September 2, 2009

PRESS RELEASE

EuroChem Reports H1 2009 Earnings

EuroChem today reported first half of 2009 consolidated IFRS net profit of RUR 5.7bn compared to RUR 18.0bn in the same period a year ago. The decline was driven primarily by nitrogen and phosphate fertilizer prices which fell over the period on average by ca.30%. Price declines were caused mostly by subdued demand from farmers and traders on deterioration of their access to financing. In addition, the market suffered from a temporary excess supply due to active de-stocking by traders which started in the final quarter of 2008 and continued through most of the first half of 2009. In addition, certain other specific demand drivers which characterized the earlier part of 2008 (e.g. active purchases by India) were no longer present in 2009.

In this environment, EuroChem recorded revenues of RUR 36.5bn (RUR 55.8bn in H1 2008) and a 45% gross margin of RUR 16.3bn (compared to gross margin of 63% and RUR 35.3bn a year ago). Group EBITDA (earnings before interest, taxes, depreciation and amortization) during the first six months of the year amounted to RUR 7.7bn, representing a margin of 21.2% (H1 2008: RUR 23.7bn, margin of 42.4%), as certain key input and transportation costs did not decline in line with the fertilizer prices.

The Group continued to generate solid cash flow, which allowed it to finance its capital expenditure program aimed at ensuring future revenue and EBITDA enhancements across all business segments, particularly in Potash, where the objective is to start production in 2012-2013.

EuroChem maintained a strong balance sheet underpinned bynet debt of RUR 40.2bn being balanced by its investment in the shares of K+S AG (a 12.51% shareholding valued at 30 June 2009 at RUR 36.2bn, which is in line with its value at the date of this release), a leading potash and salt manufacturer and a member of the DAX index. When including the shares of K+S AG owned by EuroChem’s shareholder MCC Holding Ltd, the combined holding as at the date of this report amounted to 16.3%.

CEO Dmitry Strezhnev commented: “In today’s difficult market EuroChem continues to generate healthy cash flow due to the cost advantage over most of its peers and good working capital management. This enables us to continue with investing in future revenue and earnings growth, including such projects as granulated urea and melamine production, capacity extensions and energy efficiency in the phosphate segment and, most importantly, potash reserves development. While the unique combination of factors which pushed fertilizer prices to record levels in Q2-Q3 2008 are unlikely to be repeated, the global financial and economic crisis should eventually subside causing the demand for fertilizers to return to levels required for responsible and sustainable agriculture. Vertically integrated low-cost producers such as EuroChem will then be amply rewarded.”

MARKET ENVIRONMENT

In Nitrogen, prices have stayed firmly above the lows reached in Q4 2008 but have so far failed to recover substantially due to lower application levels resulting from subdued cereal prices and relatively high levels of cereals stocks in Europe, Latin America and another regions. US imports of UAN decreased substantially because of poor weather conditions which caused late application. In spite of the difficult situation on the world markets, demand for nitrogen on the Russian domestic market continued to be relatively strong: shipment of nitrogen fertilizers (most notably Ammonium Nitrate) for agricultural needs increased by 5% in H1 2009 over the previous year.

At the same time, Ukrainian and East European producers were forced to scale back their nitrogen production due to the high cost of natural gas.

Demand for phosphate fertilizers was hit by postponements of application by farmers as they allocated their stretched finances in many cases towards nitrogen products seen as more effective in the short term. In Q3 2009 a meaningful recovery in demand for phosphate fertilizers is expected.

In the segment of organic synthesis products, prices for methanol reached their bottom in the beginning of the year and showed persistent growth in H1 2009 which continued into the third quarter.

Iron ore sales declined at the beginning of the year due to difficulties in the steel industry globally. However there has been a material improvement in iron ore prices in Q2 which continues to apply to Q3. Chinese demand for steel, driven by the government spending, has contributed to a significant increase in prices for iron ore, from ca.USD 78 per tonne in the beginning of the year to USD 81 at the end of June 2009.

NITROGEN SEGMENT

Nitrogen (including organics) generated sales of RUR 20.0bn and EBITDA of RUR 5.4bn, representing a margin of 27.1% (H1 2008: RUR 26.2bn, RUR 10.8bn and 41.2%, respectively). While sales volumes of nitrogen fertilizers have risen over the last year by 3%, average realized prices have declined by ca.22%. Average natural gas cost in the first half of the year amounted to RUR 2’090 per 1000 cubic meters (ca $2.01 per MMBTU) versus RUR 1’909 per 1000 cubic meters (ca.$2.54 per MMBTU) last year.

Somewhat higher prices for methanol should contribute to better margins for organic synthesis products (mainly methanol and acetic acid) in the second half of 2009. Due to low prices in H1 2009, these products failed to contribute meaningfully to the overall EBITDA in the first half of the year.

The utilization rate for the nitrogen assets has been close to 100% in the first half of the year, which is expected to continue for the remainder of the year.

PHOSPHATE SEGMENT

The Phosphate segment (including iron ore and baddeleyite sales as key co-products of our apatite mining at Kovdorskiy GOK) recorded sales of RUR 15.4bn in the first half of the year and EBITDA of RUR 2.2bn, which was below last year’s levels by 46% and 82%, respectively. Unlike in the nitrogen segment, demand for phosphate fertilizers and feed phosphates has declined due to postponed applications and resulted in both price declines (by 36% for average realized prices) and a reduction in volumes sold (by about 20%). Phosphate margins were hit by lower plant utilization rate in 2009. Demand and prices since the end of Q2 2009 have been on a slight upward trend.

FINANCIAL

No changes to the Group's capital structure have occurred since the end of 2008. The gross debt to equity ratio stood at around 35 : 65, taking into account the estimated fair value of the Group's fixed assets (RUR 96bn) as opposed to their historic net book value (RUR 49bn). At 30 June 2009, gross debt consisted of RUR 43.1bn equivalent of USD-denominated 4-year pre-export facility carrying an interest rate of LIBOR + 1.8% and RUR 9.0bn equivalent of USD-denominated bonds due in March 2012 with an annual coupon of 7.875%.

In line with the Group's strategy of investing in the future top and bottom line enhancements, capital expenditure rose in H1 2009 to RUR 9.4 bn driven mainly by the Gremyachinskoe potash project (RUR 3.0 bn). The economics of the Group's potash investments are expected to remain attractive even at significantly lower potash prices than those prevailing today.

CONCLUSION

CEO Dmitry Strezhnev: "We believe that, while 2008 price levels for fertilizers may not be achieved any time soon, the weak fertilizer market witnessed in the past 10 months or so is likely to be unsustainable. This belief drives our strategy aimed at enhancing efficiency and flexibility in nitrogen and phosphate, and investing in potash as the key third plant nutrient which would add sufficiently to our margin, growth and stability to justify the significant investment required."

Note
EuroChem Group is a top ten agrochemical company globally by capacity in nitrogen and phosphate fertilizers, which are supplied worldwide to agricultural producers and related intermediaries. Its main manufacturing assets include Nevinnomysskiy Azot, Novomoskovskiy Azot, Phosphorit, EuroChem – BMU, Kovdorskiy GOK plants in Russia and the Lifosa plant in Lithuania. The Group is vertically integrated with activities spanning from mining to logistics and distribution. EuroChem holds licenses to develop potash reserves in Russia which entitle it to the fifth-largest volume of proved and probable potash reserves globally.