EUROCHEM GROUP AG

Third Quarter / 9M 2018
IFRS Results

Usolskiy Potash Mine

- **Q3 sales up 23% year-on-year to $1.44 billion**
- **9M sales and EBITDA of $4.11 billion and $1.10 billion, respectively**
- **Net Debt/LTM EBITDA below 2.5x**

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Highlights	Q3 2018	Q3 2017	Chng.	9M 2018	9M 2017	Chng.
	US$m	US$m	Y-o-Y, %	US$m	US$m	Y-o-Y, %
Sales	1,441	1,172	+23%	4,111	3,569	+15%
Gross Profit	568	407	+40%	1,578	1,306	+21%
EBITDA	422	254	+66%	1,099	845	+30%
Cash from operations	**296**	**284**	+4%	803	824	-3%

Net Covenant Debt/ LTM(*) EBITDA(**)	30-Sep-18	30-Jun-18	31-Mar-18	31-Dec-17	30-Sep-17
	2.44x	2.78x	2.90x	2.88x	2.90x

(*)Last Twelve Months
(**)Including net income from associates and joint ventures

Zug, Switzerland, 7 November 2018 - EuroChem Group AG (hereinafter “EuroChem” or the “Group”) a leading global fertilizer company, today reported consolidated sales for the third quarter of 2018 of $1.44 billion, 23% higher than in the corresponding period of 2017. Stronger product pricing dynamics and an improvement in the sales mix lifted sales for the first nine months of 2018 to $4.11 billion, 15% above the $3.57 billion achieved in the first nine months of 2017.

A much higher operating profit carried third-quarter earnings before interest, taxes, depreciation and amortization (EBITDA) 66% higher year-on-year to $422 million, compared to $254 million during the same period last year. The third-quarter performance took the Group’s EBITDA for the first nine months of the year to $1.1 billion, 30% ahead of the $845 million achieved a year ago.

Third-quarter fertilizer sales volumes of 3.5 million metric tonnes (MMT) brought nine-month sales volumes to 10.4 MMT, compared to 10.1 MMT during the first nine months of 2017, as the Group shifted its production mix towards UAN, CAN, and complex fertilizers in light of the more competitive trading landscape. The Group’s expanding distribution capabilities further supported third-party fertilizer product sales of 2.96 MMT, 7% ahead of the 2.75 MMT achieved in the January to September 2017 period.

Sales volumes for mining products for the three months ending 30 September 2018 were 6% higher year-on-year and amounted to 1.64 MMT. Despite a lower performance in Q1, recovery in Q2 and Q3 saw nine-month volumes of 4.56 MMT, 4% above last year’s level.

“We have taken advantage of the positive market environment to further improve our sales performance and to expand our distribution capabilities in Latin America and Asia,” said EuroChem Group CFO and Acting CEO Kuzma Marchuk. “The Group has substantially deleveraged its debt profile in the third quarter, allowing us to focus on the further ramp-up of our mining activities.”

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Market overview

Average market prices (US$/tonne)	Q3 2018	Q3 2017	Chng Y-o-Y, %	9M 2018	9M 2017	Chng Y-o-Y, %	Last 12 months	
							High	Low
Ammonia (FOB Yuzhny)	303	198	+53%	273	259	+5%	341	216
Prilled urea (FOB Yuzhny)	260	207	+26%	239	212	+13%	277	215
AN (FOB Black Sea)	208	183	+14%	186	183	+2%	235	152
MAP (FOB Baltic)	428	332	+29%	409	344	+19%	433	338
MOP (FOB Baltic, spot)	257	233	+11%	250	225	+11%	263	232
Iron ore (63.5% Fe, CFR China)	68	73	-6%	70	75	-6%	82	60

Average fertilizer prices are derived from weekly market prices, as reported by trade publications. Average iron ore prices are obtained from daily spot price index.

The spike in ammonia prices in the third quarter came against a backdrop of tightness in the Far East and Middle East, and prices climbed further supported by local tightness in the Black Sea region. Prices recorded on average a 53% increase in Q3 year-on-year from $198/tonne to $303/tonne, and a 5% increase in 9M year-on-year from $259/tonne to $273/tonne.

Global urea prices surged on average in Q3 (+26% to $260/tonne FOB Yuzhny, Black Sea for prilled urea) and 9M year-on-year (+13% to $239/tonne) supported by positive demand in Brazil, the west coast of Latin America, Canada, and Asia, as well as the expected return of buying for the next season in Europe. The global urea market was further boosted via September-October tenders in Ethiopia and South Asia, with all eyes on India as expectations rose that the latter will be unable to secure tonnes in Iran due to US sanctions.

Global MAP/DAP prices continued to rise in the third quarter (+29% to $428/tonne FOB Baltic for MAP) with large quantities booked at higher prices for shipment to Latin America and the US, Europe, and Australia. Supported by soybean crop requirements, Brazil has proven to be the most active market.

