EUROCHEM

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EuroChem Reports IFRS Financial Information for 2011

	Q4 2011		Q4 2010		Chng	2011		2010		Chng
	RUB bn	USD m	RUB bn	USD m	Y-o-Y, %	RUB bn	USD m	RUB bn	USD m	Y-o-Y, %
Revenue	**33.0**	1,058	28.1	916	*+17%*	**131.3**	4,468	97.8	3,220	*+34%*
EBITDA	**12.6**	403	10.6	345	*+19%*	**49.7**	1,690	29.9	986	*+66%*
Net profit	**7.8**	248	8.3	271	*-7%*	**32.0**	1,090	20.1	660	*+60%*
Cash from operations	**8.1**	261	9.0	294	*-10%*	**36.0**	1,226	26.2	862	*+38%*

	31 December 2011	31 December 2010
Net Debt/ LTM* EBITDA	1.35x	1.13x

Average RUB/USD exchange rate for the period: Q4 2011: 31.23; Q4 2010: 30.71; 2011: 29.39; 2010: 30.37
* Last Twelve Months

Moscow, February 14, 2012 - EuroChem today reported a consolidated IFRS net profit for the year ended 31 December 2011 of RUB 32.0bn, representing a 60% increase on the RUB 20.1bn reported in 2010. Revenues for the year amounted to RUB 131.3bn, surpassing by more than a third the RUB 97.8bn achieved a year earlier. During the same period, earnings before interest, taxes, depreciation, and amortization (EBITDA) amounted to RUB 49.7bn, which represented a 66% increase over the previous year's RUB 29.9bn.EBITDA margin for 2011 was 38%, an improvement of 7 percentage points on the 2010 EBITDA margin.

Combined Nitrogen and Phosphate fertilizer sales volumes, excluding iron ore and baddeleyite, were practically unchanged from the high levels of 2010, declining just 1% to 8,034 thousand tonnes (KT) compared to the 8,086 KT sold in the prior year. The share of higher-margin products increased, however, and contributed to higher profitability, for example, sales of granulated urea, which enjoyed an average of USD 18/tonne premium over prilled product, rose 32% to 919 KT. Lower mining production volumes due to the need to process ore with lower Fe content brought a slightly more pronounced contraction to iron ore and baddeleyite sales volumes, the former decreasing 11% to 5,468 KT, compared to 6,116 KT in 2010.

Commenting on EuroChem's 2011 performance, CEO Dmitry Strezhnev said: "We celebrated our tenth anniversary with near-record financial results. In a period marked by credit fears and macroeconomic uncertainty, the unique fundamentals of our industry once again stood out as a reminder of the crucial role our products play. As we proceed with the integration of newly acquired assets and move further down the path to potash, we are now strategically positioned for unparalleled value creation and growth."

2011 Market Conditions

Agricultural commodity prices enjoyed a robust run in the first half of the year before succumbing to the global macroeconomic concerns and the European and US debt issues. Resisting the second half of the year's heightened market volatility, average grain prices remained at levels encouraging farmers to increase output per acre through higher fertilization and land use. Despite having come under pressure from September, average corn, soybean, and wheat prices finished the year 60%, 26%, and 23% higher in 2011 than in the previous twelve months, respectively. The delays in capacity additions and restricted Chinese nitrogen and phosphate exports provided for a strong backdrop to the start to the year. Later in the year, as global macro fears caught up with the fertilizer sector amid its seasonal slowdown, anxious traders and distributors took a very cautious stance towards the accumulation of inventory. Nevertheless, in spite of the abrupt fourth quarter shift, both fertilizer and soft commodity prices managed to regain some traction before the year end. Iron ore had a similar year, boosted by Chinese demand throughout the first nine months of the year, prices went on to suffer a sharp correction in October before bouncing back and stabilizing at more sustainable levels.

