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EuroChem Reports IFRS Financial Information for Q3 2013

	Q3 2013		Q3 2012			9M 2013		9M 2012		
	RUB bn	USD m	RUB bn	USD m	*Y-o-Y, %*	RUB bn	USD m	RUB bn	USD m	*Y-o-Y, %*
Revenue	41.0	1,251	47.1	1,471	*-13%*	133.1	4,209	124.8	4,012	*+7%*
EBITDA	8.7	264	11.7	364	*-26%*	33.7	1,066	38.9	1,250	*-13%*
Net profit	3.0	91	7.9	247	*-62%*	9.6	305	24.6	791	*-61%*
Cash from operations	7.8	237	11.6	362	*-33%*	26.1	827	33.7	1,083	*-22%*

	30 September 2013	30 September 2012	31 December 2012
Net Debt/ LTM[1] EBITDA	2.19x	1.22x[2]	1.53x[2]

USD figures are provided for the convenience of the reader and are not part of EuroChem audited financial statements. These are derived by converting the underlying RUB figures at the average exchange rate of the relevant period.
Average RUB/USD exchange rates: Q3 2013; 32.80; Q3 2012: 32.01; 9M 2013:31.62; 9M 2012: 31.10

(1) Last Twelve Months
(2) Including estimated EBITDA for EuroChem Antwerpen and EuroChem Agro for the period prior to their respective acquisition

Moscow, 13 November, 2013 – EuroChem, one of the world's largest fertilizer companies, today reported consolidated IFRS revenues for the third quarter of 2013 of RUB 41.0bn (US$ 1.3bn), as compared to revenues of RUB 47.1bn (US$ 1.5bn) during the same period a year ago. EBITDA for the period amounted to RUB 8.7bn (US$ 264m), down 26% from RUB 11.7bn (US$ 364m) the previous year.

The challenging third quarter market backdrop weighed on our year-to-date performance. While Group revenues for the January-to-September period climbed 7% to RUB 133.1bn (US$ 4bn), as compared to the first nine months of 2012, the increase primarily stemmed from the inclusion of EuroChem Antwerpen and EuroChem Agro, which we only consolidated from the second and third quarters of 2012, respectively. Group EBITDA for the first nine months of the year amounted to RUB 33.7bn (US$1.1bn).

Our third quarter fertilizer sales volumes reached 2,358 thousand metric tons (KMT), comprised of 1,793 KMT and 565 KMT from our Nitrogen and Phosphates segments, respectively. Iron ore and baddeleyite sales volumes jumped 39% to reach 1,570 KMT, as compared to 1,132 KMT in the third quarter of 2012.

CEO Dmitry Strezhnev commented: "While the fertilizer sector is facing turbulence from several sources, EuroChem continues with its strategy as the long-term food security agenda remains intact. The recent milestones achieved at our VolgaKaliy and Usolskiy projects further solidify our commitment to potash. We have seen numerous changes in the potash industry over the past years and further disruptions remain a possibility. One thing is certain, EuroChem has the most advanced greenfield potash projects globally, on deposits that will make it the world's lowest cost producer."

Third Quarter Market Conditions

While the third quarter began with good, although slightly muted, demand levels across most markets, increases on the supply side and negative regional developments combined to cast uncertainty and limit visibility across much of the fertilizer supply chain.

As expectations of a strong North American harvest applied pressure on soft commodity prices, the prospects of record ending stocks trickled down and eroded fertiliser prices beyond their 3-year lows. Nitrogen products proved vulnerable as ample coal supply and lower coal prices boosted the competitiveness of Chinese urea producers. Record exports from China during this year's lower-tax window proved strong enough to force the shutdown of higher cost production globally. Reflecting the developments in the nitrogen landscape as well as softer demand for phosphates, ammonia (FOB Yuzhny) continued its downward slope, trading at an average of USD 429/tonne in the third quarter of 2013, 31% below its Q3 2012 average of USD 619/tonne. With seasonal plant turnarounds and supply curtailments unable to fully offset the record amount of Chinese product available for export, urea (FOB Yuzhny) tumbled to finish the third quarter with an average of USD 307/tonne, trailing the previous quarter by 10% and 20% down from its Q3 2012 average. Given the limited amount of supply available globally, ammonium nitrate (FOB Black Sea) fared much better than urea, slipping only 3% to an average of USD 263/tonne as compared to the third quarter of last year.

