

Economic sustainability



During the last ten years we have proven our economic sustainability. In 2010, the favorable price dynamics observed in all key market segments, coupled with our production flexibility, ensured record sales for EuroChem: RUB 97.8 billion, a 33% increase over the previous year. At the same time, EBITDA grew by an impressive 80% and amounted to RUB 29.7 billion.

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This section covers information about our production, markets and financial achievements in ensuring sustainable business on the basis of our economic strategy.

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Key facts

US\$ 530m

Our investments in new products, greater efficiency and environmental protection in 2010.

- **RUB 97.8 billion** – sales (+33%)
- **RUB 29.7 billion** – EBITDA (+80%)
- **1.13x** – Net debt/EBITDA
- **RUB 26.2 billion** – operational cash flow



The hardiness of winter wheat is dependent on potash. In 2013, we will start our own production of potash fertilizers in the Volgograd region. See information about this project on pages 36-39

EuroChem's economic sustainability in brief

Nitrogen

In nitrogen, EuroChem is well positioned both domestically and internationally given its access to relatively low natural gas prices, operational efficiency, a flexible product range and effective logistics. Our competitiveness further increases with the expansion of our downstream and upstream operations. The stable profitability of the nitrogen segment is determined by the relative sustainability of our business models.

Sales volume (million tonnes)

+5%



Revenue (RUB bn)

+19%



EBITDA (RUB bn)

+46%



Phosphate

EuroChem's phosphate business is fully vertically integrated, from mining to distribution and logistics. We have further strengthened our position by investing in productivity, efficiency, and improving the quality of our products.

Sales volume (million tonnes)

+14%



Revenue (RUB bn)

+56%



EBITDA (RUB bn)

+279%



Potash

Potash is known as 'the quality nutrient' because it helps to improve the taste and color of crops. For EuroChem, our investments at the Gremyachinskoe potash deposit are a top priority, which will help us to become one of four major global producers with production capacity in all three nutrient groups.

Investments in Gremyachinskoe potash project as of 2010

RUB 18.7m

21% of budgeted costs

Investments into Verkhnekamskoe potash project as of 2010

RUB 6.4bn

10% of budgeted costs

Planned initial production capacity in 2013

2.3 million tonnes p.a.

During 2010 we made considerable advances in developing our potash deposits in the Volgograd region (Gremyachinskoe deposit) and in the Perm region (sections of the Verkhnekamskoe deposit). The launch of our own potash production is planned at Gremyachinskoe by the end of 2013. In 2010, it was decided to accelerate the development of the Verkhnekamskoe deposit.

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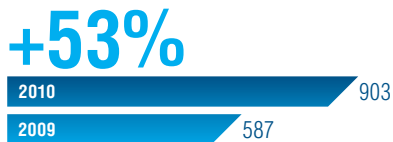
Social responsibility

Results and attachments

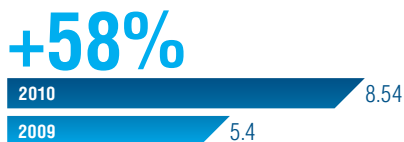
Distribution

In 2010 our strong performance was due to robust increases in sales volumes and prices. EuroChem's distribution network covers all key agricultural regions of Russia and Ukraine. Our strategic approach is to 'sell yield, not fertilizers'.

Sales volume (thousand tonnes)



Revenue (RUB bn)



EBITDA (RUB bn)



Our distributors buy products from our plants and other producers, and sell at a margin to customers, while simultaneously providing advisory services to help farmers produce more by using a full range of seeds, fertilizers and crop protection products. As a member of the Russian Association of Fertilizer Producers, EuroChem advocates a responsible approach to the creation of favorable conditions for agrochemical companies based on transparent price-setting mechanisms.

Market recovery and growth

During 2010 EuroChem continued to improve its global competitiveness by strengthening its vertical integration, ensuring access to low-cost raw materials and increasing operational efficiency. One of our main priorities is to keep our production facilities in top condition to ensure efficient and smooth operational running.

