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EuroChem Reports IFRS Financial Information for Q2 2013

	Q2 2013		Q2 2012			H1 2013		H1 2012		
	RUB bn	USD m	RUB bn	USD m	*Y-o-Y, %*	RUB bn	USD m	RUB bn	USD m	*Y-o-Y, %*
Revenue	**45.4**	1,435	**41.9**	1,351	*8%*	92.0	2,967	77.7	2,535	*18%*
EBITDA	**12.7**	402	**15.9**	512	*-20%*	25.1	808	27.2	888	*-8%*
Net profit	**1.8**	58	**3.0**	95	*-38%*	6.7	214	16.7	545	*-60%*
Cash from operations	**9.6**	303	**11.1**	357	*-14%*	18.4	593	22.1	721	*-17%*

	30 June 2013	30 June 2012	31 December 2012
Net Debt/ LTM[1] EBITDA[2]	1.97x	1.23x	1.53x

Average USD/RUB exchange rate for the period: Q2 2013: 31.61; Q2 2012: 31.01; H1 2013: 31.02; H1 2012: 30.64
(1)Last Twelve Months
(2)Including pro-rata Murmansk Sea Trade Port net income

Moscow, 14 August 2013 - EuroChem today reported consolidated revenues for the second quarter of 2013 of RUB 45.4bn (US$ 1.4bn), which represented an 8% increase on the RUB 41.9bn obtained in the same period the previous year. For the second quarter of the year, earnings before interest, taxes, depreciation, and amortisation (EBITDA) decreased 20% year-on-year to RUB 12.7bn (US$ 402m). On a like-for-like basis, excluding the effects of our EuroChem Agro acquisition in Q3 2012, our revenues and EBITDA for the second quarter of 2013 amounted to RUB 35.3bn and RUB 12.3bn respectively.

Sales volumes for our nitrogen and phosphate segments, excluding mineral raw materials and hydrocarbons, amounted to 2,600 thousand tonnes (KMT) in the second quarter of the year, as compared to 2,505 KMT in the same period last year. The additional 95 KMT represented a 4% increase on the second quarter of 2012. Receiving a boost from the additional nitrogen production and distribution capacity acquired in Western Europe, first half 2013 sales volumes increased 12% year-on-year or by 589 KMT. Despite phosphate sales volumes retreating slightly on account of lower demand, nitrogen sales volumes increased by 716 KMT. Sales volumes for mineral raw materials for the three month period ending 30 June 2013 amounted to 1,484 KMT, representing a 6% year-on-year increase and a 22% increase on the previous three month period.

“We had another strong quarter in spite of the challenging market backdrop. Our expanding offering of both commodity and specialty products combined with the growing depth of our distribution reach to customers have provided us with the flexibility to unlock value throughout our business,” CEO Dmitry Strezhnev commented. “In parallel, our investment initiatives are on track to give us added resilience and the ability to lend further support to customers and farmers in their quest to increase agricultural yields.”

Market Conditions

Following this year's quiet start, the second quarter saw a strong return of buying activity in all three nutrient segments. However, the inventory build-up generated by an abnormally slow first quarter helped keep markets well supplied, as demonstrated by the amount of oversubscribed tenders in nitrogen and phosphates as wells as the agreement deferrals in potash.

India and China generated much of the market headwinds, as the former grappled with further devaluation of its currency and the latter looked set to export record amounts of urea. At the same time, declines in raw material prices such as for ammonia, sulphur and phosphate rock helped alleviate some of the pressure at both non-integrated producer and customer levels.

In the second quarter of 2013, prilled urea (FOB Yuzhny) had an average of USD 343/tonne, which represented a 28% decline on the second quarter of 2012. At an average of USD 274/tonne for the quarter, ammonium nitrate (FOB Black Sea) prices were 17% below their Q2 2012 level. UAN (FOB Yuzhny) prices displayed a similar trend and finished the quarter down 12% year-on-year.

India's prolonged absence from the phosphate market further weakened sentiment and caused ripples on the global phosphate landscape. Despite a pick-up in activity in anticipation of peak Kharif season, high inventory levels counterbalanced prices. While flat quarter-on-quarter, at USD 492/tonne, average MAP (FOB Baltic Sea) prices for the second quarter of 2013 were 14% behind the USD 571/tonne average realised in the same period a year ago.

As in phosphates, potash demand was affected by India's currency slide as well as by the lingering cold across Western markets which reduced fertilizer application windows in Europe and North America. As in the last quarters, South America remained a bright spot highlighted by constant, albeit modest, demand. For the second quarter of 2013, MOP (FOB Baltic Sea) contract prices averaged USD 364/tonne, trailing the same period the previous year by 14%. Trending similarly, MOP (FOB Baltic Sea) spot prices also retreated 14% to USD 402/tonne as compared to USD 470/tonne in Q2 2012.

