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EuroChem Reports IFRS Financial Information for Q3 2011

	Q3 2011		Q3 2010		Chng	9M 2011		9M 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	**36.2**	1,246	**24.3**	792	*+49%*	98.3	3,416	69.7	2,302	*+41%*
EBITDA	**13.6**	470	**6.3**	207	*+115%*	37.1	1,289	19.4	640	*+91%*
Net profit	**3.4**	117	**4.8**	156	*-29%*	24.3	844	11.7	388	*+107%*
Cash from operations	**12.4**	425	**6.0**	197	*+105%*	27.9	969	17.2	567	*+63%*

	30 September 2011	30 September 2010	31 December 2010
Net Debt/ LTM* EBITDA	1.15x	1.59x	1.13x

Average RUB/USD exchange rate for the period: Q3 2011: 29.05; Q3 2010: 30.62; 9M 2011: 28.77; 9M 2010: 30.25

* Last Twelve Months

Moscow, November 17, 2011 - EuroChem today reported a consolidated IFRS net profit for the first nine months of 2011 of RUB 24.3bn, more than double the RUB 11.7bn reported for the first nine months of 2010. For the same period, EBITDA amounted to RUB 37.1bn, a 91% increase on the RUB 19.4bn of the previous year. Net profit for the third quarter of 2011 was adversely affected by a RUB 6.0bn non-cash translation loss brought on by the sharp weakening of the Russian rouble in September and decreased 29% to RUB 3.4bn compared to the RUB 4.8bn earned the previous year. Third quarter 2011 EBITDA, the second highest quarterly EBITDA in EuroChem's history, came in at RUB 13.6bn, which represents a 115% increase on Q3 2010. Third quarter EBITDA margin improved 10 percentage points to reach 38%.

Nitrogen and Phosphate fertilizer sales volumes, excluding iron ore and baddeleyite, amounted to 1,988 thousand tonnes (KT) in the third quarter of 2011, a 5% increase on the 1,898 KT sold in the third quarter of 2010. Iron ore and baddeleyite sales volumes registered a slight decrease on lower production volumes and amounted to 1,453 KT, compared with 1,550 KT in Q3 2010.

CEO Dmitry Strezhnev commented: “Our third quarter performance once again highlights the strength of our business and its unique demand fundamentals. Rising to the challenges of sustaining growth in a finite world, we continued moving closer to adding potash to our product offering and extended our reach in the strategically important European nitrogen market as we announced our intention to acquire assets in Western Europe.”

Third Quarter Market Conditions

Global macroeconomic concerns continued to dominate the headlines throughout the third quarter. Uncertainty surrounding European and US debt issues set the scene for increased volatility in the financial, commodity and agricultural markets. Soft commodity prices were no exception as corn and soybeans retreated 5% while wheat and rice increased 6% and 12%, respectively during the third quarter. Reduced pricing visibility in the last weeks of the quarter prompted some fertilizer buyers to head for the sidelines and adopt a wait-and-see stance. Despite the mixed picture, the positive developments observed in the first half of the year carried on through September. Global stock-to-use ratios in major grains remained below their long-term average and continued to be the main driver behind fertilizer application. Markets remained tight on production turnarounds, delays in capacity ramp-up and restricted Chinese export volumes. In nitrogen, in addition to strong demand from India, the supply side received an additional lift from South American buyers while phosphates benefited from increases in Chinese DAP export prices as well as steady Indian demand. The potash market remained tight with India returning to the market even as major producers were reporting being sold out on strong restocking demand and limited supply. In iron ore, peak demand season at Chinese mills held prices steady until the end of the quarter, which was followed by a sharp correction shortly thereafter.

Overall tight market conditions continued to buoy fertilizer prices in the third quarter of 2011. On the nitrogen side, prilled urea (FOB Yuzhny) averaged USD 486/tonne, representing increases of 17% and 74% on the previous quarter and the third quarter of 2010, respectively. Ammonium Nitrate (FOB Black Sea) averaged USD 323/tonne in the third quarter of 2011, 3% higher than the previous quarter and 45% more than in Q3 2010. In phosphates, DAP (FOB Baltic Sea) averaged USD 681/tonne in Q3 2011, up 9% quarter-on-quarter and 39% year-on-year. The gap between potash contract and spot prices narrowed in the third quarter as contract prices continued their climb with MOP (FOB Baltic Sea) increasing 13% to USD 425/tonne, while average MOP spot prices added 7% to USD 475/tonne. Iron ore spot prices averaged USD 184/tonne (63.5%Fe, China CFR) in Q3 2011, as compared to USD 145/tonne in the third quarter of 2010.

