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EuroChem Reports IFRS Financial Information for Q1 2010

- Revenues: RUR 21.6bn / USD 723m (Q12009: RUR 19.3bn / USD 567m);
- EBITDA: RUR 5.3bn / USD 177m (Q12009: RUR 5.4bn / USD 159m) ;
- Net profit: RUR 4.5bn / USD 150m (Q12009: net loss of RUR 1.7bn / USD 51m);
- Cash flow from operations: RUR 4.9bn / USD 164m (Q12009: RUR 5.2bn / USD 152m);
- Net debt/EBITDA at 31 March 2010: 2.04x.

EuroChem today reported a consolidated IFRS net profit of RUR 4.5bn for the three months ended 31 March 2010, compared to a loss of RUR 1.7bn for the first quarter of 2009. Fertilizer sales volumes in the first quarter increased with combined nitrogen and phosphate volumes up 15% from 1,844 thousand metric tonnes (KMT) in Q1 2009 to 2,123 KMT in Q1 2010 (excl. iron ore and baddeleyite). Demand and prices recovered during the first quarter of 2010, and while nitrogen prices have retreated in the first two months of Q2 to levels at or close to marginal producer costs, phosphate prices remain relatively firm. As a result of the higher volumes and prices compared to 2009, consolidated revenues increased 12% to RUR 21.6bn in Q1 2010 from RUR 19.3bn in Q1 2009.

CEO Dmitry Strezhnev: “After successfully concluding a challenging year in 2009, we have witnessed the market returning to more normal levels in the first quarter of 2010. While the industry is affected by global economic cycles, fundamentally our business will continue to grow, driven by the demands of increasing global population and changing diets that lead to increased food consumption, and our ability to satisfy this demand efficiently. We have a long-term view of our business that is focused on investing in growth; as the recovery takes hold we are on track to launch key new products and efficiency improvements in 2010 and 2011, as well as to start our first potash production in late 2013.”

During the first quarter, EuroChem recorded a 44.2% gross margin of RUR 9.5bn, compared to a 44.8% gross margin of RUR 8.6bn for Q1 2009. Group EBITDA for the first quarter of 2010 amounted to RUR 5.3bn, representing a margin of 24.5% (Q1 2009: RUR 5.4bn, margin of 28.0%). The Q1 2009 EBITDA included a RUR 1.5bn operating foreign exchange benefit from the effects of a 12% depreciation of the average rouble/US dollar rate for the first three months of 2009. Net of this effect, Q1 2010 EBITDA grew by 31% over the same period last year.

MARKET CONDITIONS

Q1 2010 was marked by steadier fertilizer prices and volumes after the high volatility witnessed in 2008 and 2009. Both demand and prices were primarily affected by normal seasonal factors and an empty supply chain, rather than by the global financial crisis in 2009 and unprecedented growth across commodities and materials witnessed in 2008.

During Q1 2010, average market prices for prilled urea (FOB Yuzhny) were 5% above Q1 2009 levels at US$ 281/tonne, while AN (FOB Black Sea) averaged 31% higher at US$ 244/tonne. Phosphate fertilizer prices saw a strong recovery, with DAP averaging US$ 450/tonne (FOB Baltic Sea) in Q1 2010, up 21% over the average price for Q1 2009. Contract prices for potash fertilizers have remained stable at US$ 350-370 CFR throughout the first quarter, although spot prices to Brazil and Southeast Asia are currently higher at US$ 410-450, and US and Canadian producers continue to push for higher contract prices with Chinese buyers than those recently agreed by other suppliers.

Natural gas prices for Russian producers remain significantly lower than for US, European and Ukrainian producers, averaging US$ 2.92/mmBtu in Q1 2010 at EuroChem’s nitrogen fertilizer plants, compared with US$ 4.77 in the US, US$ 4.86 in Europe (spot), and US$ 7.20/mmBtu for Ukrainian producers (delivered to plant).

Total Russian and Ukrainian fertilizer production increased by 29% to 4,809 KMT of nutrients in Q1 2010, according to official and company data, primarily driven by a 135% increase in K2O nutrient and a 37% increase in P2O5 nutrient output.