Iron ore prices (62% Fe, CFR China) came back down from their Q1 2013 highs to an average of USD 128/tonne in the second quarter of 2013. Year-on-year, average iron prices were 11% lower than in the second quarter of 2012.

BUSINESS SEGMENTS

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

Nitrogen segment

In the second quarter of 2013, sales volumes for our nitrogen segment increased 10% year-on-year to 2,049 KMT. This increase was realised as strong demand for UAN and NPK fertilizers, which increased 68% and 29%, respectively, alleviated a 16% drop in AN sales volumes.

Higher sales volumes outside Russia combined with a stronger US dollar helped drive a 9% year-on-year increase in our nitrogen segment revenues as these grew from RUB 23.6bn a year ago to RUB 25.6bn for the second quarter of 2013. Nevertheless, our nitrogen segment EBITDA reflected the mismatch between the pricing dynamics for raw material and final product and declined to RUB 7.6bn as compared to RUB 9.9bn in Q2 2012. For the first half of 2013, our Nitrogen revenues were up 28% to RUB 52bn, while EBITDA trailed the previous year's RUB 16bn by 2%.

Sales to Europe, as a percentage of total nitrogen segment sales, jumped 37% year-on-year and accounted for 25% of total segment sales. Sales volumes in Russia declined slightly and accounted for 18% of our nitrogen segment sales. Rounding out the top three with the help of a 90% increase over Q2 2012 was Asia which accounted for 15% of segment sales.

For the first six months of 2013, average natural gas prices at our Novomoskovskiy Azot and Nevinnomysskiy Azot nitrogen fertilizer facilities were RUB 3,643. and 3,799 per 1,000m^3 respectively (c. USD 3.65 and 3.81/mmBtu), compared to RUB 3,186 and 3,331/1,000m3 (c. USD 3.24 and 3.38/mmBtu) in the first half of 2012. While Russian gas prices increased by 15% in RUB terms from July 2012, our partial upstream back integration into natural gas helped alleviate the rise.

The results of Severneft-Urengoy (SNU), our oil and gas subsidiary are included in the Group's nitrogen segment. In the second quarter of 2013, these assets sold 201 million m^3 of natural gas to Novomoskovskiy Azot at the regulated price less a 5% discount. SNU contributed RUB 234m to Group EBITDA in Q2 2013 and RUB 571m for the year so far. Its daily natural gas production at the time of this release had reached 2.5 million m^3.

Phosphate segment

Our phosphate segment sales volumes for the second quarter of 2013 amounted to 550 KMT as compared to 643 KMT for the same period last year. The 14% year-on-year decline in sales volumes was mainly driven by weaker demand for NP and feed phosphate products. While global demand for phosphate fertilisers was tainted by India's limited intake, our MAP/DAP sales volumes nonetheless remained broadly in line with the previous year.

The difficult trading conditions stemming from India's currency slide coupled with above average stock levels applied steady pressure on prices throughout the second quarter. The lower year-on-year phosphate prices brought Q2 2013 phosphate segment revenues down 12% to RUB 14.5bn.

Our raw material mining operations accounted for 38% of EuroChem's Q2 phosphate segment revenues. Lower prices across the phosphates fertiliser product range allowed the share of raw material mining products within the phosphate segment's EBITDA to expand to 71%.

Accounting for 30% of our sales, Asia remained the leading market for our phosphate segment, a position largely secured by our sales of iron ore concentrate from Kovdor to China in addition to fertilizer products. This compares to 34% a year ago when Indian buyers had entered the market much earlier in the quarter. Europe gained 10% and accounted for 27% of total segment sales. As in Q2 2012, Russia was once again our third largest market in phosphates with a share of 17% of total segment sales.

Potash segment

EuroChem VolgaKaliy (Gremyachinskoe potash deposit, Volgograd region)

As previously disclosed, we are pleased to report that cage shaft sinking operations resumed following the successful completion of the shaft freezing stage. The cage shaft sinking operations had to be halted more than a year ago as the grouting technology used by a South African contractor, which had been hired for the project, failed to pass the 100-meter mark. The shaft is now being protected during the sinking effort by a freeze wall which is designed and operated by Thyssen Schachtbau GmbH. The German shaft sinking specialist is involved in the freezing of shafts at both our sites, VolgaKaliy and Usolskiy Potash.

EuroChem Usolskiy Potash (Verkhnekamskoe potash deposit, Perm region)

Sinking operations at our Usolskiy potash site in the Urals were on track with our development schedule. The phase I cage shaft passed the 430 meter mark while the skip shaft had reached a depth of 469 meters. With both shafts now well in the ore body, initial freezing borehole abandonment procedures were initiated at both sinking sites. Our Usolskiy crews continued to progress horizontally, performing excavation work on the haulage sections and loading stations. Up on the surface, we continued working on the grading of terraces as well as the construction of railway infrastructure.

