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EuroChem Reports IFRS Financial Information for Q1 2013

	Q1 2013		Q1 2012		Chng	Q4 2012		Chng
	RUB bn	USD m	RUB bn	USD m	*Y-o-Y, %*	RUB bn	USD m	*Q-o-Q, %*
Revenue	**46.7**	1,534	**35.8**	1,182	+30%	**41.7**	1,342	+12%
EBITDA	**12.4**	406	**11.3**	374	+9%	**10.3**	331	+20%
Net profit	**4.8**	158	**13.7**	454	-65%	**8.0**	257	-40%
Cash from operations	**8.8**	289	**11.0**	363	-20%	**5.2**	167	+69%

	31 March 2013	31 March 2012	31 December 2012
Net Debt/ LTM[1] EBITDA[2]	1.73x	1.23x	1.53x

Average USD/RUB exchange rate for the period: Q1 2013: 30.41; Q4 2012: 31.08; Q1 2012: 30.26
(1)Last Twelve Months
(2)Including estimated pro-forma EBITDA of EuroChem Antwerpen and EuroChem Agro

Moscow, 22 May 2013 - EuroChem today reported consolidated revenues for the first three months of 2013 of RUB 46.7bn (US$ 1.5bn), which represented a 30% increase on the RUB 35.8bn obtained in the first three months of 2012. For the first quarter of the year, earnings before interest, taxes, depreciation, and amortisation (EBITDA) increased 9% year-on-year to RUB 12.4bn (US$ 406m). Net profit for the period decreased to RUB 4.8bn (US$ 158m) largely from a non-cash loss on translation of the Group's mainly USD-denominated debt brought on by the depreciation of the Russian rouble against the U.S. dollar.

First quarter sales volumes for our Nitrogen and Phosphate segments, excluding sales of mining co-products and hydrocarbons, grew to 2,759 thousand tonnes (KMT), surpassing the first quarter 2012 sales volumes by 494 KMT. Our addition of nitrogen production and distribution capacity in Western Europe was the main driver behind a 529 KMT increase in Nitrogen sales volumes, which more than compensated a slight 34 KMT dip in Phosphate segment sales brought on by softer demand. During the same period, iron ore and baddeleyite sales volumes decreased 175 thousand tonnes to 1,215 KMT as a result of lower apatite rock mining volumes.

"Our first quarter results highlight the strategic importance of our acquisitions in the nitrogen space, while our unique raw material resource base once again helps us counter the temporary headwinds felt in phosphates," CEO Dmitry Strezhnev commented. "At the same time, with our Usolskiy mine shafts already well within the potash layer, we move one step closer to integrating the third primary nutrient within our value chain."

First Quarter Market Conditions

In sharp contrast to 2012, when mild weather led to an early start to spring planting, lingering cold spells across much of North America and parts of Europe kept farmers off their fields throughout most of the first quarter. The delayed fertilizer application provided for a lacklustre start to what is traditionally peak season across developed markets. Nonetheless, despite the year's slower start, prices for nitrogen products remained relatively strong up to April, underpinned by ongoing supply constraints in ammonia. Prilled urea (FOB Yuzhny) averaged USD 399/tonne, representing an increase of 2% on the first quarter of 2012. At USD 337/tonne, average ammonium nitrate (FOB Black Sea) prices were 11% higher than in the first three months of 2012 while average UAN (FOB Yuzhny) prices finished the quarter up 19% over the same period. Record urea exports from China in the second half of 2012 and into 2013 led to inventory build-up in some markets, most notably the U.S., explaining urea's relative weakness versus other nitrogen products.

While the first quarter saw demand return across the phosphate market, elevated stock levels in India coupled with the delayed announcement of 2013 subsidy levels kept the world's largest phosphate importer out of the market. Consequently, India's absence weighed on phosphate prices throughout the quarter. Average MAP and DAP (FOB Baltic Sea) prices for the first three months of 2013 were USD 496$ and 500$/tonne respectively, trailing their first quarter 2012 average prices by 9% and 10% respectively.

In potash, although destocking and a return in demand, albeit modest, across most traditional markets materialized, prices continued to remain behind early 2012 levels. Averaging USD 368/tonne, first quarter average MOP (FOB Baltic Sea) contract prices were 13% below the USD 423/tonne registered last year. Mirroring the trend, MOP (FOB Baltic Sea) spot prices also saw a 13% year-on-year pullback to USD 415/tonne as compared to USD 479/tonne in Q1 2012.

Iron ore prices continued to recover from their abrupt Q3 2012 contraction and gained a further 21% on their Q4 2012 average. For the first three months of 2013 iron ore (63.5%Fe, CFR China) averaged USD 149/tonne, up 1% year-on-year.

