EUROCHEM GROUP AG

Second Quarter / First Half 2016
IFRS Results

Highlights

- 1H 2016 EBITDA of $586 million
- Fourth potash shaft successfully sunk to mining level
- First steps in the development of South American distribution network

EuroChem-VolgaKaliy

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Key financials

	Q2 2016	Q2 2015	Chng.	1H 2016	1H 2015	Chng.
	US$m	US$m	Y-o-Y, %	US$m	US$m	Y-o-Y, %
Sales	**1,013**	1,135	-11%	**2,268**	2,370	-4%
Gross Profit	**347**	490	-29%	**864**	1075	-20%
EBITDA	**202**	318	-37%	**586**	779	-25%
Cash from operations	**244**	340	-28%	**518**	684	-24%

	30-Jun-16	30-Jun-15		31-Mar-16	31-Dec-15	
Net Covenant Debt/ LTM[(1)] EBITDA[(2)]	2.39x	1.56x		2.06x	1.97x	

[(1)]Last Twelve Months.
[(2)]Including net income from associates and joint ventures.

Zug, Switzerland, 10 August 2016 - EuroChem Group AG (hereinafter EuroChem, Group or Company), a leading global agrochemical company, today reported consolidated sales for the second quarter of 2016 of $1.01 billion, as compared to $1.14 billion in the second quarter of 2015 as the significantly lower product pricing environment overshadowed higher sales volumes. Relatively strong first quarter results helped keep first-half 2016 sales within 4% of last year's results. The Group realised $2.27 billion in sales during the first six months of 2016, as compared to $2.37 billion in the first half of 2015.

Second-quarter earnings before interest, taxes, depreciation and amortization (EBITDA) declined 37% year-on-year to $202 million as lower fertilizer and iron ore prices muted the effects of favourable currency dynamics. The Group's first-half EBITDA amounted to $586 million, which represented a 25% decline on first-half 2015 EBITDA of $779 million. The EBITDA margin for the first six months of 2016 was 26%. A second-quarter contribution of $115 million lifted first-half net profit to $436 million (1H 2015: $518 million).

Excluding raw material mining products and hydrocarbons, first-half nitrogen and phosphates sales volumes increased 4% to 5.6 million tonnes (MMT), as compared to the same period last year. The Group sold 2.8 MMT of iron ore and baddeleyite concentrates during the first six months of the year (1H-15: 2.8 MMT). Over the same period, the acquisition of the BenTrei distribution assets spurred a 93% year-on-year growth in third-party product sales, which amounted to 1.8 million tonnes, as compared to 948 KMT in the first six months of 2015.

EuroChem Group CEO Dmitry Strezhnev commented: "While the second quarter is traditionally the weakest quarter for us, and the near-term fertilizer outlook remains challenging, the fundamentals of our industry remain structurally sound for competitive producers. Accordingly, we took further steps to anchor our distribution footprint in key markets as we look to start potash production to over the next 18 months."

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Market Overview

Main EuroChem products Average market prices (US$/tonne)	Q2-16	Q2-15	y-o-y chg%	1H-16	1H-15	y-o-y chg%	Last 12 Months High	Last 12 Months Low
Ammonia (FOB Yuzhny)	$274	$393	-30%	$271	$401	-32%	$398	$262
Prilled urea (FOB Yuzhny)	$198	$276	-28%	$202	$285	-29%	$287	$184
AN (FOB Black Sea)	$153	$214	-28%	$169	$243	-30%	$213	$137
MAP (FOB Baltic)	$340	$469	-28%	$346	$475	-27%	$474	$337
MOP (FOB Baltic, spot)	$235	$292	-19%	$243	$290	-16%	$299	$226
Iron ore (63.5% Fe, CFR China)	$57	$59	-4%	$53	$62	-14%	$72	$39

Averages derived from weekly prices.

Despite some short-term weather jolts, expectations of yet another strong harvest continued to apply pressure on soft commodity prices throughout the second quarter. Macroeconomic uncertainty in certain key markets coupled with a growing nutrient supply imbalance led to cautious market engagement as buyers sustained hand-to-mouth buying in anticipation of lower prices. Higher inventory levels and seasonally weaker demand pushed prices for most nitrogen and phosphate products lower, erasing first-quarter pricing gains.