Capital expenditure (capex) for our potash projects increased 7% year-on-year and amounted to RUB 3.3bn in the second quarter of 2013 (Q2 2012: RUB 3.1bn). For the first six months of the year we had proceeded with total capital expenditures of RUB 14.6bn, of which 49% was dedicated to our potash segment.]

Recent developments within the potash market

Following the announced withdrawal of Uralkali from BPC, the probability of a migration of the potash market toward a more commodity type structure where prices are based on marginal producer cost levels has increased. This has no bearing today on our investments and commitment to potash. Given the fairly advanced development stages of both of our two greenfield potash projects and their projected position on the global cost curve, the break-even potash price necessary to justify future investments is meaningfully below today's marginal producer level. We currently expect first production to start in 2017 and our full capacity for the first phases of operation for these two projects to be reached in 2020 for Volgakaliy and 2021 for Usolskiy.

Distribution segment

Sales from our distribution segment, which encompasses retail sales of mineral fertilizers (including third party), seeds, and crop protection products via more than 25 retailers primarily concentrated across southwestern Russia and Ukraine remained stable. Revenues from our distribution segment reached RUB 4.1bn in the second quarter of 2013 and accounted for 9% of total Group sales (Q2 2012: 10%). EBITDA for the segment amounted to RUB 218m.

FINANCIAL

Income statement

Buoyed by additional volumes and positive foreign exchange movements, EuroChem consolidated revenues increased 8% year-on-year, from RUB 41.9bn in the second quarter of 2012 to RUB 45.4bn in the second quarter of 2013. During the same period, Group EBITDA declined 20% on pricing effects to RUB 12.7bn as compared to the RUB 15.9bn achieved in Q2 2012, when favourable planting conditions across major markets lifted nitrogen fertilizer prices above their average levels.

Raw material mining co-products from our apatite mining in Kovdor added RUB 5.6bn to consolidated revenues and RUB 2.6bn to Group EBITDA, while our Severneft Urengoy operations added RUB 1.1bn in revenues and RUB 0.2bn in EBITDA.

Stronger production volumes coupled with increases in the prices for raw material pushed cost of sales up by 25% year-on-year from RUB 23bn in Q2 2012 to RUB 28bn in Q2 2013. Despite registering a corresponding 24% year-on-year increase, materials and components used or resold remained stable within the total costs structure and accounted for 63% of total costs of sales in the second quarter of 2013 (Q2 2012: 63%).

Faced with a further 15% increase to Russian domestic gas prices in July 2012, our partial back integration into natural gas yielded positive results. Since the introduction of the new tariff, our gas assets limited the effects of the increase on the Group's natural gas costs for fertilizer production to 4%. Furthermore, as the result of a 3% reduction to the gas tariff from April 2013, our total gas costs associated with fertilizer production declined from RUB 3.4bn in the second quarter of 2012 to RUB 3.3bn in Q2 2013.

The upward pricing revision to power tariffs drove energy costs up from RUB 1.6bn a year ago to RUB 1.8bn in the second quarter of 2013. Notwithstanding this 10% year-on-year increase, the launch of additional internal power generation capacity allowed us to mitigate the tariff growth. Energy costs accounted for 6% of total costs of sales in the second quarter of 2013, down from 7% for the same period in 2012. Additionally, and partially as a result of the above-mentioned factors, our second quarter energy costs declined 12% quarter-on-quarter when compared to the RUB 2.0bn spent in the first three months of 2013.

While our Q2 2013 labour costs increased 15% year-on-year, their share within the costs structure decreased one percentage point and accounted for 10% of our second quarter costs of sales. The RUB 361m increase was primarily attributable to a Group-wide annual salary indexation from January 2013.

Our total distribution costs for the second quarter of 2013 reflected our consolidation of EuroChem Agro from July 2012 and increased by 9% to RUB 6.1bn (Q2 2012: 5.6bn). Transportation costs inched up 3% to RUB 4.6bn, at the same, while these costs accounted for 80% of total distribution costs last year, their share decreased to 75% in the second quarter of 2013.

Total general and administrative (G&A) expenses for the second quarter of the year amounted to RUB 1.6bn, as compared to RUB 1.3bn in the second quarter of 2012. Labour and contributions to social fund represented 49% of General and administrative costs (Q2 2012:51%) and increased 17% year-on-year to RUB 793m. Total Group staff costs (including social expenses) increased by 19% or by RUB 658m to RUB 4.2bn. The increase was largely driven by the combined effects of the January 2013 salary indexation and the additional personnel intake from the consolidation of EuroChem Agro.

