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EuroChem Reports IFRS Financial Information for Q2 2011

	Q2 2011		Q2 2010			H1 2011		H1 2010		
	RUB bn	**USD m**	**RUB bn**	**USD m**	***Y-o-Y, %***	**RUB bn**	**USD m**	**RUB bn**	**USD m**	***Y-o-Y, %***
Revenue	**30.9**	1,103	**23.8**	786	*+30%*	62.1	2,169	45.4	1,510	*+37%*
EBITDA	**11.9**	424	**7.7**	255	*+54%*	23.4	818	13.0	433	*+80%*
Net profit	**9.5**	341	**2.5**	82	*+283%*	20.9	730	7.0	231	*+200%*
Cash from operations	**5.8**	209	**6.2**	206	*-6%*	15.5	543	11.1	370	*+40%*

	30 June 2011	**30 June 2010**	**31 December 2010**
Net Debt/ LTM* EBITDA	0.84x	1.79x	1.13x

Average RUB/USD exchange rate for periods: Q2 2011: 27.99; Q2 2010: 30.24; H1 2011: 28.62; H1 2010: 30.07

* Last Twelve Months

Moscow, August 16, 2011 - EuroChem today reported a consolidated IFRS net profit for the second quarter of 2011 of RUB 9.5bn, representing an increase of 283% compared to the second quarter of 2010. Consolidated revenues for the group increased 30% to RUB 30.9bn, up from RUB 23.8bn in the second quarter of 2010. EBITDA for the three months ended June 30 2011 came in at RUB 11.9bn, a 54% increase on the RUB 7.7bn of the previous year. EBITDA margin improved 6 percentage points to reach 38%, compared to 32% the same period a year ago.

Nitrogen and Phosphate fertilizer sales volumes, excluding iron ore and baddeleyite mining operations, amounted to 2,004 thousand tonnes (KT) in the second quarter of 2011, marginally up from the 1,999 KT sold in the first quarter of 2011. During the same period, iron ore and baddeleyite sales volumes decreased by 10% to 1,438 KT, compared with 1,605 KT in Q2 2010 on lower production volumes.

With fertilizer production facilities running at close to full capacity, the strong Q2 2011 performance was mainly the result of the significantly stronger pricing environment and focus on value-added products.

CEO Dmitry Strezhnev commented: “We had another quarter of strong demand for fertilizers which helped prices for our products increase and compensated for the seasonal drop in demand. While the economic growth prospects globally become less certain, we feel that – for as long as a severe disruption in the financial markets is avoided – the fertilizer industry should continue to benefit from the structural changes in the supply-demand balance. Against this background, we are comfortable with the industry’s prospects and continue to advance our investment projects in potash, nitrogen, phosphates, logistics, and other raw materials.”

Market Conditions

Both fertilizer demand and prices appeared unfazed by the first half macroeconomic jitters and the growing debt concerns in the US and Europe. Despite the recent volatility in soft commodity prices, as of June 30 2011, corn and soybean prices had registered increases of 52% and 40% respectively over the last 12 months. Throughout the first six months of the year the attractive grain prices continued to incentivize farmers to maximize yields and supported stronger-than-expected fertilizer demand and prices. In a familiar scene, the specter of weather-related supply shocks continued to loom, applying further upward pressure on agricultural commodity prices. Markets remained tight in all three nutrient groups, as previous under fertilization, production turnarounds, and delays in capacity additions kept the supply-side running at full utilization. In potash, the contract negotiations with India further highlighted the strength and discipline of the supply-side. Additional benefits to the bottom line accrued from relatively low freight costs caused by the oversupply situation on the shipping market.

Fertilizer prices continued their upward momentum in the second quarter of 2011. During Q2 2011, prilled urea (FOB Yuzhny) averaged USD 414/tonne, representing increases of 18% and 75% on the first three months of the year and the second quarter of 2010, respectively. Ammonium Nitrate (AN, FOB Black Sea) averaged USD 315/tonne in the second quarter of 2011, 5% higher than the previous quarter and 71% more than in Q2 2010.