While good domestic demand buffered Chinese export supply, nitrogen prices nevertheless trended down globally on new supply additions and softer demand. Prilled urea (FOB Yuzhny) averaged $198/tonne in the second quarter, 28% lower year-on-year as additional supply coupled with lower feedstock (energy) prices incentivised more aggressive competition. At $153/tonne, average ammonium nitrate (FOB Black Sea) prices were 28% below their Q2 2015 average of $214/tonne and 17% behind their Q1 2016 average.

Despite support from improving demand dynamics in South America, phosphates prices slipped lower. MAP and DAP (FOB Baltic Sea) prices declined a further 4% and 8%, respectively, on their first quarter averages. MAP and DAP (FOB Baltic Sea) prices for the second quarter of 2016 averaged $340 and $335/tonne, respectively, 28% and 30% below their Q2 2015 levels.

High stock levels in key markets combined with a fragmented supply side continued to weigh on potash prices and market sentiment. At an average of $273/tonne, second quarter MOP (FOB Baltic Sea) contract prices were 3% down year-on-year, while spot prices finished the quarter at an average of $235/tonne, significantly below last year's $292/tonne average.

While iron ore prices received some support from the Chinese government's stimulus plans, global oversupply and generally slower demand kept prices under pressure. Iron ore (63.5% Fe, CFR China) ended the second quarter with an average of $57/tonne, 4% behind its Q2 2015 average of $59/tonne.

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Income Statement

The Group's business is conducted by five operating divisions aggregated in five reportable segments identified as Oil & Gas, Mining, Fertilizers, Logistics, and Sales. Although the information provided on in this press release is based on product groups, the Group presents both reporting approaches in its financial accounts.

US$m	Total sales						EBITDA					
	Q2 2016	Q2 2015	Chng, %	1H 2016	1H 2015	Chng, %	Q2 2016	Q2 2015	Chng, %	1H 2016	1H 2015	Chng, %
Nitrogen	341	481	-29%	797	996	-20%	109	174	-38%	291	430	-32%
Phosphates	416	488	-15%	892	1,030	-13%	78	122	-36%	197	287	-31%
Potash	-	-		-	-		-4	-2	n/a	-16	-10	n/a
Distribution	543	498	9%	1,356	1,208	12%	-16	5	n/a	-4	56	n/a
Other	216	166	30%	393	297	32%	32	34	-7%	97	27	267%
Elimination	-503	-498	n/a	-1,170	-1,160	n/a	4	-16	n/a	21	-11	n/a
Total	**1,013**	**1,135**	**-11%**	**2,268**	**2,370**	**-4%**	**202**	**318**	**-37%**	**586**	**779**	**-25%**

Considerably lower average market prices for fertilizer and mining products pushed second-quarter sales down 11% year-on-year to $1.01 billion, as compared to $1.14 billion in the same period last year. The sustained weakening in prices pulled first-half sales 4% lower to $2.27 billion, as compared to sales of $2.37 billion realised in 1H 2015. The lower pricing environment overshadowed favorable currency dynamics and led to second-quarter EBITDA of $202 million. The Group's EBITDA for the first six months of the year totaled $586 million, as compared to $779 million over the same period in 2015.

While most of the Group's sales could be viewed as in substance dollar-denominated since global fertilizer pricing is dollar-based, in terms of settlement currency for the first six months of 2016, we recognized 53% of our sales in US$, 25% in EUR and 17% in RUB.

Geography of sales	Q2 2016	Q2 2015	Change in percentage points	1H 2016	1H 2015	Change in percentage points
Europe	28%	32%	-4	35%	41%	-6
North America	18%	11%	+7	19%	10%	+9
Russia	18%	20%	-2	17%	20%	-3
Asia Pacific	18%	14%	+4	14%	11%	+3
Latin America	12%	15%	-3	7%	10%	-3
CIS	5%	5%	-	6%	6%	-
Africa	1%	3%	-2	2%	2%	-

Europe, North America and Russia, together accounted for nearly two-thirds of the Group's second-quarter sales, with Europe remaining our main market during the period. Despite softer demand and shifts in product flows to North America, the European market accounted for 28% of second-quarter sales (Q2-15: 32%). The share of sales to the North American market continued to expand as a result of our acquisition of the BenTrei distribution company in the fourth quarter of 2015.