Other operating income for the second quarter of 2013 amounted to RUB 600m, as compared to RUB 1.4bn in the corresponding period a year ago. The main components of our other operating income for the quarter comprised RUB 843m in foreign exchange gains that were offset by sponsorship expenses in the amount of RUB 281m. Our main project for the period involved the construction of a new state-of-the-art sports facility in Kėdainiai, Lithuania, as part of the celebrations marking the 50th anniversary of our Lifosa phosphates facility.

Below the operating level, given the Group's mostly US dollar-denominated debt portfolio, the depreciation of the Russian rouble against the U.S. dollar led to an unrealized financial foreign exchange loss of RUB 4.0bn in the second quarter of 2013, whereas unrealized losses of RUB 5.8bn were recorded for the same period in 2012. A 25% interest expense increase arose from our USD 750m Eurobonds issuance in December 2012.

Balance sheet

For the second quarter of the year, net working capital increased 4% to RUB 25.9bn, up from RUB 24.9bn in the first quarter of 2013. One of the factors behind this growth was an increase in trade debtors on higher sales volumes from EuroChem Agro and our U.S. trading arm.

EuroChem's portfolio of borrowings from banks remained unchanged in the second quarter of the year. As at 30 June 2013, EuroChem's net debt to 12-month rolling EBITDA stood at 1.97x (including estimated pro-forma LTM EBITDA of EuroChem Agro). While slightly higher than the

1.73x ratio of the previous quarter, our Q2 2013 leverage remained well below Group debt covenant levels and in line with our targeted across-the-cycle range.

Cash flow

Second quarter operating cash flow amounted to RUB 9.6bn as compared to RUB 11.1bn in Q2 2012. The decrease followed the decline in operating profit during the same period.

Our capex spending for the three months ended 30 June 2013 totalled RUB 7.2bn, of which RUB 3.3bn for potash and RUB 3.6bn for our nitrogen and phosphates segments combined. The remainder was mainly allocated to investments in our distribution network and logistics infrastructure.

OUTLOOK

While fertilizer prices mirrored the drop in soft commodity prices on expectations of a strong harvest, the affordability of fertilizers and the incentive for farmers to increase yields remains unchanged.

In nitrogen, urea appears stable but remains under pressure from the Chinese presence in the market. In addition to the lower tax window, Chinese urea producers are also benefiting from low coal prices; however, restrictions on sales from bonded warehouses could prevent exports from matching the export levels observed last year.

The outlook for ammonia is mixed – on the one hand we expect to see further tightening in the market as a result of upcoming production cutbacks in Trinidad, while on the other we see additional supply out of Algeria possibility mitigating any disruptions.

In phosphates, India remains the key wildcard. Excluding currency risks further eroding purchasing power, inventory levels need to come down before any pick-up in activity level is felt. With that in mind, we expect to see buying activity returning from September.

Although iron ore prices could somewhat temporarily soften around autumn holidays in China, we expect average prices for the upcoming quarter to remain within a 130-140 USD/tonne range.

Buyers of potash may be confused by the recent news flow from producers and commentators and could refrain from restocking until the dust settles, which may take a few months.

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The Company will host its 1H 2013 conference call on Thursday, 15 August, 2013 at 18:00 (MSK) / 15:00 (BST) / 10:00 (ES T).

The conference call and Q&A session will be hosted by:

Andrey Ilyin, Chief Financial Officer
Clark Bailey, Head of Mining

To participate in the conference call, please dial:
UK: +44 2034271915/ Toll Free 0800 279 4977
North America: +1 6462543362/ Toll Free 1877 280 2342
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Conference ID: 3556179
Participants are invited to register for the conference in advance:
https://cossprereg.btci.com/prereg/key.process?key=PKHAG6GV8

Presentation material will be available for download one hour prior to the call at
http://www.eurochem.ru/investors/results-center

Established in 2001, EuroChem has grown into one of the world's leading nitrogen and phosphate-based fertilizer producers. With revenues amounting to $5.4 billion in 2012, EuroChem is approaching a global top five position among fertilizer companies. Headquartered in Moscow, it operates production facilities in Russia and Belgium, and has a network of distribution and sales offices globally.

With its core business centered on nitrogen and phosphate fertilizers, EuroChem is currently developing two sizeable greenfield potash projects in Russia, which will provide it with over 8 million tonnes of annual potash capacity. EuroChem employs 20,000 people worldwide. Committed to its people, the Company is dedicated to international standards of corporate governance and sustainability.

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 period ended 30 June 2013 and key financial and non-financial data is available at http://www.eurochem.ru/investors/results-centre

For more information please visit www.eurochem.ru or contact:

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