

## EuroChem Reports IFRS Financial Information for Q1 2011

	Q1 2011		Q4 2010		Q-o-Q, %	Q1 2010		Y-o-Y, %
	RUB bn	USD m	RUB bn	USD m		RUB bn	USD m	
Revenue	31.2	1,067	28.1	916	+11.0%	21.6	723	+44.5%
EBITDA	11.6	395	10.6	345	+9.2%	5.3	177	+118.4%
Net profit	11.3	388	8.3	271	+36.3%	4.5	150	+153.9%
Cash from operations	9.7	331	9.0	294	+7.2%	4.9	164	+98.1%
	<b>31 March 2011</b>		<b>31 December 2010</b>			<b>31 March 2010</b>		
Net Debt/ LTM* EBITDA	0.71x		1.13x			2.04x		

Average RUB/USD exchange rate for periods: Q1 2011: 29.27; Q4 2010: 30.71; Q1 2010: 29.89

\* Last Twelve Months

Moscow, Tuesday May 24, 2011 - EuroChem today reported a consolidated IFRS net profit for the three months ended 31 March 2011 of RUB 11.3bn, representing an increase of 154% compared to the first three months of 2010. Revenues for the group increased 44% to RUB 31.2bn, up from RUB 21.6bn in the first quarter of 2010. EBITDA for the first three months of 2011 came in at RUB 11.6bn, more than double the RUB 5.3bn of Q1 2010, mostly on the back of strong pricing across core product segments. EBITDA margin for the period expanded to 37%, compared to 24% in the first three months of 2010.

Fertilizer sales volumes for the first quarter of 2011 were up by 3% year-on-year, and by 5% compared to the previous quarter, as combined Nitrogen and Phosphate sales volumes reached 2,179 thousand tonnes (KT) (excl. iron ore and baddeleyite). During the same period, iron ore and baddeleyite volumes out of Kovdorskiy GOK slightly decreased by 5% to 1,317 KT, compared with 1,387 KT in Q1 2010.

CEO Dmitry Strezhnev commented: "Last year's results confirmed our commitment to the business and 2011 looks poised to further validate our investment strategy. Prices for our products remained strong, as farmers across the world are encouraged by strong price dynamics for key agricultural commodities and act to increase acreage and yields. Last year's positive momentum continued in the first quarter and we expect fertilizer consumption to stay strong going into 2012. We crossed another marker on our road to producing all three primary nutrients when we passed the first aquifer during shaft sinking at our Gremyachinskoe potash deposit. We remain on track to complete sinking within the next 18 months."

EuroChem Group is a top ten agrochemical company globally by nutrient capacity, producing primarily nitrogen and phosphate fertilizers, as well as certain organic synthesis products and iron ore. EuroChem's main manufacturing assets include the Nevinnomysskiy Azot, Novomoskovskiy Azot, Phosphorit, EuroChem – BMU, and Kovdorskiy GOK plants in Russia and the Lifosa plant in Lithuania. The Group is vertically integrated with activities spanning from mining to production logistics and distribution. EuroChem holds licenses to develop potash reserves in Russia which entitle it to an estimated fifth-largest volume of potash reserves globally.

For more detailed commentary and key data, please refer to the text and table below.

Consolidated audited financial information for the three month months ended 31 March 2011 is available at: <http://www.eurochem.ru/investors/financials>.

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## **Market Conditions**

Agricultural commodity prices remained strong in the first quarter of the year, with corn, soybean, and wheat prices increasing 73%, 49%, and 40% respectively over the last twelve months. Fertilizer demand continued to be robust on all markets in the first quarter as high grain prices incentivized farmers to maximize yields and made fertilizers more affordable. The previous year's under-application of phosphate and potash fertilizers further strained demand, while civil unrest and strikes across several important geographies led to certain production shutdowns and shipment delays for phosphate rock and DAP, prompting the market to tighten and pushing prices up. Demand on the potash market remained very strong, with all announced price increases quickly gaining traction and pushing India to the point of contemplating a potash holiday. The combination of depleted fertilizer inventories in the supply chain and no meaningful capacity addition coupled with above-average soft commodity prices provided for a very robust first quarter and continue to underpin the strong fertilizer market outlook for the rest of 2011.