According to preliminary figures from AzotEcon, nitrogen and phosphate fertilizer production in Russia during the first nine months of the year increased by 7% and 5% respectively to 8,391 KT of nutrients, comprising 5,959 KT of nitrogen fertilizers and 2,432 KT of phosphate fertilizers. According to the same source, for the first nine months of the year, EuroChem remained the market leader in Russia with a 24% share of the market.

BUSINESS SEGMENTS

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

Nitrogen segment

In the third quarter of 2011, sales volumes for our Nitrogen segment increased 11% to 1,343 KT compared to 1,209 KT for the same period the previous year. This increase was primarily driven by urea and UAN which increased 20% and 51%, respectively. Urea sales volumes increased from 354 KT in Q3 2010 to 423 KT in the third quarter of 2011, while, UAN sales volumes increased to 177 KT.

Adding to the volumes growth, favorable pricing on the product mix propelled Q3 2011 revenues for the Nitrogen segment by 68% to RUB 16.6bn as compared to the third quarter of 2010. During the same period, Nitrogen EBITDA increased a commanding 341% to RUB 7.4bn. For the first nine months of 2011 Nitrogen segment EBITDA amounted to RUB 18.4bn, more than double the previous year’s RUB 8.2bn.

Revenues from Latin America surged 223% and accounted for 38% of Nitrogen revenues in the third quarter, followed by Russia and the CIS which represented 22% of segment sales.

The Nitrogen segment's performance was achieved even despite several unplanned production stoppages over the summer months at both of our nitrogen plants. Inventory buildup in expectation of annual turnarounds, which were brought forward by the incidents, mitigated the effects of the unscheduled stoppages.

Following the 15% rise in Russian gas prices effective 1 January 2011, average natural gas prices for the nine month period ended 30 September 2011 at our Novomoskovskiy Azot and Nevinnomysskiy Azot nitrogen fertilizer facilities were RUB 3,179 and 3,336 per 1,000m^3 respectively (c. USD 3.44 and 3.61/mmBtu), compared to RUB 2,751 and 2,916/1,000m^3 (c. USD 2.83 and 3.00/mmBtu) in the first nine months of 2010. This compares with Q3 2011 averages of USD 4.10/mmBtu in the US (Henry Hub), USD 9.60/mmBtu in Europe (spot), and an estimated USD 11.0/mmBtu for Ukrainian producers (delivered to plant). In light of increasing natural gas prices in Russia and to further secure our global competitiveness on the nitrogen market, we expect to finalize our partial upstream integration into natural gas production before the end of the year. It is expected that the targeted acquisition may cover 20 to 25% of our c.4.5bn m^3 annual natural gas requirements.

Phosphate segment

Total Phosphate segment sales volumes contracted 6% in the third quarter of 2011 as compared to the third quarter of 2010. Behind this slight decline were year-on-year decreases in MAP/DAP fertilizers and iron ore sales volumes, which retreated 3% and 6% respectively.

However, as previously mentioned, the continued strength in the global phosphate market supported very healthy pricing levels. Third quarter 2011 revenues for the Phosphate segment increased 30% as compared to the third quarter of 2010, and amounted to RUB 18.0bn, while EBITDA increased 42% and amounted to RUB 7.1bn. Phosphate segment EBITDA for the first nine months of 2011 was RUB 19.0bn, which is 62% higher than in the first nine months of 2010.

The two co-products of our mining operations in Kovdor, iron ore and baddeleyite, combined accounted for 38% and 57% of third quarter Phosphate segment revenues and EBITDA, respectively.

With raw material mining co-products, our Phosphate segment sales to Asia increased 74% and accounted for 39% of the segment's revenues. In early July we began using the Northern Sea Route for shipments of iron ore to China. Following the Russian arctic coast, rather than using the traditional routes either via the Suez Canal or the Cape of Good Hope, significantly reduced both delivery time and transportation costs.