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Representing 18% of the Group's second quarter sales, the North American market generated sales of $184 million, which was 44% higher than the $128 million realised in the second quarter of 2015.

Our three biggest markets for the January to June 2016 period were Europe, North America and Russia, which accounted for 35%, 19%, and 17% of the Group's total first-half sales, respectively (6M-15: Europe: 41%, North America: 10%, Russia: 20%).

Excluding the cost of goods for resale, lower raw material and energy prices combined with higher internal apatite sourcing and a weaker Russian currency generated a 12% year-on-year decline in the Group's second quarter costs of sales, which amounted to $486 million. Raw material costs, which accounted for 38% of second-quarter costs of sales, decreased 16% year-on-year to $249 million, as compared to $297 million in the second quarter of 2015.

Balance sheet

As at 30 June 2016, the Group's covenant net covenant debt was $3.3 billion. The weaker fertilizer prices nudged the Group's leverage higher to 2.39x, as compared to the previous quarter's ratio of 2.06x. Given the challenging pricing environment, the Group plans to reduce its net covenant debt to materially below $3.0 billion over the next 6-8 months through a combination of capital expenditure reduction, net working capital optimization and, capital support from the shareholders.

Cash flow

For the three-month period ended 30 June 2016, cash from operations amounted to $244 million, as compared to $340 million in the same period last year. The weaker second quarter backdrop brought the Group's total for the first six months of 2016 to $518 million, as compared to $684 million in the first half of 2015.

Second-quarter capital expenditures (capex) totaled $341 million, bringing total capex spending for the January to June period to $565 million, as compared to capex of $358 million in the first six months of 2015. Non-recourse project financing accounted for $183 million of total first-half capex (1H 2015: $169 million).

The Group's second quarter capex spending mainly comprised investments of $139 million in potash, $132 million in nitrogen and $61 million in phosphates.

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Phosphates capex centered on the development of our phosphate rock mine in Kazakhstan and investments at the Group's Kovdorskiy GOK mine in northern Russia. While final construction and installation work progressed on buildings and infrastructure, the Kazakhstan mine continued ramping-up production as mining crews successfully increased output beyond a 30 KMT per month run rate, moving closer to the site's monthly targeted production of 55 KMT. The site's final product had an average P_2O_5 grade of 30.58%.

Additional investments in phosphates were allocated to the ramping-up of the apatite-staffelite ore beneficiation unit at Kovdorskiy GOK as well as efficiency programs, such as our LNG haul trucks pilot project.

The majority of nitrogen capex was linked to the construction of EuroChem Northwest, a 1 MMT per year ammonia facility currently being built in Russia in close proximity to the Group's Phosphorit plant.

An update on the Group's two potash projects is provided in the Potash Project Section of this release.

Project Finance

In December 2015, the Group's EuroChem Northwest subsidiary signed a EUR 557 million loan agreement with a club of banks for the project financing of an ammonia plant in Russia. Following the financial close of the transaction in July 2016, the first drawdown is expected in August 2016.

In 2014, the Group secured project financing for its Usolskiy potash project in Russia's Perm region. As at 30 June 2016, the Group had utilised an aggregate $461 million from the $750 million non-recourse facility.

Corporate developments

On 6 July 2016, the Group announced the acquisition of a controlling interest (50%+1 share) in Fertilizantes Tocantins, a leading fertilizer distribution company in Brazil.

Founded in 2003, Fertilizantes Tocantins is strategically located in Brazil's fast-growing North, Northeast and Mid-West fertile farming regions. It operates blending facilities and boasts an established network of 2,000 customers, which has delivered double digit sales growth for seven consecutive years, with fertilizer sales reaching 740,000 tonnes in 2015.

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PRODUCT GROUPS

Volumes and values are shown gross and inclusive of intra-group sales.