During Q1 2011, the average market price for prilled urea (FOB Yuzhny) was USD 352/tonne, just slightly lower than the USD 359 in the fourth quarter of 2010, while AN (FOB Black Sea) averaged 8% higher than the previous quarter at USD 299/tonne.

Phosphate fertilizer prices continued their upward climb, with DAP (FOB Baltic Sea) averaging USD 587/tonne in Q1 2011, up 5% quarter-on-quarter and 31% over Q1 2010. Contract prices for potash fertilizers gradually increased with MOP averaging USD 325/tonne (FOB Baltic Sea) in the first quarter of 2011, while spot prices were higher, averaging USD 380-390/tonne during the same period.

## BUSINESS SEGMENTS

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*Segment revenues (both volume and value) are shown gross and inclusive of intra-segment sales.*

### **Nitrogen segment**

Sales volumes for the Company's Nitrogen segment decreased slightly from 1,541 KMT in the first quarter of 2010 to 1,510 KMT in the first quarter of 2011. Reflecting the company's strategy to process all ammonia produced, urea sales increased from 418 KT in the first quarter of 2010, to 518 KT in the first quarter of 2011. The ramp-up of Novomoskovskiy's CAN facility continued with sales increasing from 23 KT in the first quarter of 2010 to 78 KT in the first quarter of 2011.

Substantial price increases across key Nitrogen segments coupled with improvements in product mix increased Nitrogen revenues by 26% year-on-year to RUB 15.2bn in the first three months of 2011. For the first quarter of 2011, Nitrogen EBITDA came in at RUB 6.0bn, representing a year-on-year growth of 61%. When compared to the previous quarter, first quarter 2011 Nitrogen revenues and EBITDA rose by 6% and 12%, respectively.

Following the latest planned increase in Russian gas prices effective 1 January 2011, first quarter 2011 average gas prices at EuroChem's Novomoskovskiy Azot and Nevinnomyskiy Azot nitrogen facilities were RUB 3,180 and 3,340 per 1,000m<sup>3</sup> respectively (c. US\$ 3.38 and 3.55/mmBtu), compared to RUB 2,741 and 2,887/1,000m<sup>3</sup> (c. US\$ 2.85 and 3.01/mmBtu) in the first three months of 2010. Despite increasing natural gas prices, EuroChem nitrogen facilities continued to purchase natural gas below the levels paid by Ukrainian, European and US peers. Initiatives targeted at enhancing production efficiency and broadening product mix with such higher-value added products as CAN, melamine, low density ammonium nitrate (LDAN) continue to be carried out to ensure the Company's favorable position on the cost curve. Additionally, potential investments in own natural gas production were actively explored.

### **Phosphate segment**

Sales volumes for the Phosphate segment continued to benefit from a depleted supply chain and additional production start-up delays and grew to 669 KT in the first quarter, which represents increases of 15% and 32% over the first and fourth quarters of 2010, respectively. A 17% quarter-on-quarter drop in iron ore volumes mainly due to lower Fe ore content was largely offset by the strong performance in MAP and DAP. Sales volumes for MAP and DAP registered a 42% q-o-q jump in the first quarter of 2011 to reach 539 KT, which is 14% higher than in the first quarter of 2010.

On the back of very strong pricing, first quarter 2011 revenues for the Phosphate segment increased 66% compared to the first quarter of 2010 and amounted to RUB 15.3bn. Phosphate segment EBITDA in the first quarter of 2011 came in at RUB 5.7bn, an increase of 229% compared to RUB 1.7bn in 2010.

Raw material mining co-products, which include iron ore and baddeleyite contributed RUB 2.2bn or 39% of the Phosphate segment EBITDA.