BUSINESS SEGMENTS

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

Nitrogen segment

Sales volumes for our Nitrogen segment jumped 35% in the first quarter of 2013, or by 529 thousand tonnes, from 1,526 KMT in Q1 2012 to 2,054 KMT. As aforementioned, EuroChem Antwerpen production and EuroChem Agro sales helped generate the bulk of the increase. Most notably, NPK sales volumes increased by 267 KMT, or more than 200%, from 129 KMT in Q1 2012 to 396 KMT in the first quarter of 2013.

With pricing across the segment remaining flat to up, our additional nitrogen production and distribution capacity pushed Q1 2013 revenues up 55% to RUB 26.4bn, as compared to RUB 17.1bn a year earlier, while our Nitrogen segment EBITDA increased 32% to RUB 8.1bn despite a 15% rise in natural gas prices in Russia.

As in the last three quarters, the European footprint of our Antwerp operations and EuroChem Agro sales platform left its mark on our Q1 nitrogen segment sales geography. Sales to Europe, as a percentage of total segment sales, leaped 19 percentage points and accounted for 37% of sales. With stable sales volumes in Russia, the increase in sales to Europe diluted the share of sales to Russia by 13 percentage points to 24%, as compared to 37% in the first quarter of 2012. Representing 14% of our nitrogen segment sales and rounding out the top three was North America.

Following the 15% increase in gas prices in Russia from July 2012, our Novomoskovskiy Azot and Nevinnomysskiy Azot nitrogen fertilizer facilities had average natural gas prices of RUB 3,608 and 3,808 per 1,000m^3 respectively (c. USD 3.69 and 3.90/mmBtu), for the three month period ended 31 March 2013, compared to RUB 3,183 and 3,318/1,000m3 (c. USD 3.27 and 3.41/mmBtu) in the first quarter of 2012.

Our Nitrogen segment results also include the EBITDA of Severneft-Urengoy (SNU), our oil and gas subsidiary, which in Q1 2013 sold 188 million m^3 of natural gas to Novomoskovskiy Azot at the regulated price less a 5% discount. SNU contributed RUB 337m to Group EBITDA in Q1 2013.

Phosphate segment

First quarter 2013 Phosphate segment sales volumes amounted to 705 KMT. Despite being 34 KMT shy of the 739 KMT registered a year earlier, Q1 sales volumes nonetheless climbed well above the 436 KMT of the previous quarter. The quarterly increase was mainly driven by a seasonal return in demand for MAP/DAP which added 210 KMT on Q4 2012 volumes. Year-on-year, while MAP/DAP sales were down 11%, our efforts to push NP and feed product yielded gains of 81% and 9% respectively as compared to the first three months of 2012.

Despite encouraging market conditions in the year-to-date, the lower year-on-year phosphate prices brought Q1 2013 Phosphate segment revenues down 15% to RUB 15.2bn, as compared to RUB 17.8bn for the same period a year ago.

Prices for iron ore, a co-product of apatite processing in Kovdorskiy GOK, were surprisingly resilient during the first quarter of 2013 and gained 1% on the same period the previous year. Iron ore and baddeleyite, the co-products of our apatite raw material mining operations, together accounted for 29% of EuroChem’s Q1 Phosphate segment revenues. Against a backdrop of softer phosphate fertilizer prices, the co-products of our raw material mining operations contributed 62% of the segment’s EBITDA, as compared to 46% in Q1 2012.

The sales geography for the Phosphate segment, including mining operations, remained relatively unchanged in the first quarter of 2013 when compared to the same period last year. Together, Europe and Asia once again accounted for 57% of the segment’s revenue. However, sales to Europe increased 5% year-on-year and represented 36% of total sales, 6 percentage points ahead of last year. As in Q1 2012, Russia was our third largest market in phosphates with 18% of total segment sales. The most important gains were realized in North America and the CIS (excluding Russia), where sales grew 82% and 56% respectively.

Potash segment

EuroChem VolgaKaliy (Gremyachinskoe potash deposit, Volgograd region)

During the first quarter of the year, we continued with the drilling and casing of freezing and thermal boreholes around the cage shaft to complete our switch from cementation to freezing. As previously announced, since the cementation technique used by a former contractor failed to perform in Gremyachinskoe’s particular geological conditions, both of the mine’s first phase shafts will be finalized using freezing technology. At the site of the skip shaft, a new outer ring of freeze holes was completed to bring it to a depth of 623 meters, and the further drilling of all freeze holes down to 831 meters was started. As well, the advancement of the second skip shaft commenced, ahead of our original plan. As announced earlier, sinking delays encountered at the cage shaft have pushed back the commissioning of EuroChem VolgaKaliy to 2017.

