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EuroChem Reports IFRS Financial Information for Q2 2012

	Q2 2012		Q2 2011			H1 2012		H1 2011		
	RUB bn	**USD m**	**RUB bn**	**USD m**	***Y-o-Y, %***	**RUB bn**	**USD m**	**RUB bn**	**USD m**	***Y-o-Y, %***
Revenue	**41,9**	1,351	**30,9**	1,103	*36%*	77,7	2,535	62,1	2,169	*25%*
EBITDA	**15,9**	512	**11,9**	424	*34%*	27,2	888	23,4	818	*16%*
Net profit	**3,0**	95	**9,5**	341	*-69%*	16,7	545	20,9	730	*-20%*
Cash from operations	**11,1**	357	**5,8**	209	*90%*	22,1	721	15,5	543	*42%*

	30 June 2012	**30 June 2011**	**31 December 2011**
Net Debt/ LTM* EBITDA	1.23x	0.84x	1.35x

Average RUB/USD exchange rate for periods: Q2 2012: 31.01; Q2 2011: 27.99; H1 2012: 30.64; H1 2011: 28.62

* Last Twelve Months

Moscow, August 15, 2012 - EuroChem today reported second quarter 2012 consolidated revenues of RUB 41.9bn, a 36% increase over the second quarter of 2011 and a new quarterly record for the Group (or a 19% increase on a like-for-like basis excluding acquisitions). During the same period, earnings before interest, taxes, depreciation, and amortization (EBITDA) amounted to RUB 15.9bn, representing a 34% increase over the previous year's RUB 11.9bn (26% increase on a like-for-like basis). Net profit for the second quarter of 2012 was adversely affected by a RUB 5.8bn non-cash translation loss brought on by the sharp weakening of the Russian rouble starting from May and decreased 69% to RUB 3.0bn as compared to the RUB 9.5bn registered in the second quarter 2011.

Revenue and EBITDA for the first six months of 2012 were respectively 25% and 16% ahead of the Group's first half 2011 results (16% and 11%, respectively if excluding acquisitions).

Second quarter Nitrogen and Phosphate fertilizer sales volumes, excluding iron ore and baddeleyite mining operations, climbed 27% to 2,552 thousand metric tonnes (KMT) as compared to the previous year due to the first-time consolidation of EuroChem Antwerpen in Q2 2012; on a like-for-like basis, fertilizer sales were 7% above Q2 2011 level. On the mining side, iron ore and baddeleyite sales volumes slipped 3% to 1,401 KMT on lower production.

CEO Dmitry Strezhnev commented: "Strong demand for our products and first time consolidation of our recent acquisition in Antwerp allowed us to record our best quarter ever in terms of revenues. Against a backdrop of robust crop prices, we are consolidating significant additional value-added production capacity and expanding our global distribution reach to meet the increasing requirements of our customers, effectively building value for all our stakeholders. In the nearest future, we will focus on extracting synergies from the recent acquisitions while further advancing our potash projects."

Market Conditions

Second quarter market conditions were mixed. In nitrogen, the early start to the North American season carried prices throughout the quarter with demand outpacing supply and keeping markets tight. Incentivized by robust corn, wheat and soybean prices, U.S. farmers proceeded to plant the most acres in a generation. While demand for nitrogen products remained unabated through June, capacity constraints and startup delays kept supply in check and prices responding accordingly. Prilled urea (FOB Yuzhny) averaged USD 473/tonne, representing increases of 21% and 14% on the first three months of 2012 and the second quarter of 2011, respectively. Ammonium Nitrate (AN, FOB Black Sea) averaged USD 329/tonne, which is 8% higher than the previous quarter and 4% above the Q2 2011 average.