In phosphates, notwithstanding the continued growth in planted acreage underpinning demand growth in Latin America, the market remained otherwise lackluster in the wake of limited buying activity from India. The world's largest importer of DAP grappled with the devaluation of its currency and the effects of a nutrient-based subsidy policy skewed to nitrogen. The Q3 2012 DAP (FOB Baltic Sea) average price of USD 567/tonne, while slightly ahead of the previous quarter's average of USD 559/tonne, trailed its previous year average by 17%.

Uralkali's shift in marketing strategy and accompanying warnings of potash price collapse caused havoc throughout the potash space. Distributors across major markets, rushing to destock on fears of a pricing correction, were confronted with buyers holding out for lower prices. The rift in the MOP market also spread across other products, most notably in NPK where the potash component dragged both sentiment and product pricing lower, prompting customers to defer purchases when possible. Third quarter MOP (FOB Baltic Sea) contract prices retreated 16% to an average of USD 358/tonne, while spot prices fell 19% to USD 377/tonne.

Demand for iron ore was buoyed by stronger-than-expected steel output in China coupled with healthy restocking activity. Iron ore spot prices averaged USD 134/tonne (63.5%Fe, China CFR) for the quarter, which was 15% higher than in the third quarter of 2012.

BUSINESS SEGMENTS

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

Nitrogen segment

Our third quarter nitrogen sales volumes amounted to 1,793 KMT, as compared to 1,946 KMT for the same period the previous year. While a 9% boost in UAN sales provided some support to volumes, lower AN, NPK, and urea volumes, which together accounted for more than 60% of nitrogen sales, were the main drivers behind the 8% year-on-year decline. The decline in sales was mainly caused by an inventory buildup in September on expectations of a price recovery in the coming months.

Despite third quarter nitrogen sales volumes trailing the previous quarter by 13%, year-to-date nitrogen volumes remained 11% ahead of the first nine months of 2012, albeit due to the consolidation of

EuroChem Antwerpen. For the period of 1 January to 30 September 2013, nitrogen segment revenues and EBITDA climbed to RUB 73.9bn and RUB 20.4 respectively.

For the three months ended 30 September 2013, while revenues showed a 14% year-on-year decline to RUB 21.8bn, significant downward pricing pressure pulled segment EBITDA 29% lower to RUB 4.6bn.

In upstream nitrogen, we continued to ramp-up production at Severneft-Urengoy. We raised natural gas production by 18% to 608 million cubic meters and managed to further increase our liquids output by 3% to 102 KMT of gas condensate as compared to the first nine months of 2012. Severneft-Urengoy contributed RUB 3.6bn and RUB 1.0bn to our revenues and EBITDA, respectively, in the first nine months of 2013.

For the first nine months of 2013, the average natural gas price at our Novomoskovskiy Azot and Nevinnomysskiy Azot ammonia facilities came out to RUB 3,643 and RUB 3,799 per 1,000m3 respectively (c. USD 3.59 and USD 3.74/mmBtu), as compared to RUB 3,348 and RUB 3,494 per 1,000m3 respectively (c. USD 3.35 and 3.50/mmBtu) for the corresponding period of 2012. Despite natural gas tariffs increasing 15% from July 2012, our 18% increase in gas output at Severneft Urengoy, when combined with downward revisions to tariffs in the second quarter, effectively capped the year-on-year change in gas prices to 2% in rouble terms.

Our presence in Western Europe, now firmly entrenched via EuroChem Antwerpen and our EuroChem Agro distribution force, drove third quarter sales to Europe to RUB 6.5bn or 30% of nitrogen sales. In Russia, we continued growing with the market as sales increased 6% over Q3 2012 and accounted for 20% of nitrogen revenues. With 14% of segment sales, Latin America was our third biggest market in nitrogen. For the first nine months of 2013 our home markets – Europe, Russia and the rest of the CIS – together accounted for 58% of our nitrogen revenues.