EuroChem Usolskiy Potash (Verkhnekamskoe potash deposit, Perm region)

Sinking operations at our potash site in the Urals continued as scheduled. As of 15 May, the phase I cage and skip shafts had reached respective depths of 460 and 400 meters. Since reaching the potash ore body in the fourth quarter of 2012, the Usolskiy crew also progressed horizontally with the start of excavation of haulage sections and loading stations. On the surface, ground levelling is underway at the site of the future mill.

As announced in February, Clark Bailey, a veteran of the potash and overall fertilizer industry was appointed as Director of Mining to oversee EuroChem's mining operations. These currently include the development of our two planned potash mines, the Kovdorskiy GOK phosphate rock and iron ore mining facility, and a phosphate rock project in Kazakhstan. Additionally, with his 34 years in the potash sector, the recent appointment of Sergey Malakhov added further depth to our potash mining team. Most recently Sergey was Director of Belaruskali's 3rd Mining Complex.

Capital expenditure (capex) for our potash projects increased 40% year-on-year, from RUB 2.7bn in Q1 2012 to RUB 3.8bn for the three month period ending 31 March 2013.

Distribution segment

Sales from our Distribution segment, which encompasses retail sales of mineral fertilizers (including third party), seeds, and crop protection products via a number of retailers located in the CIS, continued their steady growth. When compared to Q1 2012, sales grew 7% to RUB 4.7bn in the first three months of 2013 and accounted for 10% of our total sales (Q1 2012: 12%). Despite the increase in sales, EBITDA for the segment decreased 9% to RUB 234m as rising costs outran the growth in domestic prices.

FINANCIAL

Income statement

Primarily driven by the integration of acquired assets in Western Europe, our first quarter consolidated revenues rose 30% year-on-year to RUB 46.7bn, while EBITDA increased 9% to RUB 12.4bn as compared to RUB 11.3bn in Q1 2012. Without the contribution of the EuroChem Antwerpen and EuroChem Agro, our revenues and EBITDA would have amounted to RUB 34.63bn and RUB 11.0bn respectively. While first quarter prices for nitrogen products were stronger than a year ago, the depressed pricing environment in phosphates mitigated our Q1 2013 performance. Nonetheless, unexpectedly robust iron ore trading alleviated some of the pressure within our phosphate segment. Together, Europe and Russia and the CIS, our domestic markets, accounted for 67% of total Group first quarter sales or respectively for 39% and 28% of Q1 sales (Q1 2012: Europe: 23%, Russia and CIS: 37%).

As a result of lower-margin acquisitions in Europe and increasing natural gas prices in Russia, our total cost of sales for the first three months of 2013 outpaced the 30% growth in revenues and increased 51% year-on-year to RUB 29.4bn. Consequently, materials and components used or resold, which represented 63% of costs of sales in Q1 2013 (2012: 53%), increased to RUB 18.6bn. While our operations benefited from declines in prices for sulfur and sulfuric acid, ammonia, which we mostly purchase for Antwerp, increased 31% year-on-year on a base effect (EuroChem Antwerpen results were not consolidated in Q1 2012). The July 2012 increase in natural gas prices in Russia translated in 12% year-on-year increase in natural gas costs for fertilizer production. Total gas costs associated with fertilizer production rose from RUB 3.4bn in the first quarter of 2012 to RUB 3.8bn in Q1 2013.

Energy costs, despite increasing 16% to RUB 2.0bn in the first quarter of 2013, accounted for 7% of costs of sales as compared to 9% last year. The rise in energy costs, which was mainly a factor of growing electricity prices in Russia, was slightly diminished by the commissioning of additional internal power generation capacity at our Phosphorit facility.

Representing 9% of our total cost of sales, versus 12% in Q1 2012, labour costs, including contributions to social funds, amounted to RUB 2.7bn in the first three months of 2013 (2012: 2.3bn). This increase primarily arose out of acquisition-related personnel increases (10%) and an annual salary indexation from January 2013 (9%).

Total distribution costs for the Group increased by 12% to RUB 5.9bn in the first quarter of 2013 (2012: 5.3bn). Representing 73% of distribution costs, transportation costs decreased 3% on account of lower freight costs and a reduction in iron ore deliveries to China. For the first three months of 2013, transportation costs amounted to RUB 4.3bn, as compared to RUB 4.5bn for the same period a year earlier.