Phosphate and potash prices mirrored the trends observed in Nitrogen. DAP (FOB Baltic Sea) averaged USD 622/tonne in Q2 2011, up 6% quarter-on-quarter and 42% over Q2 2010. Contract prices for potash fertilizers increased USD 50 with MOP (FOB Baltic Sea) finishing the second quarter at USD 375/tonne, while MOP spot prices registered a more pronounced growth during the same period and averaged USD 442/tonne.

According to preliminary figures from AzotEcon, first half 2011 fertilizer production in Russia increased by 8% to 5,776 KT of nutrients, including 1,630 KT of nitrogen fertilizers and 4,147 KT of phosphate fertilizers. EuroChem accounted for the highest share of all fertilizer production in Russia (24% in the first half of 2011, versus 23% in the first half of 2010).

BUSINESS SEGMENTS

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

Nitrogen segment

In the second quarter of 2011, sales volumes for the Company’s Nitrogen segment increased slightly by 4% to 1,418 KT compared to 1,361 KMT for the same period the previous year. Urea, UAN and CAN registered the strongest year-on-year growth, increasing 26%, 33%, and 78%, respectively. Urea sales volumes increased from 411 KT in Q2 2010 to 517 KT in the second quarter of 2011. Over the same period, UAN sales volumes increased to 196 KT, while CAN amounted to 50 KT.

The strength in prices observed across the Nitrogen segment provided for a 31% year-on-year increase in revenues to RUB 14.3bn in the second quarter of 2011. Nitrogen EBITDA amounted to RUB 5.1bn, representing an increase of 78% as compared to the second quarter of 2010. For the first six months of 2011 Nitrogen segment EBITDA amounted to RUB 11.0bn, an increase of 68% on the first six months of 2010.

Following the latest yearly 15% rise in Russian gas prices effective 1 January 2011, average natural gas prices for the second quarter remained at the level of the first three months of the year. For the six month period ended 30 June 2011, average gas prices at EuroChem’s Novomoskovskiy Azot and Nevinnomysskiy Azot nitrogen fertilizer facilities were RUB 3,178 and 3,342 per 1,000m^3 respectively (c. US$ 3.45 and 3.63/mmBtu), compared to RUB 2,748 and 2, 909/1,000m^3 (c. US$ 2.74 and 2.90/mmBtu) in the first six months of 2010. In addition to the development of lower-natural gas content production, EuroChem continued to further refine plans to partially back integrate into natural gas production.

Phosphate segment

During the second quarter of 2011, iron ore sales volumes decreased 11% while sales volumes for MAP and DAP came down 4% to 442 KT over the same period last year. The decrease is attributable mainly to the fact that sales in H1 2010 benefited from liquidation of inventory accumulated in 2009, while no such effect was in place this year.

The slightly weaker sales volumes observed in Q2 2011 were largely offset by very healthy pricing conditions. Second quarter 2011 revenues for the Phosphate segment increased 24% as compared to the second quarter of 2010 and amounted to RUB 15.7bn. Phosphate segment EBITDA in the second quarter of 2011 came in at RUB 6.2bn, a 25% increase on the RUB 5.0bn achieved in Q2 2010. Phosphate segment EBITDA for the first 6M of 2011 was RUB 12.0bn, which is 78% higher than in the first six months of 2010.

Raw material mining co-products, which include iron ore and baddeleyite contributed RUB 3.9 bn, or 51%, to the second quarter Phosphate segment EBITDA.

Potash segment

EuroChem's potash projects continued to move ahead as planned. The sinking and lining operations of the 7 meter-diameter skip shaft at the Gremyachinskoe deposit (Volgograd) passed the first major aquifer in May and is down to 220 meters. The sinking of the cage shaft remains above 100 meters as the cementation technology is being adjusted to the difficult subsoil conditions. Above ground, another landmark was reached when the headframes for the two shafts were completed. In late June, the Gremyachaya rail station was commissioned. A key component of future potash operations, the station is currently handling the delivery of building material and equipment and will be crucial in routing future potash shipments to EuroChem NPK facilities and the Tuapse Transhipment Terminal.