The fourth quarter caution that swept across the fertilizer markets peaked in December with urea (FOB Yuzhniy) and DAP (FOB Baltics) finishing more than 35% and13% respectively below their September highs. Nevertheless, average prices for 2011 remained very strong compared to the previous year. In nitrogen, prilled urea (FOB Yuzhny) displayed a robust 48% year-on-year increase to USD 425/tonne, while ammonium nitrate (FOB Black Sea) averaged 35% higher than the previous year at USD 311/tonne. On the phosphates side, DAP (FOB Baltic Sea) averaged USD 633/tonne in 2011, up 31% year-on-year. Although the potash market grew quieter as the year advanced, average prices for contract and spot material reflected the strong first half pricing momentum with MOP (FOB Baltic Sea) and MOP spot prices averaging USD 381/tonne and 445/tonne respectively versus USD 298/tonne and 344/tonne the previous year. Iron ore spot prices averaged USD 175/tonne (63.5%Fe, China CFR) in 2011, as compared to USD 152/tonne in 2010.

According to our estimates, nitrogen and phosphate fertilizer production in Russia in 2011 increased 4.6% and 3.3% respectively to 11,161 KT of nutrients (2010: 10,708 KT), comprising 7,920 KT of nitrogen fertilizers and 3,241 KT of phosphate fertilizers. We believe we had a 25% nitrogen market share and a 20% phosphates market share in Russia in 2011.

BUSINESS SEGMENTS

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

Nitrogen segment

For the twelve months ended 31 December 2011, sales volumes for our Nitrogen segment amounted to 5,647 KT, which was broadly in line with the 5,671 KT recorded in 2010. The slight slip in 2011 sales volumes appeared as a result of the abrupt market pullback observed in the fourth quarter of the year. Urea and CAN registered the strongest year-on-year growths by increasing 12% and 37%, respectively, while ammonia and complex fertilizer products retreated 54% and 12% respectively. As mentioned above, higher-margin granulated urea sales rose 32% to 919 KT.

The positive shifts in the structure of sales coupled with a robust pricing environment largely compensated for the stable sales volumes as revenues for the Nitrogen segment rose by 34% to RUB 63.1bn. Nitrogen segment EBITDA swelled 88% to RUB 25.5bn as compared to 2010.

Taking advantage of record low freight rates, we pushed product to secure our position in offshore markets. Revenues from Asia and Latin America surged 98% and 91% respectively and accounted for a combined 37% of Nitrogen revenues (2010: 25%), while Russia and the CIS represented 33% of sales (2010: 36%).

Following the 15% rise effective 1 January 2011, average natural gas prices for 2011 at our Novomoskovskiy Azot and Nevinnomysskiy Azot nitrogen fertilizer facilities were RUB 3,179 and 3,330per 1,000m^3 respectively (c. USD 3.37 and 3.53/mmBtu), compared to RUB 2,753 and 2,920/1,000m^3 (c. USD 2.80 and 2.97/mmBtu) in 2010. The prices paid at our facilities compared with 2011 averages of USD 4.01/mmBtu in the US (Henry Hub), USD 9.53/mmBtu in Europe (spot), and an estimated USD 10.70/mmBtu for Ukrainian producers (delivered to plant). As announced on 20 January 2012, we completed the acquisition of natural gas assets in Western Siberia with sufficient existing capacity to cover up to a quarter of our annual needs in natural gas in an attempt to counter the effects of Russia’s rising natural gas price. Our partial back integration into natural gas production should, over time, boost our ammonia gas efficiency and support our cost advantages.

Phosphate segment

Our Phosphate segment, which includes iron ore and baddeleyite, saw a mixed performance by various product lines. While NP fertilizers increased 32%, iron ore sales were 11% lower year-on-year on lower production caused by the need to process ore with lower Fe content. MAP, DAP, and feed phosphates inched up 1% and amounted to 2,106 KT versus 2,085 KT in the previous year.