Phosphate segment

In spite of achieving a 3% quarter-on-quarter growth on the back of strong demand for NP and feed products, the depressed MAP/DAP trading environment pulled phosphate volumes lower. Third quarter sales volumes in our phosphate segment, when excluding raw material mining co-products, amounted to 565 KMT, which was 72 KMT less than in the same period last year.

Surprisingly resilient steel demand from China over the summer months helped propel our iron ore sales volumes 39% up year-on-year to 1.6 MMT. As mentioned earlier, the record high level of imports in China lifted iron ore spot prices to an average of USD 134/tonne, which was 15% higher than in Q3 2012.

While muted, our phosphate performance highlighted our integrated diversification as the strong iron ore showing alleviated some of the downward pricing pressure applied from fertilizers and feed. As a result, consolidated third quarter phosphate sales volumes only registered a slight 2% slip year-on-year, from RUB 14.9bn to RUB 14.6bn, while EBITDA contracted 13% to RUB 3.8bn on weaker product pricing

For the first nine months of 2013, total phosphate segment revenues and EBITDA amounted to RUB 44.2bn and RUB 11.0bn, respectively, as compared to 9M 2012 revenues of RUB 49.2bn and EBITDA of RUB 14.0bn.

Given the strong backdrop in iron ore and its relatively low correlation with fertilizer prices, sales of iron ore and baddeleyite, the two main co-products of our apatite mining operations, grew to account for 39% and 69% of third quarter phosphate segment revenues and EBITDA, respectively. This compares to contributions of 25% and 39% to revenues and EBITDA in the third quarter of 2012.

The 39% increase in iron ore sales slightly reshaped our third quarter phosphate sales geography. Accordingly, the share of revenue from Asia increased 17 percentage points as compared to Q3 2012 and accounted for 36% of total segment sales during the third quarter of 2013. While slightly diluted by iron ore's impact on sales to Asia, Russia and Europe remained our top two phosphate fertilizer markets and respectively accounted for 22% (Q3 2012: 31%) and 18% (Q3 2012: 21%) of total phosphate segment sales.

Potash segment

Eurochem VolgaKaliy (Gremyachinskoe deposit, Volgograd region)

All of the systems were put in place to build the new freeze walls for the cage shaft, skip shaft #1, and skip shaft #2. With the cage shaft freeze wall sufficiently developed, we resumed working by first dewatering and clearing the bottom from debris following the setbacks brought on by the failure in the grouting technology used by Shaft Sinkers, a South African contractor, which had initially been hired for the project.

Work is being performed at the two skip shafts to finalize surface support equipment and headframe configuration. According to our current plan, sinking is set to resume from current levels before year-end. The skip shaft #1 is currently at -572 meters while skip shaft #2 is at -45 meters.

Specifically at skip shaft #1, while the freeze wall has not currently developed sufficiently but is expected to have achieved its designated thickness in time, thus providing us with the safest and optimum sinking conditions. We also reached another major milestone when we recently finished the erection of the main steel for the permanent headframe.

Freeze walls designed and operated by Thyssen Schachtbau will protect the three shafts throughout the sinking effort to below the lowest water bearing levels.

Steel has been going up at a steady pace across the site as we moved ahead with the construction of the main process beneficiation building, warehousing facilities, and loading and shipping facilities.

EuroChem Usolskiy Potash (Verkhnekamskoe deposit, Perm region)

In October, our Usolskiy team celebrated its five year anniversary by successfully completing the cage shaft sinking operations. The first potash shaft to be sunk in Russia over the past 25 years reached its designated depth of 473 meters a full month ahead of schedule and without any significant water inflow issues. The freeze wall for the site's two shafts were designed, installed and operated by Thyssen Schachtbau, and are currently being abandoned in accordance with the mine's rules and regulations and industry practice. Plans are now to proceed with the excavation of the ventilation and haulage sections.

As of the date of this release, underground operations at the skip shaft were progressing at a depth of -495 meters with crews having already created two sets of loading pockets and also excavating for the bins. The target depth of Usolskiy's skip shaft is -547 meters.

Total capital expenditure at both our potash projects amounted to RUB 10.0bn for the first nine months of the year, for an aggregate total of RUB 55bn since the start of our greenfield potash developments.