Muriate of Potash (MOP) prices increased in Q3 following the signing of new India contracts with BPC and other players. Strong demand and the settlement of new Chinese contracts further supported the growth of FOB Baltic spot price in all key markets.

Iron ore prices decreased on average by 6% in the third quarter and in the nine months through September year-on-year due to a softer steel market, but are now stabilizing on the back of good downstream consumption.

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For the first nine months of 2018, the Group realised 50% and 20% of its sales in dollars and roubles, respectively, while euro-denominated sales represented 20% of total sales.[1]

Selected sales volumes

(KMT)	EuroChem and third-party products					
	Q3 2018	Q3 2017	Chng, %	9M 2018	9M 2017	Chng, %
Nitrogen and phosphate fertilizer products	**3,255**	**3,161**	**+3%**	**10,023**	**9,830**	**2%**
Urea	482	592	-19%	2,007	2,107	-5%
AN	291	398	-27%	1,095	1,223	-11%
UAN	287	226	+27%	1,090	921	+18%
Complex fertilizers	909	745	+22%	2,169	1,977	+10%
AS	241	259	-7%	818	928	-12%
CAN	328	231	+42%	875	695	+26%
DAP	275	272	+1%	784	667	+17%
MAP	328	311	+5%	915	939	-3%
ANF	41	68	-40%	163	259	-37%
Ammonia	1	17	-92%	3	52	-95%
Other phosphate-based	72	40	+78%	105	61	+74%
Other fertilizers (incl. KCl)	**273**	**141**	**+94%**	**408**	**269**	**+52%**
Total fertilizers	**3,528**	**3,301**	**+7%**	**10,431**	**10,099**	**+3%**
Feed phosphates	**94**	**86**	**+9%**	**299**	**251**	**+19%**
Mining products	**1,635**	**1,546**	**+6%**	**4,557**	**4,390**	**+4%**
Iron ore	1,568	1,541	+2%	4,478	4,350	+3%
other	67	6	+1076%	79	40	+99%
Industrial products	**456**	**420**	**+9%**	**1,360**	**1,161**	**+17%**

The Group sold 3.5 MMT of fertilizer products during the three-month period ending 30 September 2018, bringing year-to-date fertilizer sales through September 2018 to 10.4 MMT, which was slightly ahead of the 10.1 MMT sold in the same period last year. Excluding third-party products, the Group sold 7.5 MMT of EuroChem fertilizer products in the first nine months of 2018, compared to the 7.4 MMT recorded in the corresponding period of 2017. Sales volumes of third-party fertilizers in the first nine months increased slightly by 204 KMT, rising to 3.0 MMT from 2.8 MMT.

The Group's sales mix reflected the shift in production from urea, AN and ANF to complex fertilizers, UAN and CAN, as well as an average price appreciation for these products.

Iron ore sales during the first nine months of 2018 were $28 million lower, a 9% reduction year-on-year, reflecting a 12% drop in average prices but a 3% increase in sales volumes

AN industrial sales increased by 38% primarily due to the addition of new customers and contributed to a 22% increase in total sales of industrial products in the first nine months of 2018.

[1] *As fertilizers and mining products are dollar-denominated commodities, in terms of the economic substance the Group views its sales as predominantly denominated in US dollars even where nominally this may not be the case.*

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Geography of sales

Geography of sales (as proportion of sales)	Q3 2018	Q3 2017	Change, Y-o-Y	9M 2018	9M 2017	Change, Y-o-Y
Europe	28%	33%	-5pp	30%	31%	-1pp
Russia	18%	19%	-1pp	19%	21%	-2pp
North America	12%	9%	+3pp	15%	13%	+2pp
Latin America	26%	16%	+10pp	19%	14%	+5pp
Asia Pacific	8%	12%	-4pp	10%	10%	-
CIS	4%	8%	-4pp	5%	7%	-2pp
Africa	2%	3%	-1pp	2%	3%	-1pp

Third-quarter sales to Europe, Russia and the CIS, the Group's domestic markets, together accounted for 50% of total Group sales. The European market remained the Group's largest contributor in the first nine months of 2018, accounting for 30% or $1.22 billion of sales during the period, up from $1.12 billion during the first nine months of 2017.

Logistical issues in the European river system due to historically low water levels challenged sales in Europe in the third quarter.

Higher sales volumes in North America were partly caused by re-allocation of sales volumes from the Ukrainian market (following the sale of the Group's local subsidiary in May 2018) and also by seasonal sales opportunities, mostly for UAN and urea produced by Russian plants.

In Brazil, Fertilizantes Tocantins delivered monthly record volumes pushing sales in Latin America 10 percentage points higher in the third quarter 2018 compared to the corresponding period in 2017. The underlying year-on-year nine month sales growth has been close to 23%, adjusted for sales coming from two new Tocantins sites that have started operations this year.

On a last 12 months basis, sales at Tocantins increased by almost 500 KMT (+44%) compared with the full year in 2017. Year-to-date sales volumes reached 1.20 MMT.