Nitrogen

Sales volumes including intra-group sales (KMT)	Q2 2016	Q2 2015	Chng, %	1H 2016	1H 2015	Chng, %
Total Nitrogen	**1,506**	**1,661**	-9%	**3,528**	**3,378**	+4%
Ammonia	62	80	-22%	120	173	-31%
Urea (granular)	256	200	+28%	587	506	+16%
Urea (prilled)	174	223	-22%	412	377	+9%
AN	350	392	-11%	826	846	-2%
ANF	54	66	-19%	187	147	+27%
UAN	261	294	-11%	647	507	+28%
CAN	235	291	-19%	515	575	-10%
Acetic acid	27	26	+2%	57	59	-4%
Methanol	76	80	-5%	153	168	-9%
Melamine	10	10	+3%	23	21	+14%
Natural gas (mcm)*	183	207	-12%	378	417	-9%
Gas condensate	23	27	-14%	47	56	-16%

*Sales within Nitrogen.

Second-quarter nitrogen sales volumes amounted to 1.5 million tonnes. While a shift from prilled to granular urea resulted in a net 2% increase in urea sales volumes, lower demand for AN, CAN and UAN products pushed second quarter sales volumes 9% below the previous year's level. For the January to June period, the weaker second-quarter dynamics remained fully offset by the 18% year-on-year growth realised in the first quarter of the year. The Group's total nitrogen sales volumes for the first six months of the year stood at 3.5 million tonnes, representing an increase of 150 KMT, or 4%, over the first six months of 2015.

Substantially lower average market prices for fertilizer products and a decline in volumes led to second-quarter nitrogen sales of $341 million, as compared to sales of $481 million in the corresponding period last year. Mirroring the trend, second-quarter nitrogen EBITDA declined to $109 million. Nitrogen sales and EBITDA for the first six months of 2016 amounted to $797 million and $291 million, respectively.

While Russian gas prices were subject to an 8% increase in July 2015, a weaker Russian currency muted the tariff increase and kept first-half 2016 natural gas prices lower year-on-year in dollar terms. For the first six months of the year, average natural gas prices at the Group's two nitrogen fertilizer facilities in Russia were at around $2.0/mmBtu delivered to plant (1H-2015: ca.$2.3). Average natural gas prices at benchmark hubs were $2.12 /mmBtu in the U.S. (Henry Hub) and $4.22/mmBtu in the Netherlands (TTF)[1].

[1] *Average prices derived from weekly data points.*

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Phosphates

Sales volumes including intra-group sales (KMT)	Q2 2016	Q2 2015	Chng, %	1H 2016	1H 2015	Chng, %
Total Phosphates	**961**	**958**	0%	**2,114**	**2,041**	+4%
Including:						
MAP, DAP	488	496	-2%	1,005	997	+1%
Complex (NP, NPK)	387	360	+8%	919	861	+7%
Feed phosphates	86	100	-14%	174	182	-4%
Mineral raw materials	**1,427**	**1,385**	+3%	**2,763**	**2,768**	0%
Including:						
Iron ore	1,425	1,383	+3%	2,759	2,764	0%

We realised 961 KMT in phosphates sales volumes during the second quarter of 2016, as compared to sales of 958 KMT during the same period a year ago. Good demand for the Group's complex fertilizer products helped second-quarter sales volumes add 3 KMT to last year's total. At the same time, slight improvements in iron ore demand supported a 3% year-on-year growth in second-quarter mining sales volumes to 1.4 million tonnes. The second-quarter performance supported a 4% increase in first-half phosphates volumes with the Group selling in excess of 2.1 million tonnes of phosphates during the first six months of 2016.

While partially softened by additional volumes and a less pronounced price decline in iron ore, the considerably weaker market prices for phosphate fertilizer products drove sales 15% lower year-on-year to $416 million. EBITDA for the period amounted to $78 million as the lower market prices eclipsed the positive effects of currency shifts and additional iron ore sales. For the first six months of 2016, phosphates sales and EBITDA totaled $892 million and $197 million, respectively, as compared to $1,030 million and $287 million during the same period last year.

Potash Projects

EuroChem is currently developing potash mining operations within two sizeable potash deposits in Russia. The Group's Usolskiy Potash project in the Verkhnekamskoe potash deposit (Perm region) and VolgaKaliy project in Gremyachinskoe deposit (Volgograd region) are a key component of its long-term growth strategy. Widely expected to be amongst the lowest cost potash operations globally, the facilities will ultimately provide the Group with more than eight million tonnes of annual potash capacity once completed.