Distribution segment

Our CIS distribution and sales network recorded EBITDA of RUB 100m on revenues of RUB 4.5bn in the third quarter of 2013, as compared to revenues and EBITDA of RUB 4.7bn and RUB 226m, respectively.

FINANCIAL

Income statement

Our consolidated revenues for the three months ended 30 September 2013 amounted to RUB 41.0bn. Despite subdued demand and depressed pricing across all three nutrient segments, robust iron ore trading coupled with a weaker Russian rouble supported our third quarter financial performance and helped limit the year-on-year decline in revenues to 13%. Group EBITDA for the period amounted to RUB 8.7bn, as compared to RUB 11.7bn in the third quarter of 2012.

For the first nine months of the year, our revenues increased 7% to RUB 133.1bn, up from the RUB 124.8 recognized during the same period last year. EBITDA amounted to RUB 33.7bn as compared to the RUB 38.9bn obtained the first three quarters of 2012.

In parallel with lower revenues, our cost of sales for the third quarter of 2013 declined 11% to RUB 26.2bn as compared to RUB 29.6bn in Q3 2012. Mirroring the decline, materials and components used or resold, which accounted for 70% of costs of sales, decreased 11% year-on-year to RUB 18.4 bn. Our gas costs for fertilizer production slipped from RUB 3.9bn in Q3 2012 to RUB 3.8bn for the same period this year.

Some slight upward pressure on energy costs remained with the implementation of previously delayed tariff increases in the Russian power generation sector over the last four quarters. As compared to the third quarter of 2012, our energy costs for the third quarter of this year increased from RUB 1.7bn RUB to 2.1bn and accounted for 8% of costs of sales (Q3 2012: 6%). In addition to earlier successes in increasing in-house energy generation capacity, our efficiency upgrade initiative has so far released a further RUB 35m in energy saving in 2013 through the overhaul of equipment at our Novomoskovskiy Azot facility. A substantial part of the savings achieved were generated by the replacement of obsolete catalysts at the plant's methanol unit.

Our labour costs for Q3 2013 were slightly up year-on-year, primarily on account of the January 2013 salary indexation. Labour costs, including social fund contributions, amounted to RUB 2.6bn, as compared to RUB 2.3bn in the corresponding period of last year. In addition to the indexation, part of the increase was linked to the gradual introduction of KPI-based incentive targets across the Group. Labour costs accounted for 10% of Q3 2013 cost of sales (Q3 2012: 8%).

For the three-month period ended 30 September 2013, total distribution costs inched up 2% to RUB 6.3bn, up from RUB 6.2bn in Q3 2012. Transportation costs, which accounted for 74% of our distribution costs (Q3 2012: 77%), amounted to RUB 4.7bn (Q3 2012: RUB 4.8bn). While lower maritime freight rates reduced our transportation costs by 6%, the decrease was mitigated by an increase in rail shipments of iron ore concentrate on DAP-Zabaikalsk (Sino-Russian border) delivery terms.

Total general and administrative (G&A) expenses grew from RUB 1.3bn a year ago to RUB 1.7bn in the third quarter of 2013. Notwithstanding the increase, G&A labour costs, which amounted to RUB 764m, accounted for 45% of Q3 2013 G&A expenses (Q3 2012: 44%). For the first nine months of 2013, total staff costs (including social expenses) amounted to RUB12.2bn (9M 2012: RUB 10.3bn) with the increase primarily stemming from the growth of staff numbers linked to EuroChem's investment initiatives, including our Kazakhstan phosphate rock project, our railcar depot, and two potash projects.

Other operating expenses for the third quarter of 2013 amounted to RUB 833m (Q3 2012: RUB 679m). The main components of our other operating expenses for the quarter comprised RUB 375m in foreign exchange losses coupled with sponsorship expenses of RUB 226m. Our main projects for the period are the construction of a new sports facility in Kėdainiai, Lithuania, to celebrate Lifosa's 50th anniversary and the upgrade of social infrastructure and public utilities in Novomoskovsk, site of our Novomoskovskiy Azot nitrogen facility.