Balance sheet

The Group ended the third quarter with net leverage of 2.44x on covenant net debt of $3.39 billion and 12-month rolling EBITDA of $1.38 billion.

Cash flow

For the three months ending 30 September 2018, the Group generated operating cash flow of $296 million, making a total of $803 million for the first nine months of the year, 3% below the same period last year.

The Group allocated $241 million to capital expenditure (capex) during the third quarter of the year, bringing capex spending for the first nine months of 2018 to $791 million, compared to $1.04 billion in the first nine months of 2017.

Positive pre-dividend free cash flow (FCF) generation is expected as EuroChem reaches the end of its investment cycle and its new ammonia and potash capacities ramp up.

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Project finance

During the nine months ending 30 September 2018, the Group received EUR 125 million from the EUR 557 million non-recourse project financing of the Group's ammonia plant in Kingisepp, Russia.

Corporate developments

Dmitry Strashnov resigned as CEO from the Group for personal reasons on September 24, 2018. Kuzma Marchuk, CFO of the Group, has been named Acting CEO. The Board has begun a search for Mr Strashnov's successor.

"The departure of the CEO due to personal reasons was well mitigated through the appointment of Kuzma Marchuk as Acting CEO, and complemented by the appointment of EuroChem board member Stefan Judisch as Deputy CEO and Chief Commercial Officer," said EuroChem Chairman of the Board Alexander Landia. "Having commenced the search for a new CEO, we are very encouraged by the strong interest of candidates to lead EuroChem through its next phase of development as a top global fertilizer producer," he added.

Sales and production developments

EuroChem signed a Memorandum of Understanding on 12 July 2018 with Heilongjiang Beidahuang Farms, part of Beidahuang Group, China's largest agricultural company. The MOU will see EuroChem supply potash and other NPK fertilizers to Heilongjiang Beidahuang Farms. Specific terms are to be agreed by the parties.

On 20 July 2018 the Group opened its second new fertilizer blending plant in Brazil this year. The Catalão plant is one of the largest in the state, with a static storage capacity of 80 KMT, 60 full-time workers and a production capability of 60 KMT of fertilizer per month. It will produce a range of standard fertilizers and supply some specialty NPK fertilizers produced by EuroChem in Europe.

Update on new projects

EuroChem VolgaKaliy (Gremyachinskoe potash deposit, Volgograd region)

The Gremyachinsky GOK construction project is proceeding at pace, with the two Skip Shafts connected and the Cage Shaft being finalized. The flotation plant is in commissioning mode, with the first concentrate obtained in July 2018. The total hoisting capacity of Skip Shafts 1 and 2 is 10 million tonnes of ore per annum, which will allow the mine to ramp up to its planned Phase 1 production rate of 2.3 million tonnes of finished product per year. Meanwhile, the implementation of the Cage Shaft program continues: Based on the results of ultrasonic research and measurement work, the company is preparing to clear, reinforce and complete the sinking of the Cage Shaft to its designated depth. Full production capacity is projected to be reached in 2021-22.

EuroChem Usolskiy Potash (Verkhnekamskoe potash deposit, Perm region)

Twelve mining machines are currently in operation in the mine, both for development and production. The total length of headings amounts to 80 kilometres. Construction and installation at train 2 is completed, with both trains (1 and 2) working at projected capacity. All utilities have been constructed and put into operation.

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Market outlook

Nitrogen continues to trade at healthy price levels globally.

There has been strong demand for urea from India and Asia against a backdrop of uncertainty surrounding Iranian production and ongoing reduced Chinese exports. In spite of small short term fluctuations, this is expected to continue into Q1 2019 as the northern hemisphere season (China, North America and Europe) kicks in. European nitrate prices are healthy, driven upwards by higher gas costs. Higher oil prices have also contributed to the positive sentiment. There is no new production scheduled to start and, conversely, there have been reports of scheduled closures of some urea production in Brazil and Kuwait.

Phosphate and potash prices are set to remain strong through the first half of 2019.

The phosphate market scenario is balanced to tight. Low overall inventories in all key importing markets and tighter availabilities due to capacity closures in the US, as well as lower MAP exports from China, have kept phosphate prices stable into Q4 2018. Pre-purchasing for the usually strong Q1 months has not yet started, leaving major markets with big purchasing volumes still to be covered.

Potash has gained in strength throughout 2018 on healthy demand, low inventory and delayed projects. Going forward into the New Year we expect a similar tightly balanced market scenario throughout Q1 and Q2 2019, with significant price increases to be expected in all regions. There is no major relief to the tight market scenario expected during 2019.

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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 producer of nitrogen, phosphate and potash fertilizers. The Group is vertically integrated with activities spanning mining to fertilizer production, logistics, and distribution. EuroChem began test production at its Usolskiy potash mine in early 2018, and continues to develop a second greenfield site at VolgaKaliy in Russia. Headquartered in Zug, Switzerland, the Group operates production facilities in Europe, Asia and the CIS, employing more than 26,000 people.

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