The phosphate and potash markets, both showing healthy demand, were nonetheless less vibrant than nitrogen. Though South American demand helped phosphates find their footing, strong inventory overhang and limited intake from India capped prices to first quarter levels. At USD 559/tonne, average DAP prices improved 1% compared to the first three months of the year, but remained 10% below the second quarter 2011 average. Potash painted a similar picture with good support from South America on strong soybean pricing, but limited activity in other markets. The spread between contract and spot MOP prices continued to tighten in the second quarter. The MOP (FOB Baltic Sea) contract price finished the period at USD 425/tonne, while MOP spot closed at USD 464/tonne, having averaged USD 469/tonne in Q2. This compares to Q2 2011 average prices of USD 352/tonne and USD 443/tonne for contract and spot material, respectively.

Iron ore spot prices remained at Q1 2012 levels during the second quarter of the year. Reflecting the weakening pace of growth in China, prices averaged USD 144/tonne (63.5%Fe, China CFR) from April through June as compared to USD 183/tonne for the same period a year ago. Further continuing downward pressure had brought prices to USD 115-120/tonne at the time of this release.

According to preliminary data compiled by Azot Econ, fertilizer production (nitrogen and phosphate) in Russia for the three months ended 30 June 2012 increased by 0.5% to 2,794 KMT of nutrients, comprising 2,043 KMT of nitrogen fertilizers and 751 KMT of phosphate fertilizers as compared to the same period last year. Total nitrogen and phosphate fertilizer production in Russia for the first half of the year amounted to 5,745 KMT (H1 2011: 5,761 KMT)

BUSINESS SEGMENTS

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

Nitrogen segment

In the second quarter of 2012, sales volumes for the Group’s Nitrogen segment increased by 35% to 1,910 KMT compared to 1,418 KMT for the same period the previous year. Urea and AN increased 5% and 34% respectively while NPK and CAN swelled a respective 185% and 310% as a result of our consolidation of EuroChem Antwerpen from 31 March 2012 (excluding Antwerpen: 37% increase in NPK and 34% decrease in CAN). Urea sales volumes increased from 517 KMT in Q2 2011 to 542 KMT in the second quarter of 2012. For the same period, sales volumes of AN amounted to 508 KMT, while NPK and CAN totaled 338 KMT and 205 KMT respectively. From its consolidation within the Group, sales volumes from EuroChem Antwerpen amounted to 408 MMT, mainly comprising 176 MMT of NPK including specialty grades, and 224 MMT of straight-N fertilizers (CAN and AN).

When coupled with our additional capacity in Western Europe, the combination of robust nitrogen prices and a depreciating Russian rouble yielded a 65% year-on-year increase in revenues to RUB 23.6bn. Nitrogen EBITDA amounted to RUB 9.9bn, almost twice as much as the RUB 5.1bn reported a year earlier. EuroChem Antwerpen accounted for 20% and 8% of the Nitrogen segment's Q2 2012 revenues and EBITDA, respectively.

For the first six months of the year Nitrogen segment revenues and EBITDA amounted to RUB 40.7bn and RUB 16.0bn respectively, which represent increases of 38% and 45% over the first six months of 2011.

The consolidation of EuroChem Antwerpen also had a visible impact on our nitrogen segment's sales geography. While Nitrogen segment sales in Russia remained steady, the surge in sales to the Americas, Asia, and Europe diluted their share to 21% of segment revenues. Latin America, which saw a RUB 2.4bn year-on-year increase in sales, became our top destination in Q2 as it generated 26% of our Nitrogen segment sales. The European and North American markets followed with 20% and 11% of sales, respectively.

Average gas prices at EuroChem's Novomoskovskiy Azot and Nevinnomysskiy Azot nitrogen fertilizer facilities were RUB 3,186 and 3,331 per 1,000m^3 respectively (c. US$ 3.24 and 3.38/mmBtu), which compared to RUB 3,178and 3,342/1,000m^3 (c. US$ 3.45 and 3.63/mmBtu) in the first half of 2011. As announced, the 15% annual Russian domestic gas price increase was delayed by six months to 1 July, 2012. However, the effects of this latest increase have already been slightly muted by the Q2 devaluation of the rouble.