Total general and administrative (G&A) expenses for the first quarter of the year amounted to RUB 1.5bn, as compared to RUB 1.2bn in the first quarter of 2012. General and administrative labour costs, the main G&A expense item, inched up 2% to RUB 711m and accounted for 49% of expenses (2012: 59%). Total Group staff costs (including social expenses) increased by 21% or RUB 701m, of which RUB 537m related to acquisitions.

Other operating expenses for the first quarter of 2013 amounted to RUB 55m, as compared to RUB 333m in the first three months of 2012. The main items behind this line comprised income from the revaluation of iron ore forward contracts and from the sale of call options coupled with sponsorship activity, including the Group's youth hockey development program.

Below the operating profit line, given the Group's mostly US dollar-denominated debt, the depreciation of the Russian rouble against the U.S. dollar led to an unrealized financial foreign exchange loss of RUB 1.7bn in the first quarter of 2013. This compares to a RUB 5.4bn gain in the same period the previous year when the rouble had firmed against the US dollar. Interest expense rose 9% year-on-year to RUB 1.2bn in the first quarter of 2013. We recognized other financial losses of RUB 312m on changes in the fair value of USD/RUB non-deliverable forward contracts and changes in the fair value of cross currency interest rate swaps in amounts of RUB 205m and RUB 50m, respectively.

Balance sheet

Coupled with the consolidation of our acquisitions, higher prices for raw materials and finished goods yielded an increase in working capital. For the first quarter of this year, net working capital increased 4% to RUB 24.9bn as compared to RUB 23.8bn as at 31 December 2012.

EuroChem's portfolio of borrowings from banks remained unchanged in the first quarter of the year. As at 31 March 2013, EuroChem's net debt to 12-month rolling EBITDA stood at 1.73x (including estimated pro-forma LTM EBITDA of EuroChem Agro), which was slightly above the 2012-end level of 1.53x.

Also during the first quarter, the Group sold Asian call options and entered into commodity swap contracts to mitigate risks arising from iron ore pricing volatility.

At 31 March 2013, we held 2,005,434 shares, or 1.048% of the issued share capital of K+S Group. Our investment in the German potash and salt producer had a value of RUB 2.9bn according to its 31 March 2013 share price of EUR 36.29.

Cash flow

First quarter 2013 operating cash flow came in at RUB 8.8bn, compared to RUB 11.0bn in Q1 2012. Free cash flow for the period amounted to RUB 4.2bn, as compared to RUB 3.9bn in the corresponding period a year earlier (excluding proceeds from the disposal of K+S shares).

Total Q1 2013 capex for the Group amounted to RUB 7.4bn, 23% above first quarter 2012 capex spending.

Corporate developments

In March 2013 “Reverta AS” filed a claim against LLC “NK Severneft” and LLC “Severneft-Urengoy” contesting the real estate purchase and sale transactions made between these two entities in 2011, prior to the acquisition of LLC “Severneft-Urengoy” by the Group. As part of the proceeding, the court has issued an injunctive relief. As this injunction only applies to the disposal of certain property; these proceedings have no bearing on Severneft Urengoy’s ongoing activity. We believe that the Group has no relation to the subject of the proceedings between “Reverta AS” and LLC “NK Severneft” and/or any third persons and the claims of “Reverta AS” against assets of our Severneft Urengoy subsidiary to be without merit and are contesting the injunction.

Subsequent events

On 24 April 2013 the Group finalised the acquisition of a 47.67% interest in the share capital of OJSC “Murmansk Commercial Seaport” for a total consideration of RUB 3.1bn.

OUTLOOK

As broadly expected by market participants, we see the opening of the lower tax window in China applying further pressure on urea prices. Nevertheless, we would not expect these to dip below USD 340-350/ tonne, a level corresponding to the current breakeven price for marginal producers. Cool weather, an inventory glut in the US on account of excessive urea imports, and a seasonal 2-week turnaround at EuroChem Antwerpen in June should slightly dampen our Q2 results. On the demand side, the upcoming Indian tenders should provide support to prices by absorbing some of the urea supply.

As the latest PhosChem agreement has shown, demand is returning across major markets, including Latin America and India. On the whole, we expect MAP/DAP trading conditions to remain stable with possible upside over the second half.

Despite the presence of certain headwinds, the potash market is regaining its footing on a combination of lower inventory levels and re-emerging demand across traditional markets.

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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 two sizeable potash deposits in Russia with its VolgaKaliy (4.6 mtpa) and Usolskiy Potash (3.7 mtpa) greenfield projects. Headquartered in Moscow, it operates production facilities in Russia and Western Europe and employs more than 20,000 employees 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 three month period ended 31 March 2013 and key financial and non-financial data is available at http://www.eurochem.ru/investors/results-centre

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