EuroChem

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EuroChem Reports IFRS Financial Information for Q3 2012

	Q3 2012		Q3 2011		*RUB Chng*	9M 2012		9M 2011		*RUB Chng*
	RUB bn	**USD m**	**RUB bn**	**USD m**	***Y-o-Y, %***	**RUB bn**	**USD m**	**RUB bn**	**USD m**	***Y-o-Y, %***
Revenue	47.1	1,471	36.2	1,246	+30%	124.8	4,012	98.3	3,416	+27%
EBITDA	11.7	364	13.6	470	-14%	38.9	1,250	37.1	1,289	+5%
Net profit	7.9	247	3.4	117	+132%	24.6	791	24.3	844	+1%
Cash from operations	11.6	362	12.4	425	-6%	33.7	1,083	27.9	969	+21%

	30 September 2012	**30 September 2011**	**31 December 2011**
Net Debt/ LTM[1] EBITDA	1.22x[2]	1.15x	1.35x

Average RUB/USD exchange rate for the period: Q3 2012; 32.01; Q3 2011: 29.05; 9M 2012:31.10; 9M 2011: 28.77

(1) Last Twelve Months

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

Moscow, November 14, 2012 - EuroChem today reported a consolidated IFRS net profit for the first nine months of 2012 of RUB 24.6bn as compared to RUB 24.3bn for the same period in 2011. EBITDA increased 5% year-on-year to RUB 38.9bn, while net profit for the period amounted to RUB 24.6bn, a slight increase on the RUB 24.3bn net profit realized the previous year. The EBITDA margin for the first nine months of the year remained on a solid level at 31%**.**

The consolidation of recently acquired assets provided much of the 30% year-on-year increase in third quarter revenues which grew to RUB 47.1bn. EBITDA for the quarter amounted to RUB 11.7bn, which was 14% below the previous year, when strong product pricing, especially for iron ore which is included in our Phosphate segment, had provided the Group with its second highest quarterly EBITDA ever.

Third quarter Nitrogen and Phosphate fertilizer sales volumes, excluding iron ore and baddeleyite, grew to 2,583 thousand tonnes (KMT), representing a 30% increase on the previous year's 1,988 KMT third quarter sales volumes.

On a like-for-like basis (i.e. excluding the effect of acquisitions), EuroChem revenues and EBITDA for the first nine months of 2012 increased by 7% and decreased 1%, respectively, with fertilizer sales decreasing by 346 KMT, or 6%.

CEO Dmitry Strezhnev commented: "Our third quarter revenues provide a glimpse of the transformational effects of our latest M&A activity. What began as a large-scale commodity business is evolving into a more diversified fertilizer producer with significant exposure to premium specialty products, providing us with an unparalleled flexibility to serve the most attractive global markets."

Third Quarter Market Conditions

Market conditions for the third quarter were, on balance, slightly inferior to previous periods as the prevailing global macroeconomic uncertainty kept inventories lean across much of the fertilizer supply chain. Nevertheless, while market visibility remained limited, opportunities across global markets materialized throughout the quarter.

Demand for nitrogen products benefited from above average soft commodity prices as well as growing acreage across North America and some Latin American markets. The supply side remained fairly tight on delayed capacity startups, seasonal plant turnarounds and supply curtailments in natural gas feedstock. However, the introduction of lower tax levels during this year's Chinese export window applied steady pressure on pricing. Averaging USD 382/tonne, Q3 2012 prilled urea (FOB Yuzhny) was 21% below its third quarter of 2011 average of USD 486/tonne, and 19% lower than the previous quarter. Ammonium nitrate (FOB Black Sea) trended slightly better with an average price per tonne of USD 272/tonne in the third quarter of 2012, 16% behind its Q3 2011 average of USD 323/tonne and 17% down quarter-on-quarter.

In phosphates, healthy demand for MAP/DAP from South America provided support to pricing while a delayed Monsoon held back demand from India during the first half of the quarter. Strong soybean pricing and expanding acreage under cultivation helped South America play a similar role in potash where the story remained centered on supply contract issues and production curtailments. 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 Q3 average of the previous year by 17%. Third quarter MOP (FOB Baltic Sea) contract prices were unchanged at USD 425/tonne, while spot prices declined to USD 464/tonne.

Reflecting the abrupt late summer pricing correction on China growth fears, iron ore spot prices averaged USD 117/tonne (63.5%Fe, China CFR) in Q3 2012, as compared to USD 184/tonne in the third quarter of 2011.

According to our estimates, based on data from the Russian Federal State Statistics Service (Rosstat), for the first nine months of the year, EuroChem had a 27% share of the Russian nitrogen fertilizer market and a 22% share of the Russian phosphate fertilizer market. In nutrient content, for the January to September 2012 period, the Group produced 1.6 of the 6.0 million tonnes (MMT) of N produced in Russia, and 501 KMT of the 2.3 MMT of P_2O_5 produced in the country.

BUSINESS SEGMENTS

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

Nitrogen segment

Buoyed by the additions of EuroChem Antwerpen and EuroChem Agro, third quarter 2012 sales for our Nitrogen segment increased 45% to 1,946 KMT compared to 1,343 KMT for the same period the previous year (5% increase on a like-for-like basis). CAN and NPK products were responsible for a 446 KMT increase in sales volumes, or 74% of the increase registered over the third quarter of 2011. Year-on-year, urea sales volumes increased from 423 KMT to 466 KMT, while UAN sales volumes grew from 177 KMT to 205 KMT. AN sales volumes followed the same trend, going from 421 KMT to 486 KMT in Q3 2012.