As in the Nitrogen segment, the overall strong pricing environment which characterized the better part of the year pushed Phosphate segment revenues to RUB 63.9bn. MAP and DAP, our top selling products in phosphates, accounted for 51% of Phosphate revenues in 2011. The32% increase in revenues pushed segment EBITDA to RUB 24.0bn, a 43% increase on the previous year.

Iron ore and baddeleyite, the two co-products of our phosphate rock mining activity, together accounted for 37% and 55% of 2011 Phosphate segment revenues and EBITDA, respectively (2010: 32% and 45%).

The Phosphate segment sales geography was slightly reshaped in 2011 as shipments to Asia increased 47% to represent 32% of the segment’s revenues (2010: 29%). Sales to Africa trebled as our sales team won a key Ethiopian tender in the fourth quarter. On the other side of the scale, phosphate sales to Latin America slid 39% in favor of deliveries to India. Combined, these three markets accounted for 41% of 2011 Phosphate segment sales (2010: 43%), while Russia and the CIS remained stable at 35%.

Potash segment

Our investments in potash came to a total of RUB 10.6bn in 2011, of which RUB 8.4bn and RUB 2.1bn were invested at the Gremyachinskoe and Verkhnekamskoe projects, respectively. The Gremyachinskoe investments primarily targeted shaft sinking operations and the construction of the beneficiation plant. Expenditures at Verkhnekamskoe mainly covered the drilling and freezing of the shafts and the construction of temporary buildings and structures necessary for the active sinking phase. As of December 31, 2011, we had already committed an aggregate RUB 35.6bn to our potash segment.

Gremyachinskoe deposit (Volgograd)

Sinking operations at the Volga-Kaliy skip shaft #1 had reached a depth of 400 meters by December 31, 2011. The sinking of the 1,147 meter deep shaft is being performed using a traditional freezing methodology and remains on track to be completed in the fourth quarter of 2012. As at February 8, the shaft had reached a depth of 455 meters.

As announced in late December, due to considerably slow sinking progress at the cage shaft, the cementation process was halted in favor of freezing technology. As a result, sinking operations at the cage shaft have been temporarily suspended and are set to resume in the second quarter of 2013. At the same time, a decision was taken to move ahead with our phase 2 underground expansion plans consisting of a second skip shaft. While we now expect to reach full extraction capacity 12 months ahead of our initial schedule, the delay incurred during the first phase of the project provides an initial production of approximately 150 thousand tonnes of potash projected in 2014, roughly a year later than previously expected. Regardless of the phase 1 delay or the acceleration of phase 2, we do not anticipate any material changes to our total planned capital expenditures.

Verkhnekamskoe deposit (Perm)

Skip shaft #1 sinking operations at the Verkhnekamskoe deposit commenced December 15 and had reached a depth of 84 meters as of February 8, 2012. On average, the shaft has been sinking at a rate of 1.5 meters per day. In contrast to the Gremyachinskoe deposit, the Verkhnekamskoe potash layer sits approximately 500 meters below ground. Ground freezing operations around the cage shaft are being completed and we expect shaft sinking to begin in the second quarter of 2012.

Distribution segment

We saw robust growth in our distribution segment which focuses on delivering fertilizers and other agrochemical products to farmers in southern Russia, the Black Earth Region, and in the Ukraine. Segment sales grew 64% to RUB 13.97bn in 2011 compared to RUB 8.54bn in 2010. Distribution segment EBITDA increased 74% to RUB 853m. Our fertilizer outlets recorded a 21% year-on-year increase as sales volumes reached 1,154 KT.

FINANCIAL

Income statement

The favourable shifts in the production structure and the strong product pricing environment prevailing throughout most of the year boosted our consolidated revenues 34% to RUB 131.3bn, a new Company record. The Group’s EBITDA margin grew 7 percentage points to 38% on full year EBITDA of RUB 49.7bn.