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EuroChem VolgaKaliy (Gremyachinskoe potash deposit, Volgograd region)

Multiple freeze plants remain in operation to sustain freeze walls to a depth of approximately 820 meters around the shafts, while the development of horizontal junctions between the site's two skip shafts continued to progress.

As of early August, the bottom of skip shaft #1 was at -1,100 meters, in a hard rock (dolomite) layer stretching between the formation's numerous salt layers. No vertical sinking was performed during the quarter as work primarily focused on the excavation of the loading bin pockets and haulage sections.

Skip shaft #2 reached the salt layer (-1,004 meters) late in April 2016 and a total of 99 meters were sunk during the second quarter of the year. As of the date of this publication, the bottom of the shaft was at 1,069 meters. The first junction between the shaft and the main haulage level is being developed.

At the cage shaft, the water ingress continued to be monitored and addressed. We continued with the grouting programme started in the first quarter of the year, which is designed to prevent water seepage below -814 meters, between the shaft's steel lining (tubing), the concrete and the geological formation. Plans to adjust the mine development plan and schedule to permit the utilization of the two skip shafts remain in place and will allow mining to start from 2018.

Construction and installation continued to progress on numerous surface facilities, the most significant being: the main beneficiation building (including the milling, cleaning, flotation and drying units), finished product storage building, ore storage building, and crushing building.

EuroChem Usolskiy Potash (Verkhnekamskoe potash deposit, Perm region)

With over 4,000 people working on site, the Usolskiy project continued to progress at a fast pace and remains on track for a late 2017 commissioning of the first floatation trains.

Construction is ongoing on several buildings and facilities, including, among many, the main administration building, the mine administration building, boiler house, canteen, compressor station, reagents building, rail station and loadout, main electrical sub-station, water treatment facilities, the final product and raw ore storage buildings and the main beneficiation mill, where process equipment for the grinding and flotation departments is being installed. The rail spur connecting the site and the Russian Railways network was completed and Usolskiy welcomed its first train and locomotive (diesel-powered) in June. Tie-in to the main gas pipeline with Gazprom is on schedule and expected for mid-August, while the main 220 kV power line is scheduled to be hooked-up in September.

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Product storage buildings #1 and #2, each with 135,000 tonnes in capacity, will be completed next quarter. The site's main substation (220 kV) is also expected to undergo commissioning and certification before year end.

Preparations were made for the development of the freeze wall for the site's second skip shaft (shaft #3). With all 45 freeze and temperature monitoring holes drilled and cased, freezing operations should begin this autumn in accordance with the project's development plan.

With the headframe near completion, hoists mounted and cages being installed, the site will begin lowering mining equipment via the cage shaft in the fourth quarter to start the development of the mine this year, as planned.

MARKET OUTLOOK

We expect to see nitrogen prices remaining at current levels as net capacity additions mitigate feedstock curtailment and turnarounds. While prices could see some support from restocking demand in the last quarter of the year, we expect the market to require several quarters to digest this year's substantial supply increase.

In phosphates, monsoon demand should help support MAP/DAP pricing over the next quarter. However, new supply scheduled to be brought on line in the second half of the year could be an important factor in determining price direction.

While new potash supply contracts provide a reference point for spot prices, the upcoming commissioning of new capacity coupled with comfortable inventory levels in key markets will likely cap prices from any material appreciation over the next quarters.

Iron ore prices should normally move higher as fourth quarter restocking activity approaches – although increasing port inventory in China, fueled by the recent uptick in prices on the back of stronger demand from the steel sector, could press prices back to first quarter levels.

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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.

About EuroChem Group AG

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 hydrocarbons extraction to fertilizer production, logistics, and distribution. EuroChem is currently developing two sizeable potash deposits in Russia with its VolgaKaliy and Usolskiy Potash greenfield projects. Headquartered in Zug, Switzerland, the Group operates production and distribution facilities in Belgium, China, Kazakhstan, Lithuania, the United States and Russia and employs more than 23,400 people globally. For more information, please visit www.eurochemgroup.com or contact:

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