Agricultural commodity prices continued to be buoyed by fundamental demand, driven by population growth, urbanization in emerging markets, diet changes, and decreasing arable land per capita. However, supply shocks due to bad weather/poor crops in many key agricultural regions (Russia, Kazakhstan, Pakistan, Canada, Australia, etc.) lowered global grain inventories and significantly tightened the supply/demand balance. The stabilization of credit markets following their virtual closure during the 2008-2009 financial crisis helped farmers and distributors finance their needs. Consequently, farmers had both the incentive and the ability to put nutrients into their fields. Demand for fertilizers recovered strongly, particularly in the P and K segments, driven by a depleted supply chain coupled with under-fertilization in 2009. The extension of the higher export tax window by China in December 2010 for urea and MAP/DAP tightened the global supply/demand balance further.

The success of EuroChem is closely linked to the overall global economy. The reason is simple: our products help to feed the world. We are helping to satisfy demand for food and our products are becoming increasingly vital for the world's population.

Production in nutrient content (MMT p.a.)

| | 2008 | 2009 | 2010 |
|--|--------------|--------------|--------------|
| Nitrogen (N) | 99.0 | 101.9 | 103.9 |
| Phosphate (P ₂ O ₅) | 34.2 | 36.2 | 39.0 |
| Potash (K ₂ O) | 24.4 | 22.7 | 27.0 |
| Total world | 157.5 | 160.8 | 169.9 |

Source: IFA

Prices for wheat, corn, soybean and rice

| | Wheat (US\$/bushel) | Corn (US\$/bushel) | Soybean (US\$/bushel) | Rice (US\$/cwt) |
|-------------|---------------------|--------------------|-----------------------|-----------------|
| 2000 | 2.8 | 2.0 | 5.2 | 10.1 |
| 2001 | 3.1 | 2.3 | 5.3 | 8.8 |
| 2002 | 3.8 | 2.3 | 5.8 | 8.7 |
| 2003 | 3.9 | 2.6 | 6.1 | 9.1 |
| 2004 | 4.1 | 3.0 | 8.4 | 10.1 |
| 2005 | 4.1 | 2.5 | 6.4 | 12.0 |
| 2006 | 3.2 | 4.7 | 6.4 | 12.6 |
| 2007 | 6.4 | 3.7 | 8.7 | 10.9 |
| 2008 | 7.9 | 5.2 | 12.3 | 17.6 |
| 2009 | 5.3 | 3.7 | 10.3 | 13.3 |
| 2010 | 5.8 | 4.3 | 10.5 | 12.5 |

Source: CBOT

Recent developments in the potash market

This market saw consolidation in Russia and abroad with the merger of Uralkali and Silvinit and the acquisition by K+S of a majority stake in Potash One, while BHP Billiton failed to acquire PotashCorp as Canadian authorities blocked its bid. At the same time, EuroChem has the only major greenfield project likely to come on line by 2014.

Sustainability of the investment program

In 2010 each facility continued to work on investment projects directed at achieving the Company's goals. In all the projects we undertake, full consideration is given to their environmental and social effects.

| Project | Social benefits (upon completion) |
|---|--|
| Development of Gremyachinskoe potash deposit (phase 1), Volgograd region, Russia, 2005-2014 | Development of new residential districts and infrastructure in the town of Kotelnikovo; creation of some 3,000 jobs |
| Construction of Tuapse transshipment terminal, Tuapse, Russia, 2007-2010 | Creation of 130 new jobs; development of charitable and social projects |
| Granulated urea production capacity at Novomoskovskiy Azot, Novomoskovsk, Russia, 2007-2010 | Improvements in working conditions, environmental performance and product mix; Novomoskovskiy Azot is now the largest urea plant in Europe |
| Production of melamine at Nevinnomysskiy Azot, Nevinnomyssk, Russia, 2007-2011 | Reduced environmental impact by switching from processing toxic resins to melamine; creation of 40 new jobs |
| Upgrading of units producing weak nitric acid at Nevinnomysskiy Azot, Nevinnomyssk, Russia, 2008-2011 | Improvements in working conditions and environmental performance |
| Upgrading production of sulphuric acid at EuroChem-BMU, Belorechensk, Russia, 2008-2010 | Improvements in environmental safety, production efficiency, and working conditions |
| Construction of facilities to produce compound fertilizers (NPK) at EuroChem-BMU, Belorechensk, Russia, 2009-2011 | Improvement in environmental performance |
| Production of sulphuric acid at Phosphorit, Kingisepp, Russia, 2008-2010 | Increased provision of fertilizers for the agricultural sector |
| Development of Palashersky and Blakhontsev sections of the Verkhnekamskoe potash deposit, (phase 1), Perm region, Russia, 2008-2016 | Improvement in infrastructure and quality of life in the village of Usolie; creation of 2,300 new jobs |

In 2008-2009 we began construction work on the infrastructure for our new mining and beneficiation facilities at the Gremyachinskoe potash deposit. This was followed in 2010 by ground freezing and the start of shaft sinking operations.