### **Potash segment**

EuroChem continued to move ahead with its two potash development projects. Both the cage shaft and skip shaft sinking operations at the Gremyachinskoe deposit (Volgograd) remain on schedule and to budget. Having now successfully passed the first sizeable aquifer, the sinking speed has accelerated to approximately 2 meters per day. Above ground, the construction of the beneficiation plant and worker housing facilities are moving ahead, with equipment coming in for the former and the latter expected to receive its first residents by the end of May. As previously announced in mid-March, EuroChem

commissioned an 11.5 km railway line to connect the potash mine and beneficiation plant to the main rail line. The completion of the first phase of the project and the start of production of potash remain on course for late 2013.

The phase I of the development of sections of the Verkhnekamskoe deposit has been brought forward and preparatory groundwork is currently being carried out. Initial ground freezing operations are due to start this July.

An aggregate amount of RUB 1.5bn in capex was spent on the Gremyachinskoe and Verkhnekamskoe deposits in the first three months of 2011.

## **Distribution segment**

EuroChem's distribution and sales outlets registered a 66% increase in sales in the first quarter of 2011 compared to Q1 2010 as sales reached RUB 4.1bn or 13% of EuroChem's overall sales for Q1 2011. The Distribution segment EBITDA for the first three months of 2011 amounted to RUB 280m, compared to RUB 168m for the same period a year earlier.

## **FINANCIAL**

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### **Income statement**

As a result of the strong pricing observed across all segments, EuroChem consolidated revenues for the first quarter of 2011 increased to RUB 31.2bn, a 44% improvement over the RUB 21.6bn in the first quarter of 2010. Prices for phosphate fertilizers were especially strong in the first quarter. EuroChem's Phosphate segment also includes iron ore, a co-product of its apatite mining operations. With Chinese demand keeping iron ore prices propped up, iron ore sales volumes added RUB 4.3bn and RUB 2.2bn to consolidated revenues and EBITDA in Q1 2011, respectively.

Cost of sales rose 21% in the first three months of 2011 to RUB 15bn compared to RUB 13bn in the first three months of 2010. The increase in costs, mostly related to increases in energy and raw materials, remained much less pronounced than the 44% increase in revenues registered over the same period. Materials and components used or resold increased 36% to RUB 9bn and accounted for 58% of costs of sales. Overall gas costs for fertilizer production increased by 18% to RUB 3.6bn, or by 16% due to increased prices and by 2% due to increased volumes.

Energy costs increased by 29% to RUB 1.9bn in the first three months of 2011 from RUB 1.4bn in Q1 2010. This was primarily due to increases in energy tariffs and the additional downstream processing of ammonia as urea, MAP, and CAN production increased by 32%, 25%, and 201%, respectively over the same period.

Labour costs, including contributions to social funds, represented 13% of cost of sales in the first quarter of 2011. These amounted to RUB 2bn in the first quarter of 2011, a 13% decrease to the RUB 2.2bn reported a year earlier. This decrease mainly stems from the base effect due to one-time compensation carried out in Q1 2010.

Distribution costs were flat at RUB 3.6bn in the first quarter of 2011. The main component of the distribution costs is transportation, which decreased slightly by 2% to make up 84% of these costs.

General and administrative (G&A) expenses increased 26% in the first quarter of 2011 and amounted to RUB 1.2bn, up from RUB 0.9bn in the first three months of 2010. G&A labor costs, which accounted for 56% of G&A expenses, increased 18% year-on-year to RUB 657m. This increase was mainly due to the increase in social taxes and a salary review effective 1 January 2011, as well as minor increases in

administrative personnel mainly associated with potash projects. In the first quarter of 2011, total Group staff costs (including social expenses) amounted to RUB 2.9bn compared to RUB 3.0bn for the three months ended 31 March, 2010.