Further East in the Urals, Phase I of the Verkhnekamskoe project (Perm) crossed a significant milestone with the start of ground freezing operations. Shaft sinking equipment is currently being delivered and the Company expects to start assembling the headframes within the next month.

Capex spending was increased in the second quarter of the year and an aggregate amount of RUB 4.2bn was spent on the Gremyachinskoe and Verkhnekamskoe deposits in the first six months of the year 2011.

As a reminder, both projects have greenfield and brownfield expansion phases which together are planned to bring EuroChem's production capacity to a total of 8 million tonnes of KCl per year by 2021. The total cost of both phases at both projects is estimated at c.USD 6 billion, of which c. 17% has been invested to date.

Distribution segment

Sales at EuroChem distribution and sales outlets almost doubled, registering a 92% increase in the second quarter of 2011 compared to Q2 2010 as sales reached RUB 3.5bn or 11% of EuroChem's overall sales for Q2 2011. Distribution segment EBITDA for the second quarter of 2011 amounted to RUB 186m, compared to RUB 67m in the same period a year earlier. EuroChem fertilizer outlets recorded a 45% year-on-year increase in sales volumes with second quarter sales amounting to 281 KT.

FINANCIAL

Income statement

Buoyed by the strong pricing environment, EuroChem consolidated revenues for the second quarter of 2011 increased by 30% to RUB 30.9bn as compared to RUB 23.8bn in the second quarter of 2010. Mining co-products contributed RUB 5.8bn and RUB 3.9bn to consolidated revenues and EBITDA in Q2 2011, respectively.

Reflecting the growth in revenues, cost of sales increased 30% in the second quarter of 2011 to RUB 15bn compared to RUB 12bn in the second quarter of 2010. Cost of sales in the second quarter of 2011 marginally decreased when compared to the first quarter of the year. Materials and components used or resold increased 41% year-on-year to RUB 10bn and accounted for 61% of Q2 2011 costs of sales. During the same period, overall gas costs for fertilizer production increased by 16% to RUB 3.4bn, or by 15% due to increased prices and by 1% due to increased volumes.

Energy costs increased by 27% to RUB 1.6bn in the second quarter of 2011 (Q2 2010: RUB 1.3bn). This increase was primarily brought on by the liberalization of the wholesale electricity market from January 2011 and increases in energy tariffs.

Labour costs, including contributions to social funds, represented 13% of cost of sales in the second quarter of 2011 and amounted to RUB 2bn. The 23% increase from RUB 1.6bn a year earlier came as a result of salary indexation and increased social insurance contributions. For the first six months of the year, labour costs increased slightly by 3% compared to the same period the previous year.

Compared to the second quarter of 2010, distribution costs decreased by 12% to RUB 4.2bn in Q2 2011. Representing 85% of distribution costs, transportation costs fell 14% and amounted to RUB 3.6bn. The reduction in distribution costs reflected the 11% decrease in iron ore sales volumes coupled with a considerable reduction in shipping rates, as reflected by the 58% drop in the Baltic Dry Index over the same period.

Total general and administrative (G&A) expenses increased by 12% in the second quarter of 2011 and amounted to RUB 1.0bn, up from RUB 0.9bn in Q2 2010. G&A labor costs, which accounted for 53% of G&A expenses, rose 2% year-on-year to RUB 544m. In the second quarter of 2011, total G&A staff costs (including social expenses) grew to RUB 2.8bn compared to RUB 2.4bn for the three months ended 30 June, 2010.

Other operating expenses for the second quarter of 2011 amounted to RUB 135m, compared to a Q2 2010 other operating income of RUB 413m. The main components behind this change were operating foreign exchange losses of RUB 178m compared to gains of RUB 520m the previous year due to the effects of a weakening USD in Q2 2011 versus its strong appreciation against the rouble in Q2 2010.