For the three months ended 30 September 2013, we recognized an unrealized financial foreign exchange gain of RUB 891m, compared to a RUB 3.4bn unrealized gain in the third quarter of 2012. Changes in these noncash items reflect the fluctuations of the Russian rouble exchange rate on the company's primarily US dollar-denominated debt.

Reflecting the company's higher debt level, interest expense increased to RUB 1.4bn. Other financial gains of RUB 658m mainly arose from gains of RUB 613m in favorable changes in the fair value of non-deliverable forward contracts and RUB 109m in cross currency interest rate swap.

Balance sheet

The increasingly challenging market conditions observed in the bottom half of the third quarter prompted us to increase inventory, particularly at EuroChem Trading (Switzerland) and EuroChem Agro. At the end of the third quarter, our inventory of finished goods had increased by 20% or RUB 2.1bn as compared to Q2 2013.

In late August we successfully closed a club facility for an amount of US$1.3 bn. Structured as a 5-year unsecured finance facility and priced at LIBOR 3M + 1.8%, the facility includes a 2-year grace period. The proceeds were immediately used to pay down the outstanding amount under EuroChem's 2011 US$1.3 billion pre-export facility.

Despite modest capital expenditure financing, uncharacteristically shallow net operating cash flow carried our net debt to 12-month rolling EBITDA ratio to 2.19x, as compared to 1.53x at the end of 2012. Despite its increase, leverage remains well below the Group's bank covenant levels and within our targeted across-the-cycle range and bearing in mind the current low point in the cycle. At the same time, the Group may attract equity from its shareholders before year-end to somewhat reduce current leverage levels. Furthermore, a reduction of strategic expenditure should not be ruled out in the future should management anticipate a period of prolonged cash flow deterioration.

Highlighting EuroChem's strong product and geographic diversification relative to rated fertiliser peers, its partial vertical integration and its good position on the industry cost-curve as its core strengths underpinning its cash flow generation, Fitch Ratings and Standard & Poor's both affirmed EuroChem at 'BB' with Stable Outlook in September and October, respectively.

Cash flow

The increase in net working capital pushed third quarter 2013 operating cash flow to RUB 7.8bn, or 33% below the RUB 11.6bn realized in Q3 2012.

Our capex spending for the three months ended 30 September 2013 amounted to RUB 8.3bn, of which RUB 3.7bn was allocated to nitrogen, RUB 2.9bn to potash and RUB 2.5bn to phosphate, with the remainder earmarked for investments in our distribution network and logistics infrastructure. For the first nine months of 2013, totaled capital expenditures came out to RUB 22.9bn.

Corporate developments

On 10 July 2013, EuroChem announced its intention to build an ammonia and urea production plant in Louisiana. A final decision on the parameters and location of the facility should be taken within the next year.

On 29 July 2013, we announced our plans to create a joint venture (JV) with the Migao Corporation, a specialty potash fertilizer producer based in the southern Chinese province of Yunnan. The JV is expected to bring up to 60,000 tonnes per year of potassium nitrate (NK) and 200,000 tonnes per year of chloride-free NPK capacity online within the next twelve months.

OUTLOOK

As the second half headwinds across the nutrient landscape subside, the expansion of crop area will continue driving increases in fertilizer demand with most of the tonnage growth expected to come from Asia, primarily India, and Latin America.

In the urea market, prices started firming in the run-up to the closure of the lower tax window in China. Despite the presence of some product in bonded warehouses, it is unlikely to satisfy the bulk of upcoming urea tenders. In ammonia, our non-vertically integrated EuroChem Antwerpen nitrogen facility is expected to take full advantage of the renewed affordability of ammonia on the back of its 26% price decline in the first three quarters of 2013.

In phosphates, capacity curtailments during peak off-season are helping to stabilize the market with demand likely to reemerge in the next couple of months. India's absence has been felt globally across all three nutrients. Given the importance of the agricultural sector and its 260 million workers within the Indian economy, we would expect announcements of revisions to the subsidy system to be heard ahead of the May 2014 elections.

Potash prices appear to be stable at around USD 300/tonne (CFR, China), a level which could promote higher application in emerging 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.

Consolidated audited financial information for the nine month period ended 30 September 2013 is available at: http://www.eurochem.ru/investors/results-centre/

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