Potash segment

In the three months from July to September the skip shaft at the Gremyachinskoe deposit (Volgograd) reached a depth of 260 meters. As previously announced, difficult subsoil conditions encountered from the second quarter of the year substantially slowed the cage shaft sinking rate past the 100 meter mark. During the third quarter, the contractors continued to adjust the cementation technology and water reactive polyurethane grouts to the peculiar geomorphologic characteristics of the ground. Although the initial first phase completion schedule has not yet been revised, the possibility of bringing forward the sinking operations on the third shaft is currently being studied.

Shaft sinking at the Verkhnekamskoe deposit (Perm) is scheduled to start in mid-December.

Capex spending on both our potash projects amounted to RUB 3.2bn in the third quarter of the year. Out of the RUB 13.9bn planned for the year, an aggregate amount of RUB 7.4bn was spent on the Gremyachinskoe and Verkhnekamskoe developments between January and September 2011.

Distribution segment

Sales at our distribution and sales outlets grew 57% to RUB 3.3bn in the third quarter of 2011 compared to Q3 2010 and represented 9% of our total sales for Q3 2011. Distribution segment EBITDA increased 80% to RUB 210m. The company’s fertilizer outlets recorded a 30% year-on-year increase in sales volumes with third quarter sales amounting to 217 KT.

FINANCIAL

Income statement

Third quarter consolidated revenues increased by 49% to RUB 36.2bn on the back of strong pricing for all products, which more than compensated for the slight volume decrease in phosphates and iron ore. Phosphate rock mining co-products generated 29% of consolidated EBITDA for the third quarter of 2011. In addition to robust pricing, the third quarter financial performance was further enhanced by the sharp contraction of the Russian rouble against the US dollar. Third quarter sales outside Russia and the CIS, which are predominantly conducted in US dollars, accounted for 78% and 66% of the Nitrogen and Phosphate segments respectively.

Compared to the third quarter of 2010, costs of sales were 36% higher in the third quarter of 2011, and amounted to RUB 16.9bn. Materials and components used or resold increased 52% year-on-year to RUB 10.7bn and represented 64% of Q3 2011 costs of sales. During the same period, gas costs for fertilizer production increased by 9% to RUB 3.2bn on higher volumes.

Energy costs registered a slight 5% increase to RUB 1.5bn in the third quarter of 2011.The main factors behind this year-on-year growth were increases in energy tariffs and the liberalization of the wholesale electricity market from January 2011.

Labour costs represented 11% of cost of sales in the third quarter of 2011 and amounted to RUB 1.8bn, an increase of 8% on the same period the previous year. The increase was primarily a result of a salary indexation effective from January 2011. For the first nine months of the year, labour costs were kept 4% above the same period in the previous year.

Compared to the third quarter of 2010, total distribution costs increased by 25% to RUB 5.9bn. The share of transportation costs in distribution costs remained stable at 84% and amounted to RUB 5.0bn, a 21% increase on the same quarter the previous year. For the first nine months of the year, transportation costs increased 2% over the first nine months of 2010. Lower iron ore sales volumes combined with depressed shipping rates mitigated the effects of stronger nitrogen sales volumes and an increase in average shipping distance.

Total general and administrative (G&A) expenses for the third quarter of 2011 increased by 35% compared to the third quarter of 2010 and amounted to RUB 1.2bn. G&A labour costs, which accounted for 50% of G&A expenses, rose 27% year-on-year to RUB 618m. The total staff costs (including social expenses) for the first nine months of 2011 amounted to RUB 8.4bn (9M 2010: RUB 7.8bn).

Other operating income for the third quarter of 2011 amounted to RUB 276m, versus a Q3 2010 other operating expense of RUB 779m. Primarily responsible for this change were operating foreign exchange gains of RUB 248m compared to losses of RUB 610m the previous year due to the effects of the strong appreciation of the US dollar in the third quarter of this year.