Phosphate segment

Increases in DAP and NP sales lifted the Group's total Phosphate sales volumes 10% year-on-year, from 586 KMT a year ago to 643 KMT in the second quarter of 2012. As reported above, iron ore and baddeleyite sales volumes slipped 3% to 1,401 KMT on slightly lower production.
Second quarter 2012 Phosphate segment revenues increased 5% as compared to the second quarter of 2011 and amounted to RUB 16.5 bn. During the same period Phosphate EBITDA came in at RUB 5.5bn, a 12% decrease from the same period a year earlier, as both phosphate and iron ore prices remained below their Q1 2012 averages. Correspondingly, while first half Phosphate revenues grew 10% year-on-year to RUB 34.2bn, the segment's 1H 2012 EBITDA trailed the previous year by 19% at RUB 9.7bn.

The co-products of our phosphate rock mining operations in the Kola Peninsula, which include iron ore and baddeleyite, added RUB 5.6bn and RUB 3.0bn to Q2 2012 Phosphate revenues and EBITDA respectively.

For the three month period ended June 30, 2012, Asia and Europe remained our main Phosphate markets, with these two destinations representing 34% and 22% of segment revenues, respectively. Coming in third and fourth were Russia and Latin America which accounted for 21% and 12% of Q2 segment sales.

Potash segment

Another milestone was reached at VolgaKaliy (Gremyachinskoe, Volgograd region) with the sinking of the Skip Shaft 1 hitting its freezing cut-off depth of 570 meters in the second quarter. As planned, the shaft is currently being readied for cementation sinking, which will take it to its planned depth of 1,200 meters.

The dismantling of the cementation equipment at the cage shaft was successfully completed, clearing the way for the ground freezing system. The cementation sinking of the shaft was halted in Q4 2011 following delays related to the presence of unconsolidated sands at approximately 100 meters. Given the progress of the project’s Skip Shaft 1, which utilized freezing, the decision was made to deploy the same technology for the remainder of the cage shaft sinking. The freeze pipes are currently being aligned and ground freezing is to start in Q2 2013. The freezing system will provide ground freezing to a depth of 820 meters. Sinking is set to resume in 2013.

Sinking operations in the Urals were slightly ahead of schedule. The Usolskiy Potash (Verkhnekamskoe deposit, Perm region) Skip Shaft #1 finished the second quarter below 200 meters. As at 13 August, excavation was being performed at 300 meters. Over at the cage shaft, while sinking operations only started in March 2012, the shaft was down to 190 meters as at 13 August. Both Usolskiy shaft sinking operations are utilizing freezing systems.

For the January to June period, total capex spending on both our potash projects increased 38% year-on-year to RUB 5.8bn as compared to RUB 4.2bn for the same period last year. As of 30 June 2012, cumulative investments in our potash projects stood at RUB 40.5bn (USD 1.4bn).

Distribution segment

Sales at EuroChem distribution and sales outlets grew 16% year-on-year to RUB 4.1bn in the first quarter of 2012, and accounted for 10% of our total sales (Q2 2011: 11%). Distribution EBITDA jumped 29% to RUB 241m.

FINANCIAL

Income statement

Primarily driven by the strong Nitrogen segment performance, EuroChem consolidated revenues for the second quarter of 2012 leaped 36% to RUB 41.9bn as compared to RUB 30.9bn in the second quarter of 2011. For its first quarter within the Group, EuroChem Antwerpen, which focuses on the sale of nitrogen fertilizers, contributed RUB 4.8bn and RUB 0.8bn to Group revenues and EBITDA respectively. Further upstream, our mining co-products (mostly iron ore) contributed RUB 5.6bn to consolidated revenues and RUB 3.0bn to Group EBITDA in the three months ended June 30, 2012, while the external sales from our Severneft Urengoy operations added RUB 0.5bn in revenues and RUB 0.2bn in EBITDA.

Costs of sales slightly outpaced the growth in revenues as we proceeded with the first time consolidation of sizeable non-integrated Western European plant in Antwerp. In the second quarter of 2012, costs of sales increased 48% to RUB 23bn, as compared to RUB 15bn in the second quarter of last year. Despite increasing 50% year-on-year, natural gas and other materials and components used or resold remained fairly stable in the costs structure and comprised 63% of costs of sales during the reported period (Q2 2011: 61%). The six-month postponement of the 15% annual Russian gas price increase to 1 July 2012, allowed second quarter 2012 natural gas costs for fertilizer production to remain unchanged year-on-year at RUB 3.4bn.