BUSINESS SEGMENTS

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

Nitrogen segment

Sales volumes for EuroChem’s two key nitrogen products – urea and ammonium nitrate (AN) – increased by 4% and 2% to 418 KMT and 496 KMT, respectively, in Q1 2010 compared with the same period in 2009. This, combined with higher prices, resulted in revenues for the segment increasing 18% in 2010 to RUR 12.1bn from RUR 10.3bn in Q1 2009. Nitrogen segment EBITDA improved 17% from RUR 3.2bn in Q1 2009 to RUR 3.7bn in Q1 2010. Organic synthesis sales volumes, which are included in the nitrogen segment, were up 80% compared to the same period last year, but these products will represent a relatively small portion of the segment volumes and revenues until melamine production comes online in 2011.

Gas prices in Russia increased from the beginning of the year, reaching RUR 2,799 per 1,000m3 (c. US$ 2.92/mmBtu), compared to RUR 1,994/1,000m3 (c. US$ 1.84/mmBtu) in Q1 2009 for EuroChem’s nitrogen plants. While gas prices will continue to rise, the current level remains significantly below the cost of US, European and Ukrainian producers. EuroChem continues to review its strategic options for maintaining a gas cost advantage, including investing in improved efficiency and lower gas-content products such as melamine.

Phosphate segment

The phosphate segment also benefitted from higher volumes and market prices in Q1 2010 compared to the same period a year ago. MAP and DAP prices were up 20% and 21%

respectively, while EuroChem's sales of these fertilizers were 25% higher at 474 KMT for the first quarter of 2010. Segment sales for the period increased by 14% to RUR 9.2bn, while EBITDA fell 28% to RUR 1.7bn due to an operating foreign exchange gain included in the Q1 2009 result.

Sales volumes of iron ore, a co-product at the Kovdorskiy GOK apatite mine that is also included in the Phosphate segment, increased significantly on the back of continued strong demand from China, up 78% to 1,385 KMT. Segment results were further enhanced by iron ore market prices that were on average 77% higher (CIF China) in Q1 2010 than in the same period last year.

Potash segment

EuroChem's potash investments remain on track for first production to begin in late 2013; active shaft sinking at the Gremyachinskoye deposit near Volgograd is scheduled to start this summer. At the end of Q1 2010, the company successfully secured a 10-year, US$ 261m ECA-backed syndicated loan facility to finance the construction of the cage shaft by Shaft Sinkers (Pty) Limited. EuroChem aims to be one of the world's lowest-cost producers of potash.

Distribution segment

The distribution segment, which incorporates results of distribution outlets in Russia and Ukraine owned by EuroChem, saw strong year-on-year growth in the first quarter, as it benefitted directly from recovering demand and prices in domestic markets. Distribution consists of sales of mineral fertilizers, items not produced by EuroChem such as seeds, crop protection etc, and advisory services through owned and independent retail centres in Russia and the CIS. Sales increased 130% from RUR 1.1bn in Q1 2009 to RUR 2.5bn in Q1 2010. This represented a relatively modest 11% of EuroChem's overall sales in Q1 2010. EBITDA in Q1 2010 was RUR 168m, compared with a RUR 91m negative result a year earlier. Segment fertilizer volumes (sales through outlets owned by EuroChem) rose 123% to 298 KMT in the first quarter of 2010 against 134 KMT in Q12009.

FINANCIAL

Income statement

Higher sales volumes and higher prices drove the 12% increase in revenue in the first quarter compared with the same period in 2009. While EBITDA declined by 2%, this was due to the due to the effect of the operating foreign exchange gains discussed above. The same factor also contributed to the slightly higher gross margin in Q1 2009 compared with Q1 2010.

Cost of sales increased 13% to RUR 12.1bn for Q1 2010, primarily due to the continued increases in natural gas prices and higher consumption. Gas and other materials and components used or resold comprised 50% of the cost of sales during the reported period, against 47% in the first quarter of 2009. The average price for 1000 m3 of natural gas at EuroChem's Nevinnomysskiy Azot and NAK Azot plants was RUR 2,799 in Q1 2010, up 40% from RUR 1,994 in Q1 2009, which translated into a RUR 798m cost increase. Higher gas consumption contributed RUR 278m to the increase in the cost of sales. Labour costs in Q1 2010 also increased, up 22% or RUR 2.2bn mainly due to a one-time staff compensation incurred during the period (total one-time compensation, including items outside of cost of sales: RUR 414m).