Below the operating profit line, we recorded an unrealized financial foreign exchange loss of RUB 6.0bn in the third quarter of 2011, compared to a gain of RUB 984m in Q3 2010 mainly from the effects of a strengthening US currency on the value of the Group's mostly US dollar-denominated debt, as opposed to the depreciation of the US dollar against the Russian rouble the previous year.

Interest expense reflected the increase in the company's debt levels and grew to RUB 845m in Q3 2011 compared with RUB 546m a year earlier. Other financial loss of RUB 792m was mainly the difference between a loss on changes in the fair value of cross currency interest rate swap in the amount of RUB 1.1bn and a RUB 300m income on changes in the fair value of call options.

Balance sheet

Net working capital increased to RUB 12.9bn as of September 30, 2011, as compared to RUB 10.8bn at the end of 2010.

The portfolio of borrowings from banks widened in the course of the third quarter. A USD 1.3bn 5-year club loan facility bearing a floating interest rate of 1 month Libor +1.8% was secured in July. Proceeds from this facility were partially used to fully repay a syndicated loan of USD 1.5 billion obtained in October 2008, of which USD 558m was outstanding at the start of the third quarter. Additionally, on 30 September 2011, the Group signed a RUB 20bn 5-year loan agreement with Sberbank. This facility had not yet been utilized at the end of the reporting period.

At 30 September 2011, Eurochem held 15,440,170 shares, or 8.1% of the issued share capital of German potash and salt producer K+S Group. This equity stake represented a fair value of RUB 26.5bn according to the 30 September 2011 closing price of EUR 39.58 per share.

Despite the growing debt levels on the company's balance sheet, the strong Q3 performance further improved its financial gearing. Net debt to 12-month rolling EBITDA ratio stood at 1.15x as at 30 September 2011, compared to 1.59x at the end of Q3 2010.

Cash flow

Operating cash flow for the third quarter of 2011 more than doubled to RUB 12.4bn as compared to RUB 6.0bn in Q3 2010. The increase was mainly caused by a working capital release from destocking. Free cash flow amounted to RUB 2.7bn compared to RUB 0.4bn for the same period the previous year.

Corporate developments

On September 27, 2011, we announced our intent to acquire 100% of BASF's nitrogen fertilizer assets located in Antwerp, Belgium and its 50% stake in the PEC-Rhin Joint Venture in Ottmarsheim, France, a JV between BASF and France's GPN, a Total SA subsidiary. The total value of the transaction is estimated to be approximately EUR 705m. The transaction regarding BASF's fertilizer complex in Antwerp remains subject to customary conditions and is expected to close in the first quarter of 2012. The intended acquisition of the 50% share of PEC-Rhin is also expected to close in the same time frame. The final value of the transaction remains subject to certain closing conditions and adjustments.

OUTLOOK

Despite the uncertain market backdrop and the accompanying reduction in demand visibility, global stock-to-use ratios in major grains should remain below their long-term averages and provide farmers with the incentive to maximize yields even in the face of price volatility in the agricultural markets. Despite this volatility, soft commodity prices remain at comfortable levels from a farmers' perspective, which should keep demand for all three nutrients healthy over the next year. Although, we expect to see some cautious buying over the next few weeks, inventory levels are very low ahead of spring season as most agents in the distribution chain have adopted a hand-to-mouth approach, and this should lead to a rebound in buying activity by the end of the year.

The closing of the Chinese urea export window coupled with ongoing natural gas issues in Trinidad, the world's largest ammonia exporter, are likely to provide some near-term support to the nitrogen market. However, export orientated nitrogen capacity in the Middle-East will be keeping the market in check over the next few quarters. In phosphates, Ma'aden's gradual ramp-up should not overly affect the global supply-demand balance in the near future.

Potash demand should remain solid given the low inventory levels across the supply chain. Any downward pressure on prices from announced capacity expansion plans is expected to be counterbalanced by prudent output management.

Following October's abrupt correction, iron ore prices have stabilized at more sustainable levels and helped lay the ground for a rebound in the first quarter of 2012 on the back of renewed demand. Steel producers will be looking to take advantage of lower iron ore prices to gradually buildup inventory; while at the same time, the low prices will be forcing the shutdown of higher-cost Chinese iron ore operations.

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 nine month period ended 30 September 2011 is available at: http://www.eurochem.ru/investors/results-center/

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