Sales outside Russia grew 34% in 2011 and accounted for 76% of total Group sales. Within the context of a weakening Russian rouble, this increase in non rouble-denominated sales further encouraged our results. Full year sales outside Russia, accounted for 75% and 78% of the Nitrogen and Phosphate segments respectively. Sales of iron ore and baddeleyite, which are both co-products of our phosphate rock mining operations at Kovdorskiy GOK, generated 26% of the Group’s EBITDA in 2011 (2010: 25%).

As in 2010, the year-on-year revenue growth achieved in 2011 outpaced the rate of increase in costs of sales. Costs of sales increased 27% to RUB 63.6bn in 2011 compared to RUB 50.2bn the previous year. Materials and components used or resold increased 43% to RUB 40.6bn and represented 61% of 2011 costs of sales. During the same period, gas costs for fertilizer production increased by 13% to RUB 13.6bn, mainly in line with the annual domestic gas price increase in Russia.

Energy costs increased from RUB 5.6bn in 2010 to RUB 6.7bn in 2011. This 19% year-on-year growth was mainly brought on by the liberalization of the Russian wholesale electricity market from January 2011.

Partially as a result of salary indexation from January, labour costs increased 11% in 2011 and totaled RUB 8.1bn as compared to RUB 7.3bn the previous year. Despite this increase, labour costs registered a two percentage point drop within the cost structure and accounted for 12% of cost of sales in 2011.

Compared to 2010, total distribution costs increased by RUB 1.2bn or 7% to reach RUB 19.0bn as compared to RUB 17.8bn in 2010. Transportation costs remained the main component of distribution costs and accounted for 84% of these expenses in 2011 compared to 87% the previous year. Despite the year's lower iron ore sales volumes and the oversupply situation on the freight market, slightly higher fertilizer sales volumes for some products coupled with longer average shipping distances nudged transportation costs up 3% to RUB 15.8bn.

General and administrative (G&A) expenses were 24% higher in 2011 at RUB 4.7bn, as compared to the RUB 3.8bn of the previous year. G&A labour costs, which went from representing 56% to 52% of G&A expenses, rose 16% year-on-year to RUB 2.4bn. The increase was spurred by a combination of salary indexation and increased personnel intake for the development of our potash deposits. Other expenses grew 42% in part due to increases in property tax expenses which stemmed from the addition of fixed assets.

Other operating expenses were higher in 2011 and amounted to RUB 191m, as compared to RUB 17m in 2010. Behind these expenses were operating (i.e. those not resulting from financial activities) foreign exchange losses of RUB 200m from the depreciation of the US dollar against the Russian rouble in 2011 versus gains of RUB 208m the previous year on strong US dollar appreciation.

Below the operating profit line, we received RUB 614m in gross dividend income from shares in the German potash producer K+S Aktiengesellschaft (K+S), as compared to RUB 148m in 2010. EuroChem recorded an unrealized financial foreign exchange loss of RUB 3.8bn in 2011, compared to a loss of RUB 390m in 2010 mainly due to the accounting effect of the rouble exchange rate depreciation on the Group's predominantly US dollar-denominated debt.

Interest expense grew 51% to RUB 3.1bn in 2011 compared with RUB 2.1bn a year earlier as the Company secured a series of new long-term facilities in the second half of the year. Other financial income of RUB 1.0bn was mainly recognized on USD/RUB non-deliverable forward contracts and changes in the fair value of sold call options on shares of K+S in amounts of RUB 574m and RUB 550m, respectively.

Balance sheet

Net working capital increased to RUB 17.0bn in 2011 as compared to RUB 10.8bn in 2010 as a result of higher debtors and inventories at stronger prices.