EuroChem's other operating expenses in the first three months of 2011 amounted to RUB 596m, compared to other operating income of RUB 99m in the first quarter of 2010. The main components behind this change were operating foreign exchange losses of RUB 542m compared to gains of RUB 131m the previous year due to the effects of appreciating RUB exchange rate on USD-denominated revenues and cash in current accounts of the Group.

Below the operating profit line, EuroChem recognized a gain of RUB 162m on the sale of 200,000 ordinary shares of K+S Group in February 2011 for RUB 457m. EuroChem recorded an unrealized financial foreign exchange gain of RUB 2.2bn in the first quarter of 2011, compared to a gain of RUB 1.4bn in Q1 2010 mainly from the effects of appreciation of the RUB versus the USD on the financial debt of the Group.

Interest expenses increased 43% year-on-year as the company secured several new facilities between the first quarter of 2010 and the first quarter of 2011. Other financial income of RUB 1.5bn was realized on changes in the fair value of USD/RUB non-deliverable forward contracts and changes in the fair value of cross currency interest rate swap in amounts of RUB 670m and RUB 696m, respectively.

## **Balance sheet**

In the first quarter of 2011, net working capital decreased slightly from RUB 11.8bn in Q1 2010 to RUB 11.4bn.

EuroChem uses fixed rate and floating rate debt to finance its operations. As a reminder, over the course of 2010, it obtained several new facilities. In March 2010 the company signed a 10-year USD 261m ECA-backed facility for construction of the Gremyachinskoe mine cage shaft. This particular transaction was recognized as "Deal of the Year" by Euromoney Trade Finance in March 2011. During the third quarter, the Company signed a USD 250m 5-year credit line agreement, a 13-year, EUR 36.7m ECA-backed facility for the purchase of the hoisting equipment for the Gremyachinskoe potash mine. Fixed rate debt is comprised of rouble bonds and Eurobonds. EuroChem placed two domestic bond issues of RUB 5bn each in July and December 2010, both due in 2018, with a 5-year put option and coupon of 8.9% p.a. and 8.25%p.a., respectively, and has USD 290m Eurobonds, placed in 2007 and maturing March 2012 with a 7.88% p.a. coupon.

At 31 March 2011, EuroChem held 16,456,595 shares, or 8.598% of the issued share capital of the German potash and salt producer K+S Group with a fair value of RUB 35bn according to the March 31, 2011, closing price of Euro 53.27 per share.

The net debt to EBITDA ratio for the first quarter of 2011 declined further to reach 0.71x compared to 2.04x at the end of the first quarter 2010.

### *Cash flow*

Operating cash flow for the first three months of 2011 was RUB 9.7bn, compared to RUB 4.9bn for the same period a year earlier. The increase was primarily due to operating profit more than doubling. Free cash flow amounted to RUB 6.8bn compared to RUB 2.4bn in Q1 2010.

### *Events after the reporting period*

In April 2011 the Group bought back 2,637,131 of its own ordinary shares, or 3.88% of the issued share capital, from EuroChem Group S.E. for USD 400 million paid in cash. Additionally, in April 2011 EuroChem CEO Dmitry Strezhnev increased his beneficial ownership in EuroChem from 5.0% to 7.8%.

## **OUTLOOK**

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While prices for key agricultural commodities may at any time temporarily come under pressure from a pull-back by financial interests, we believe that current global stock-to-use ratios in major grains would remain below their long-term averages by the end of the year. This is likely to keep stimulating farmers to invest in maximizing crop output and motivate fertilizer application. New capacity additions in nitrogen in the MENA region, as well as the opening up of the Chinese export window on 1 July should add to supply and may exert pressure on nitrogen prices, which we would view as temporary as new volumes are expected to be absorbed by the market without difficulties. In phosphates, commercial volumes from the Ma'aden project are not expected to affect the market prior to 2012.