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EuroChem's long-term sustainability is ensured through the execution of investment projects and production facility upgrades.

Kovdorskiy mining and beneficiation plant

In 2010, the upgrade of the mining and hauling equipment, including the rock drilling machine, hydraulic excavators, bulldozers, and dump trucks; the optimization of blasting works; the expansion of the quarry; the commissioning of the crushing and conveyor facility; and the development of cyclic-flow technology for the transportation of rock overburden. Environmental projects included: sowing grass on the slopes of the dam of the tailing pit to reduce dust, and on the blanket of the Zhelezny pit to strengthen the slopes; excavation to construct a landfill site for industrial waste; and the overhaul of the fuel and transport elements of the thermal power plant.

Phosphorit

The main projects at Phosphorit included: an upgrade in production processes, resulting in a decrease in downtime; timely repairs; expansion of the product mix (DAP); replacement of obsolete production equipment for sulphuric acid and wet process phosphoric acid; and environmental projects to reduce emissions and to refurbish the tailings site for the phosphogypsum.

Novomoskovskiy Azot

In 2010, the second part of the Urea-3 production facility was launched. The facility was upgraded, energy and gas consumption were decreased, and environmental projects were completed.

EuroChem-BMU

Completed projects in 2010 included: repairs and commissioning of new equipment for the sulphuric acid plant; introduction of a closed-cycle water system; re-cultivation of 25 hectares of land; and installation of air quality monitoring stations.

EuroChem-VolgaKaliy

In 2010 permission was granted to construct the mine shafts and the surface complex; the design documentation successfully passed both statutory review and environmental appraisal; a landfill for solid waste was built; final inspections were carried out by the statutory construction supervisory authorities; credit agreements were concluded; and work began on a large-scale construction program to build social infrastructure facilities, including residential units.



New facilities to produce calcined ammonium nitrate (CAN) and granulated urea were commissioned at Novomoskovskiy Azot.

Development of the Gremyachinskoe potash deposit

Case study 1

Project parameters

- One of the largest projects in the sector, and the first greenfield potash development undertaken in Europe in the last 30 years
- Total investment: RUB 85.5 billion
- Investment in 2005–2010: RUB 15 billion
- Projected annual tax payments: RUB 10 billion
- Employment opportunities: 3,000 full-time jobs and up to 30,000 jobs in services and related areas
- Strategic impact: de-monopolization/deregulation of the potash market in Russia

The Gremyachinskoe potash development project is important and well-timed in the light of the recent consolidation in the potash sector. Production is expected to start in 2013 and reach its designated capacity of 4.6 million tonnes per year by 2018.



In 2018 we expect VolgaKaliy to reach a capacity of 4.6 million tonnes of potash per annum.

Stage 1

- project capacity 2.3 million tonnes per annum
- extraction starts in 2013, full production expected to be reached in 2016
- construction of industrial and social infrastructure facilities, two mine shafts (skip shaft and cage shaft), and beneficiation plant
- total investment of around US\$ 2.3 billion

Stage 2

- additional production capacity of 2.3 million tonnes per annum (total project capacity will double to 4.56 million tonnes per annum)
- start of mining planned for 2015 (full designed capacity expected to be reached in 2018)
- projected completion of the additional skip shaft in 2015, increasing ore processing capacity
- investment estimated at US\$ 1.1 billion

Active shaft sinking has begun. Construction of the utility systems is also underway. Staff housing has been built and the construction of the cottage village is underway.

To mitigate possible risks connected with the global overproduction of potash fertilizers and a consequent decrease in sales volumes, EuroChem plans to use potash as raw material for the production of other fertilizers, including NPK, industrial application potash, potassium sulphate, potassium nitrate, and potassium magnesia. Additional plans include the production of up to 800,000 tonnes of NPK per year at EuroChem-BMU and an increase in NPK production volumes at the Phosphorit, Lifosa and Nevinnomysskiy Azot facilities. The Gremyachinskoe deposit development also includes a large social program and considerable contribution to the development of the Kotelnikovo district.