In July 2011, EuroChem secured a USD 1.3bn 5-year club loan facility bearing a floating interest rate of 1 month Libor +1.8%. Proceeds from the facility were partially used to fully repay a syndicated loan of USD 1.5 billion obtained in October 2008.As at 31 December 2011, the outstanding amount on the club facility totaled USD 1.3 billion. On 30 September 2011, the Group signed a RUB 20bn 5-year loan agreement with Sberbank. As at 31 December 2011, the outstanding amount was RUB 20bn. EuroChem placed two domestic bond issues of RUB 5bn each in July and November 2010, both due in 2018, with a 5-year put option and coupon of 8.90% p.a. and 8.25%p.a., respectively (the latter RUB-denominated bond was subsequently swapped into a 3.85% p.a. fixed rate USD liability). The Company also has USD 290m Eurobonds placed in 2007 with a 7.88% p.a. coupon which will be fully paid down at their March 2012 maturity. As a result of the refinancing activity undertaken in 2011, the share of short-term facilities within the Company's debt profile was signficantly reduced from 52% to 5% in 2011, with 82% of the total portfolio maturing within 2 to 5 years.

At 31 December 201, Eurochem held 15,440,170 shares, or 8.067%, of the issued share capital of K+S, which represented a fair value of RUB 22.5bn according to the 31 December 2011 closing price of EUR 34.92.

The Group ended the year with a net debt to 12-month EBITDA ratio of 1.35x, reflecting a very solid balance sheet ahead of the forthcoming European acquisition and the Eurobond repayment.

Cash flow

Operating cash flow in 2011 grew to RUB 36.0bn as compared to RUB 26.2bn a year earlier. The increase was primarily due to a 69% increase in operating profit over the same period.

Corporate developments

In September 2011, we signed a sale and purchase agreement with BASF Antwerpen NV for the acquisition of 100% of BASF's nitrogen fertilizer assets located in Antwerp, Belgium. The total value of the transaction, which remains subject to customary conditions, is estimated to be approximately EUR 670m. The Company expects to close this deal in March 2012.

In December 2011, the Group obtained control of LLC Severneft-Urengoy, an oil and gas company registered in the Russian Federation with licenses to explore, evaluate and extract hydrocarbons in the Zapadno-Yaroyakhinsky deposit. The acquisition of 100% of the share capital of Severneft-Urengoy was finalized in January 2012, with full cash payment already effected in 2011.

Also in December, the Group increased its shareholding in its Lifosa AB subsidiary to 100%.

OUTLOOK

The fertilizer demand backdrop remains relatively unchanged, global stock-to-use ratios in major grains are still below their long-term averages and supportive of soft commodity prices. Given the overall comfortable grain price levels, we would expect to see demand for nitrogen and phosphates rebounding back to healthy levels as spring approaches. We continue to expect cautious buying over the next few weeks, but with inventory levels quite low and certain capacity constraints limiting supply, any sudden demand pull could quickly drag prices back up.

Urea is looking good ahead of peak demand season in the US and Europe. Some additional capacity is around the corner but, with high gas prices in Eastern Europe and Ukraine its market impact should remain somewhat muted.

Phosphates continue to be under pressure, prompting phosphate producers to cut back production in an effort to support pricing. Taking this into account we expect MAP/DAP prices to remain stable to weaker over the coming months.

With potash facing strong headwinds, the major producers have so far shown discipline in cutting back output to reflect the supply/demand balance. China could now seek to take advantage of the lackluster demand picture to settle its first half contract quickly, which would provide a new floor from which to move up and get capacity back online.

Restocking activity at Chinese steel mills appears to have helped iron ore prices recover from their fourth quarter hard landing. However, the possibility of a slight correction at this time is not ruled out, with prices stabilizing in the USD 140-150/tonne CFR range during the first half of 2012.

EuroChem 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 facilities in Russia and Lifosa 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.

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.

Consolidated audited financial information for the twelvemonth period ended 31 December 2011 is available at: http://www.eurochem.ru/investors/results-center/

EuroChem will host its 2011 results conference call on February 15, details are available at www.eurochem.ru

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