*This EuroChem publication contains forward looking statements concerning future events, these statements are based on current EuroChem information and assumptions concerning known and unknown risks and uncertainties*

KEY FINANCIAL AND NON-FINANCIAL DATA	QUARTERLY					12 MONTHS ENDED DECEMBER 31	
	(RUB m)	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	2010
<b>Revenues</b>	<b>31 219</b>	<b>28 137</b>	<b>24 261</b>	<b>23 780</b>	<b>21 609</b>	<b>97 788</b>	<b>73 577</b>
Nitrogen (including sales to other segments)	15 191	14 315	9 882	10 969	12 056	47 222	39 577
Phosphates (including sales to other segments)	15 336	12 782	13 871	12 623	9 226	48 502	31 124
Other (including sales to other segments)	7 881	8 562	7 437	6 576	5 924	28 499	20 484
Reconciliation	-7 189	-7 523	-6 929	-6 388	-5 596	-26 435	-17 608
Including: revenues from exports to non-CIS markets	17 617	19 113	15 482	15 161	12 436	62 193	49 948
Including: revenues from exports to CIS markets	5 131	2 655	3 394	3 311	3 207	12 567	9 032
<b>Cost of sales</b>	<b>-15 356</b>	<b>-13 266</b>	<b>-12 413</b>	<b>-11 800</b>	<b>-12 727</b>	<b>-50 206</b>	<b>-42 884</b>
Including gas and energy	-5 459	-4 621	-4 308	-4 198	-4 505	-17 631	-13 870
Including other materials and components	-5 409	-4 821	-4 091	-3 875	-3 558	-16 345	-12 639
Including labour costs	-1 950	-1 724	-1 672	-1 644	-2 229	-7 269	-6 362
Including changes in work in progress and finished goods	230	761	-134	95	-137	585	-2 065
<b>Gross profit</b>	<b>15 863</b>	<b>14 871</b>	<b>11 849</b>	<b>11 980</b>	<b>8 883</b>	<b>47 582</b>	<b>30 693</b>
<i>Gross profit margin, %</i>	<i>51%</i>	<i>53%</i>	<i>49%</i>	<i>50%</i>	<i>41%</i>	<i>49%</i>	<i>42%</i>
Distribution costs	-3 627	-4 641	-4 740	-4 792	-3 611	-17 785	-16 944
G&A expenses	-1 172	-971	-926	-926	-932	-3 754	-3 261
Other operating income / expense, net	-596	250	-779	413	99	-17	225
<b>Operating profit</b>	<b>10 468</b>	<b>9 509</b>	<b>5 403</b>	<b>6 675</b>	<b>4 439</b>	<b>26 026</b>	<b>10 712</b>
<i>Operating profit margin, %</i>	<i>34%</i>	<i>34%</i>	<i>22%</i>	<i>28%</i>	<i>21%</i>	<i>27%</i>	<i>15%</i>
Financial foreign exchange gains / (losses)	2 180	-239	984	-2 531	1 396	-390	749
Financial income and expense, net	1 094	865	-517	-727	-246	-625	2 243
<b>Pre-tax profit</b>	<b>13 742</b>	<b>10 135</b>	<b>5 870</b>	<b>3 417</b>	<b>5 590</b>	<b>25 011</b>	<b>13 705</b>
Taxation	-2 394	-1 811	-1 099	-929	-1 120	-4 959	-2 629
<b>Net profit after tax</b>	<b>11 348</b>	<b>8 324</b>	<b>4 771</b>	<b>2 488</b>	<b>4 470</b>	<b>20 052</b>	<b>11 075</b>
<i>Net profit margin, %</i>	<i>36%</i>	<i>30%</i>	<i>20%</i>	<i>10%</i>	<i>21%</i>	<i>21%</i>	<i>15%</i>
Operating profit before depreciation and amortisation	11 522	10 479	6 281	7 511	5 221	29 492	13 689
<b>EBITDA</b>	<b>11 555</b>	<b>10 581</b>	<b>6 347</b>	<b>7 717</b>	<b>5 292</b>	<b>29 937</b>	<b>16 516</b>
<i>EBITDA margin, %</i>	<i>37%</i>	<i>38%</i>	<i>26%</i>	<i>32%</i>	<i>24%</i>	<i>31%</i>	<i>22%</i>
Dividends declared in the period	-	4 236	1 598	-	-	5 834	-
Total equity	103 251	94 505	84 014	73 013	77 577	94 505	73 195
Non-current assets	120 227	120 435	110 931	98 264	101 675	120 435	99 662
Capital expenditure on PP&E and intangible assets	3 854	6 877	6 323	4 269	2 994	20 464	18 702
Net debt (borrowings less cash)	25 773	33 893	35 895	34 677	33 406	33 893	36 545
Net Working capital	11 436	10 758	11 474	12 328	11 781	10 758	12 481
Finished goods, days	27	28	25	25	26	28	28
Trade accounts receivable, days	12	10	15	16	15	10	11
Accounts payable, days	17	16	14	13	12	16	12
Gross cash flow	10 362	8 980	5 227	6 441	4 299	24 947	12 916
Other cash from operations	-674	58	795	-197	592	1 247	4 623
<b>Cash flows from operating activities</b>	<b>9 688</b>	<b>9 038</b>	<b>6 022</b>	<b>6 244</b>	<b>4 890</b>	<b>26 194</b>	<b>17 539</b>
Cash flows from investing activities	-2 912	-1 266	-6 381	-4 121	-2 563	-14 331	-27 045
<b>Free cash flow</b>	<b>6 777</b>	<b>7 772</b>	<b>-359</b>	<b>2 123</b>	<b>2 327</b>	<b>11 863</b>	<b>-9 507</b>
Cash flows from financing activities	-3 049	-4 961	-98	-3 056	-5 227	-13 342	-7 876
Effect of exchange rates	-371	-36	79	28	-371	-300	1 834
<b>Net decrease / increase in cash and cash equivalents</b>	<b>3 356</b>	<b>2 775</b>	<b>-377</b>	<b>-906</b>	<b>-3 271</b>	<b>-1 780</b>	<b>-15 549</b>