While distribution costs decreased 5% to RUR 4.3bn for Q1 2010, transportation costs, which made up 88% of distribution costs, increased by 5% to RUR 3.7bn. The increase in transportation costs was due primarily to increasing Russian railway tariffs, which were partially countered by lower freight costs as the company decreased sales on CFR and CIF bases in favour of FOB.

General and administrative expenses (G&A) were unchanged at RUR 932m during the reported period. Labour costs, which made up 60% of this item in Q1 2010, increased 15% to RUR 558m as a result of the one-time staff compensation that took place during the quarter. Nearly all other elements of G&A expenses decreased.

Other operating income was significantly lower in Q1 2010, at RUR 99m, compared with the same period one year ago (RUR 1,290m in Q1 2009) due to the significant operating foreign exchange gain of RUR 1.5bn resulting from the rouble-dollar volatility in the first quarter of 2009.

Below the operating profit line, EuroChem also recorded a RUR 1.4bn financial foreign exchange gain in the first quarter of 2010 (Q1 2009: loss of RUR 5.6bn) due to the accounting effect of the rouble depreciation on the company's dollar-denominated debt.

Interest expense was lower, at RUR 423m in Q1 2010 compared with RUR 555m a year earlier. This decline is due both to lower interest payments as a result of a decline in debt levels and a recovery in the rouble/dollar exchange rate, which averaged 29.89 RUR/US$ during the reported period, against 33.93 RUR/US$ during the same period a year ago.

Balance sheet

Net working capital was RUR 11.8bn as of March 31, 2010, down 6% from RUR 12.5bn at year end 2009. Trade receivables increased 43% from RUR 2.2bn on 31 December 2009 to RUR 3.1bn at 31 March 2010 primarily due to increased sales volumes and prices.

The company finances its operations through a combination of fixed rate and floating rate debt. Floating debt is represented by the US$ 1.5bn syndicated loan facility due in October 2012, with equal monthly amortization which started in April 2009 (the remaining balance at 31 March 2010: US$ 1.1bn). Fixed rate debt is represented by US$-denominated eurobonds with a coupon of 7.875% due in March 2012. A euro-denominated margin loan secured by shares of K+S AG was partially repaid as of March 31, 2010, and was fully repaid by end-April 2010. On 30 March 2010 EuroChem signed a US$ 261m, 10-year ECA-backed loan facility for financing the ongoing construction of the cage shaft at its Gremyachinskoe potash deposit by South Africa-based Shaft Sinkers (Pty) Limited. The interest rate is 2.5% per annum over LIBOR.

Net debt to EBITDA at the end of the first quarter of 2010 was 2.04, and has continued to decline in the first two months of Q2.

Cash flow

Operating cash flow for Q1 2010 was RUR 4.9bn, compared to RUR 5.2bn a year earlier. The decrease was primarily due to lower operating profit caused by translation of primarily US$ inflows at a stronger rouble / US dollar exchange rate (see above regarding operating foreign exchange gains in Q1 2009/Q1 2010) and higher income tax payments in 2010. Free cash flow was positive at RUR 2.3bn, compared to an outflow of RUR 15.0bn in Q1 2009 caused mainly by the purchase of shares of K+S AG last year. Capital expenditure in Q1 2010 amounted to

RUR 3.0bn, compared to RUR 5.1bn in Q1 2009, partially explained by stronger rouble versus the US dollar, as a significant portion of the capital expenditure is denominated in US$.

OUTLOOK

- Fertilizer demand recovers, but distributors are still unwilling to hold product between planting seasons, increasing seasonal weakness.
- Despite increasing gas prices, Russian producers, especially EuroChem, remain competitive on the global cost curve.
- Seasonal weakness in Q2 in nitrogen is supported by the US$220-230 per tonne urea cost of marginal producers.
- Phosphate prices are supported by capacity under-utilization by some major players; near term pricing outlook is stable to slightly weaker.
- Phosphate capacity coming on stream in the next 12-18 months will affect pricing negatively, with the large scale processed phosphate project, Ma'aden, expected to launch production during this timeframe.
- Iron ore prices have witnessed a correction but remain relatively high; future downside is tied to the rate of potential cooling in the Chinese economy.
- Volatility in financial markets caused by the sovereign debt crisis in Europe, if it extends further, may eventually begin to restrict corporate access to financial markets, with negative consequences for the broader economy.
- EuroChem remains committed to its potash investment projects, which are on track. In the long term, EuroChem believes that it can achieve attractive returns from its potash investments as it aims to be one of the lowest-cost producers globally.