As compared to the second quarter of 2012, energy costs came down from a combination of limited tariff increases for electricity coupled with the effects of stable gas prices in the thermal power generation sector. As a result, and despite the second quarter’s higher production volumes, energy costs for the three months ended 30 June 2012 remained at par with the RUB 1.6bn registered in the previous year.

Labour costs, including contributions to social funds, represented 11% of cost of sales in the second quarter of 2012 (Q2 2011: 13%). The 22% year-on-year increase to RUB 2.5bn was primarily brought on by a net salary increase at the companies which were part of the Group in 2011 (accounting for 6pp of the 22% increase) and the consolidation of Severneft Urengoy and EuroChem Antwerpen (16pp) during the first half of this year.

Second quarter 2012 distribution costs increased by RUB 1.3bn, or 31%, to RUB 5.6bn as compared to RUB 4.2bn in the second quarter of 2011. The Group’s increasing use of CIF and CFR shipping terms starting from Q1 2012, as opposed to predominantly FOB arrangements in previous periods, combined with increasing average shipping distances were chiefly responsible for a 24% growth in transportation costs. The share of transportation costs, which is the main component of distribution costs, decreased from 85% to 80%.

Amounting to RUB 1.3bn, second quarter general and administrative (G&A) expenses were 30% higher than in the corresponding period of 2011. While their share within G&A decreased from 53% last year to 51% in the last quarter, labour costs rose 25% year-on-year to RUB 680m, which is 3% less than in the first three months of 2012. Total staff costs (including social expenses) grew to RUB 3.6bn in Q2 2012 (Q2 2011: RUB 2.8bn), on the back of acquisitions and increasing staffing requirements as our potash projects progress. All in all, acquisitions accounted for an 11% growth in G&A expenses in Q2 2012 over the previous year.

As opposed to other operating expenses of RUB 135m in Q2 2011, the Group recognized other operating income of RUB 1.4bn in the second quarter of 2012 The main item behind this change were operating (i.e. realized in cash) foreign exchange gains of RUB 973m, as compared to losses of RUB 178m the previous year, as a result of the U.S. dollar’s appreciation versus the Russian rouble during the second quarter of 2012.

Below the operating profit line, we recorded an unrealized translation financial foreign exchange loss of RUB 5.8bn in the second quarter of 2012, compared to a RUB 407m gain in Q2 2011. The exchange loss stemmed from the effects of a strengthening US currency on the value of the Group’s mostly US dollar-denominated debt, whereas the corresponding period of 2011 saw the US dollar depreciating versus the Russian rouble. The c.RUB 2.0bn financial loss below the operating level, representing revaluation of currency forwards and an interest rate swap, has a similar nature: it is of non-cash nature and it arose due to the weakening of the rouble exchange rate.

Interest expenses mirrored the increase in the Group’s debt levels over the last year and grew 76% year-on-year. The effective cost of Group’s financial debt, including the effects of swap and forward contracts, was 2.6%p.a. in US dollar terms as at 30 June 2012.

Balance sheet

Our acquisition of EuroChem Antwerpen combined with higher prices for raw materials and finished goods lifted net working capital to RUB 24.1bn as of June 30, 2012 (of which RUB 7.5bn in Antwerp), as compared to RUB 14.6bn for the same period last year.

EuroChem’s portfolio of borrowings did not significantly evolve in the second quarter. In May 2012 the Group signed a USD 100m framework agreement for a 2-year revolving facility. In June 2012 the facility was fully utilised (USD 100m outstanding as at 30 June 2012).

Earlier this year in March, the Group signed a USD 83.3 million credit line agreement with a European commercial bank, bearing a floating interest rate based on 1-month Libor and maturing in August 2015. In March 2012 the facility was fully utilised (USD 83.3m outstanding as at 30 June 2012).

