuric and phosphoric acids and plans to produce and sell 633 thousand tons diammonium phosphate, 117 thousand tons ammonium phosphate with sulfur, 32 thousand tons monoammonium phosphate MAP 12-61, 25 thousand tons urea phosphate UP 17-44, 178 thousand tons feed phosphates and approx. 14 thousand tons aluminium fluoride. According to the business plan for 2020 prepared by the Company, the average price of the main product, diammonium phosphate, will be ~ USD 317 per ton in 2020 and the Company revenue will reach ~ EUR 306 million in 2020.

The changes in prices of raw materials in 2020 will depend on the trends of prices of phosphate fertilizers: the increased production of phosphate fertilizers 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 fertilizer 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 2019, 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 2019 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 2019, the Company had 1 005 employees. The average age of employees is 47,6 years. During the year 2019, employment relations were terminated with 38 employees. The Company allocated funds for improvement of the professional skills and qualification of its employees. In 2019 training expenses amounted to 50 thousand EUR, and training courses were attended by 362 employees.

Average number of employees on payroll:

	2016	2017	2018	2019
Managers	112	111	112	112
Specialists	76	78	79	82
Workers	762	782	790	800
Total	950	971	981	994

Average monthly salary, in EUR:

	2016	2017	2018	2019*
Managers	2 929	3 029	3 066	4 084
Specialists	2 056	2 174	2 208	2 857
Workers	1 466	1 497	1 544	2 078
Total	1 684	1 727	1 771	2 363

*As of 1 January 2019 changes in the rates of state social insurance contributions paid by the employer and the employee.

Breakdown of employees by educational background:

	2016	2017	2018	2019
Employees with high education	242	263	281	290
Employees with special secondary education	153	148	137	133
Employees with secondary education	532	543	541	546
Other	23	17	22	25
Total	950	971	981	994

Environmental protection

In 2019, 1 020 tons (1 156 tons in 2018) of pollutants were emitted to atmosphere from stationary pollution sources (production facilities). As compared to 2018, the emission of pollutants decreased by 136 tons as a result of decreased production volumes.

In 2019, the emissions of greenhouse gases (CO₂) amounted to 1 124 tons.

Overall 939 thousand m³ of sewage was discharged to the Obelis river, i.e. ~ 1 682 thousand m³ less than in 2018 (dry year, little rainfall). During the year, 322,3 tons of recorded pollutants were discharged with waste water.

During the reporting year, the following waste was handled in the Company's own dumps: phosphogypsum – 2,203 mln. tons, silicogel - 6 369 tons, sulphur sludge - 202 tons, neutralisation sludge (mud) - 1 383 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 2019, the Company paid 174,6 thousand EUR pollution taxes, i.e. 29 thousand EUR less than in 2018 due to decreased production of sulfuric acid.

In all sources, the data for all controlled pollutants did not exceed the annual TIPK allowances limits.

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 (at 31 st of December 2019):

Full name	Position of the Board of the Company	Executive position in other companies	Shareholding and votes represented by shares owned, %
Aleksandras Tugolukovas	Chairman	JSC MCC EuroChem Head of the Fertilizers Division and member of the board of directors	-
Valerijus Sidnevas	Member	JSC MCC EuroChem General Counsel and member of the board of directors	-
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	September 2019
Valerijus Sidnevas	25 April 2016	April 2020
Jonas Dastikas	25 April 2016	April 2020
Regvita Ivanovienė	25 April 2016	April 2020

Chief Executive Officer, Financial director

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

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 2019.

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

08 April 2020