Total project budget is US\$ 3.4 billion (RUB 104 billion without VAT), including:

| 2005–2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-----------|------|------|------|------|------|
| 16.5 | 12.7 | 22.1 | 17.1 | 13.5 | 22.3 |

Cumulative capital expenditure as of end-2010 was RUB 16.5 billion, including RUB 5 billion for the licence in 2010.



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In 2010, EuroChem started active shaft sinking operations at the Gremyachinskoe potash deposit. The shafts are expected to reach depths of up to 1,150 meters.

Development of the Gremyachinskoe potash deposit Continued

Case study 1 (continued)

Key sustainable development and social responsibility initiatives of the Gremyachinskoe project

1 The Gremyachinskoe project crystallizes the company's strategy to enter the potash business and to ensure its long-term competitiveness in terms of reserves.

2 A key social innovation is the hiring, within the project, of over 3,000 new employees, a considerable number of whom are mining industry personnel. The logistics (given the scarcity of labor resources in Russia) of the recruitment and social integration of so many employees will be a big challenge for the HR department. Our partners in this drive to ensure sufficient labor resources are the Ministry of the Regions of Russia, the regional governments – which are the sources of our specialized labor resources (for example, traditional mining towns) – and recruitment agencies.

3 EuroChem will seek to build relationships with the local community in accordance with the latest international standards, including environmental monitoring. In 2009, Environmental Resources Management (ERM) carried out an independent environmental and social review of the construction of the potash beneficiation plant at the Gremyachinskoe deposit and a preliminary plan of activities in the environmental and social sphere. During 2010, background social surveys and socio-environmental and health impact assessments were carried out; systems of social and environmental management were introduced into the EuroChem-VolgaKaliy management system, including in its environmental and social risks management program. Public hearings took place around the project to discuss the environmental and social impacts of the project. A stakeholders' interaction plan has been developed and put into action. In 2011, we are commencing implementation of the plan to mitigate environmental and social risks and impacts associated with the project.



In 2010, two of the nine planned low-rise apartment blocks were built in the new district of Kotelnikovo, which will provide comfortable housing for employees and their families.



At the same time as the development of the Gremyachinskoe potash deposit, EuroChem started to prepare for the development of the Verkhnekamskoe potash deposit in the Perm region.

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Exploratory drilling has highlighted the unique properties of the Gremyachinskoe potash deposit.

4 Modern housing representing a total area of 250,000m² is being constructed for 10,000 people: the future employees of the mining and processing plant and their families. EuroChem has invested RUB 1 billion in this housing construction. By 2013, no less than 90,000m² of housing will have been already built. The commissioning of our own construction facility will allow the use of Russian 'warm wall' technology, which ensures high quality, while keeping construction costs low at RUB 20,000 per m². Two types of buildings will be built – individual houses with individual yards (cottages) and low-rise apartment blocks. In 2010, the first two of the planned nine low-rise apartment blocks were completed in the Vostochny district. Both are hostels: an apart-hostel for 60 families, which was occupied at the beginning of 2010, and a hostel for 200 people, with the first tenants moving in at the end of 2010. Each floor has a spacious recreation room and a well-equipped kitchen, and a launderette fitted with modern washing machines. Each room is fully furnished and equipped with an air conditioning unit and a refrigerator. Each apartment block, designed with 36 flats, will have four living floors and an attic floor.

Nine houses are in the first phase of construction in the new district, located within the town boundary. Currently, the utilities networks are being designed for the Vostochny district. This work incorporates the needs of the neighboring Dubovaya Roscha (Oak Grove) district, where the construction of the new town will be continued. Plans also include a supermarket, hotel and fitness center.

5 Social infrastructure and support services are also under construction. The program for Volgograd region to develop the Kotelnikovo industrial zone has been finalized, and includes the construction of the following social facilities: a school, two kindergartens, a hospital, a primary health care center and a recreation center. In addition, housing and utilities infrastructure, roads and a railway station will be constructed.



The fitness and rehabilitation center built in 2009, which features a swimming pool, is one of the many social infrastructure facilities linked to EuroChem's potash mining and beneficiation plant. In the future, kindergartens, a hospital and a cultural center will also be opened.

EuroChem plans to launch the first Russian plant to produce melamine at Nevinnomysskiy Azot in 2011. Particular attention has been paid to the environmental aspects of this project.