Other major floating interest rate debt facilities are the USD 1.3bn 5-year club loan at 1 month Libor +1.8% secured in July 2011 (USD 1.3bn outstanding as at 30 June 2012), the September 2011 RUB 20bn 5-year loan agreement with Sberbank, and a USD 250 million 5-year credit line agreement bearing a floating interest rate based on 1-month Libor with a European commercial bank (USD 250m outstanding as at 30 June 2012).

In April 2012, following the termination of the construction contract, the unutilised part of the 10-year USD 261m ECA-backed facility secured for the construction of the Gremyachinskoe potash deposit cage shaft was cancelled and at 30 June 2012 the outstanding amount was US$ 109.5 million (31 December 2011: US$ 109.5 million). This amount will be repaid within 84 months from June 2013.

Since redeeming its USD 290m Eurobonds in March 2012, the Group's fixed rate debt is solely comprised of two domestic bond issues of RUB 5bn each placed 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).

During the first quarter of 2012 EuroChem disposed of c.13.5 million of shares in German potash and salt producer K+S Group at a profit of RUB 567m. At 30 June 2012 EuroChem held just over 2.0 million shares, or 1.05% of the issued share capital (31 March 2012: 1.03%) with a fair value of RUB 3.0bn according to the 30 June 2012 closing price (EUR 36.0 per share).

At 1.23x, the net debt to 12-month rolling EBITDA ratio as at 30 June 2012 remained below the 2011-end level of 1.35x (31 March 2012: 1.23x) and well within the Group's debt covenants of 3.0x and its internal policy limit of 2.5x.

Cash flow

Operating cash flow for the second quarter of 2012 amounted to RUB 11.1bn, as opposed to RUB 5.8bn for the same period of the previous year. This increase was a combination of EuroChem Antwerpen consolidation and a 35% increase in operating profit during the same period.

Events after the reporting period

On 2 July 2012, the Group announced the completion of its acquisition of K+S Nitrogen, a distributor of nitrogen fertilizers. With a preliminary purchase price of approximately EUR 200m paid in cash, the assets comprise net working capital of approximately EUR 100m, distribution companies operating in Germany, France, Spain, Italy, Mexico, Singapore, China, Greece, and Turkey, as well as certain intellectual property including brands and patents for technology which enhance performance of nitrogen fertilizers through reduced ammonia evaporation and lower N_2O emissions. Subsequently renamed EuroChem Agro, this acquisition supports the Group's strategy of moving closer to its customers in its core markets both in terms of geography and product suite.

OUTLOOK

Excluding any major disruptions in the financial sector, the effects of expected weather related supply shocks in major grains, when combined with already below average global stock-to-use ratios, should prove to be compelling catalysts for increased fertilizer application over the quarters to come.

In nitrogen, we expect urea prices to remain stable to stronger over the next few months, above what we see is a USD 380-400/tonne floor price. Phosphates should remain stable on healthy demand (outside India) while potash could remain under pressure. To a certain extent, India will continue weighting down on both the phosphates and potash markets and pricing direction will largely reflect producer discipline.

Weaker Chinese industrial activity will continue to pressure iron ore prices with some recovery seen towards the end of Q3 on restocking.

In Q3 2012 EuroChem's results will benefit from the first time consolidation of EuroChem Agro (former K+S Nitrogen). However, in terms of operating results Q2 2012 was a very good quarter benefiting from favorable volumes, pricing, and exchange rate movements which may not be repeated in the near future.

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About EuroChem

EuroChem is a leading global agrochemical company, producing primarily nitrogen and phosphate fertilizers, as well as certain organic synthesis products and iron ore. The Group is vertically integrated with activities spanning from mining and natural gas extraction to production, logistics, and distribution. EuroChem is currently developing the Gremyachinskoe and Verkhnekamskoe greenfield potash projects in Russia, with planned capacities of 4.6 and 3.4 million tonnes per year respectively.

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 six month months ended 30 June 2012 is available at: http://www.eurochem.ru/investors/financials.

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