Below the operating profit line, EuroChem recognized a gain of RUB 752m on the sale of 1,016,425 shares of K+S Group during the second quarter for an aggregate amount of RUB 2.2bn. EuroChem recorded an unrealized financial foreign exchange gain of RUB 407m in the second quarter of 2011, compared to a RUB 2.5bn loss in Q2 2010 mainly from the effects of a weakening US currency on the financial debt of the Group as opposed to the appreciation of the US dollar against the rouble the previous year.

Interest expenses increased 22% year-on-year as the Company’s debt increased over last year’s levels and its maturity was extended. Other financial income of RUB 218m was mainly realized on USD/RUB non-deliverable forward contract and changes in the fair value of cross currency interest rate swap in amounts of RUB 116m and RUB 64m, respectively.

Balance sheet

As a result of robust pricing, net working capital increased to RUB 14.6bn as of June 30, 2011, as compared to RUB 10.8bn at 31 December 2010.

EuroChem uses fixed rate and floating rate debt to finance its operations. Major facilities include a USD 1.5bn syndicated facility due in October 2012 (USD 558m outstanding as at 30 June 2011), a 10-year USD 261m ECA-backed facility secured for the construction of the Gremyachinskoe potash deposit cage shaft (USD 85.5 outstanding as at 30 June 2011). Fixed rate debt comprises ruble bonds and Eurobonds. 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 and maturing March 2012 with a 7.88% p.a. coupon.

At 30 June 2011 EuroChem held 15,440,170 shares, or 8.07% of the issued share capital (31 March 2011: 16,456,595 shares, or 8.60% of the issued share capital) of German potash and salt producer K+S Group with a fair value of RUB 33bn according to the 30 June 2011 closing price of EUR 53.0 per share.

The net debt to 12-month rolling EBITDA ratio as at 30 June 2011 substantially improved to reach 0.84x (Q2 2010: 1.79x)

Cash flow

Operating cash flow for the second quarter of 2011 amounted to RUB 5.8bn, compared to RUB 6.2bn for the same period of the previous year. The decrease was mainly caused by an increase in in inventories and trade receivables due to rising prices. Free cash flow amounted to RUB 3.2bn compared to RUB 2.3bn in Q2 2011.

Events after the reporting period

A USD1.3 billion five-year syndicated loan facility bearing a floating interest rate of 1-month Libor + 1.8 % was signed on 28 July 2011 with a club of 13 international banks. The loan benefits from a two-year grace period for the repayment of principal.

OUTLOOK

We expect to see global stock-to-use ratios in major grains remaining below their long-term averages over the next few quarters and continue to act as the main drivers behind fertilizer application. Despite a recent softening in grain prices, strong farmer economics in the US coupled with the adverse weather conditions of the spring planting should positively affect the autumn fertilizer application period, as farmers will be looking to maximize yields – barring a major dislocation in the financial sector.

In the global nitrogen trade, China's impact looks to be much less pronounced than anticipated. The introduction of a progressive urea export tax has significantly curtailed exports and is expected to further support global urea prices, with strong demand from South America and India providing further traction to the positive outlook for nitrogen fertilizers. All in all, China's decision to revise its export tariff policy could cut 2011 urea, MAP, and DAP exports by several million tonnes compared to 2010.

In an already tight phosphate market environment, the increase in Chinese DAP export prices has given a new floor to global prices. We expect phosphate demand to remain robust in the third quarter, buoyed by a strong fall application and a supply chain in need of replenishment. At the same time, we could see prices soften towards the end of the year in the unlikely event newly build capacity in the Middle East substantially accelerated production.

The recent outcome of India's contract negotiations confirmed that the pricing initiative remains in the hands of suppliers, who appear to be sold out until the fourth quarter of the year. We believe that the outlook for potash prices remains strong for the near term.

Iron ore prices have shown resilience at USD 180/t CFR China, and we expect to see stability at these relatively high levels as Chinese producers build up inventory reserves before the winter months.

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.

Consolidated audited financial information for the six month months ended 30 June 2011 is available at: http://www.eurochem.ru/investors/financials.

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