KEY FINANCIAL AND NON-FINANCIAL DATA	QUARTERLY					12 MONTHS ENDED DECEMBER 31	
	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	2010	2009
<b>Sales volumes, including sales to other segments (thousand tonnes)</b>							
Nitrogen							
Ammonia	61	85	133	135	168	521	643
Urea	518	525	354	411	418	1 709	1 512
AN	458	457	375	382	496	1 710	1 830
UAN	183	217	117	147	199	680	665
Complex fertilizers	96	107	99	129	121	456	341
CAN	78	61	28	28	23	140	16
Organic synthesis products	115	107	103	128	117	455	369
Phosphates							
MAP, DAP	539	379	534	463	474	1 849	1 668
Complex fertilizers	0	2	15	4	2	23	18
NP	24	9	24	41	13	87	52
Feed phosphates	56	64	65	57	50	236	163
Apatite	51	52	51	73	44	219	215
Mineral raw materials							
Iron ore	1 315	1 579	1 549	1 603	1 385	6 116	5 579
Baddeleyite	2	3	1	2	2	8	5
<b>Permanent employees</b>	<b>20 349</b>	<b>19 614</b>	<b>19 469</b>	<b>19 214</b>	<b>19 224</b>	<b>19 614</b>	<b>20 034</b>
Production	9 606	9 348	9 288	9 171	9 255	9 348	10 926
Service	7 536	7 349	7 187	7 087	7 018	7 349	5 803
Logistics	1 239	1 008	1 093	1 070	1 050	1 008	1 093
Sales, admin and other	1 968	1 909	1 901	1 886	1 901	1 909	2 212
Average RUB / USD exchange rate for the period	29,27	30,71	30,62	30,24	29,89	30,37	31,72
End of period RUB / USD exchange rate	28,43	30,48	30,40	31,20	29,36	30,48	30,24