The increase in sales volumes lifted third quarter 2012 revenues for the Nitrogen segment by 35%, from RUB 16.6bn in the previous year, to RUB 25.4bn. At the same time, lower average prices for certain products slightly decreased Q3 Nitrogen EBITDA from last year's record setting RUB 7.4bn to

RUB 6.5bn. For the first nine months of the year, our Nitrogen EBITDA had reached RUB 22.6bn, which represented a 22% increase on the RUB 18.4bn reported for the same period in 2011.

Sales to Europe continued to climb on the back of the consolidation of EuroChem Antwerpen and EuroChem Agro. The expansion of our straight nitrogen and specialty products offering pushed revenues from Europe up 291% year-on-year. For the third quarter of 2012, Europe accounted for 24% of our Nitrogen segment sales, followed by Russia (21%) and Latin America (16%).

Average natural gas prices for the first nine months of the year at our Novomoskovskiy Azot and Nevinnomysskiy Azot ammonia facilities were RUB 3,348 and RUB 3,494 per 1,000m3 respectively (c. USD 3.35 and USD 3.50/mmBtu), as compared to RUB 3,179 and RUB 3,336 per 1,000m3 respectively (c. USD 3.44 and 3.61/mmBtu) for the corresponding period of 2011. The six month delay to the 15% annual Russian domestic gas price increase, which for 2012 was effective from July, yielded a year-on-year increase of 5% in Rouble terms for the nine months ended 30 September 2012 when compared to the same period last year. At the same time, the devaluation of the Rouble more than offset the gas increase in US dollar terms.

Severneft-Urengoy (SNU), our natural gas subsidiary which is part of the Nitrogen segment, contributed RUB 1.3bn and RUB 348m to Nitrogen revenues and EBITDA, respectively, in the first nine months of 2012. Production at SNU in the same period amounted to 514 million cubic meters of natural gas and 99 thousand tonnes of gas condensate. Production is being ramped-up and is expected to reach a daily production run-rate equivalent to an annual volume of 1.0 to 1.1bn cubic meters in December 2012 – January 2013 (current daily production is averaging 1.95 million cubic meters). During the first nine months of 2012, SNU sold 431.5 million cubic meters of natural gas to Gazprom under an arrangement which existed prior to its acquisition by EuroChem, with the remaining 48.5 million cubic meters supplied to Novomoskovskiy Azot at prices set by the Russian Federal Service for Tariffs (FST). Starting 1 January 2013, the Group expects to sell all of SNU's gas output to Novomoskovskiy Azot at the price established by the FST, in line with the Group's strategy of vertical integration into key raw materials.

Phosphate segment

Third quarter sales volumes for the Group's Phosphate segment, excluding mining co-products, amounted to 637 KMT, or 8 KMT shy of 3Q 2011 sales volumes. The slight year-on-year decline was mainly the result of increases in NP sales volumes being offset by marginally lower MAP/DAP sales volumes. With a more pronounced impact on the segment's performance, sales volumes of iron ore declined 22% year-on-year to 1,134 KMT, as the company preferred to raise iron ore inventories on account of the expected recovery in prices following the sharp drop in August.

The deferral of iron ore sales coupled with lower average prices for phosphate products contributed to a 17% decline in Q3 revenues to RUB 14.9bn and a third quarter Phosphate segment EBITDA of RUB 4.3bn. Phosphate segment revenues and EBITDA for the first nine months of 2012 amounted to RUB 49.2bn and RUB 14.0bn, respectively, as compared to 9M 2011 revenues of RUB 49.1bn and EBITDA of RUB 19.0bn.

Against a backdrop of slowing Chinese demand, sales of iron ore and baddeleyite, which are the two main co-products of our apatite mining operations, accounted for 25% and 39% of third quarter Phosphate segment revenues and EBITDA, respectively. This compares to respective contributions of 38% and 57% to revenues and EBITDA in the third quarter of 2011, when average prices for iron ore were 57% higher.

Our third quarter Phosphate sales geography reflected the sustained market growth observed in Russia, the strong demand for MAP/DAP and NP products in Latin America, and a weakened iron ore trading environment. Phosphate sales to Russia increased 23% and accounted for 31% of Q3 sales

(Q3 2011: 21%). Sales to Latin America increased more than 400% on strong demand from soybean and cash crop cultivation. As a result of these attractive market conditions, the share of Latin America in our Q3 2012 Phosphate segment sales breakdown increased to 13%, as compared to 2% for the same period a year ago. Lower iron ore shipments to China considerably diluted the share of Asia in our Phosphate sales geography to 19% (Q3 2011: 39%).

Potash segment

As reported earlier, having reached a depth of 570 meters, the skip shaft at the Gremyachinskoe deposit (Volgograd) is being readied for the final sinking stage to its planned depth of 1,200 meters. At the cage shaft, freezing operations were commenced following the dismantling of the failed cementation equipment used by a contractor, with sinking still set to resume in 2013. As a result of the delays encountered at the cage shaft, the initial target for production had to be revised to a current guidance of 2016.

To the East, sinking operations in the Urals continued to outpace our initial schedule. At the time of this publication, the Usolskiy Potash (Verkhnekamskoe deposit, Perm region) skip shaft #1 had reached a depth of 360 meters, while sinking operations on the cage shaft, which started in March 2012, were down to 306 meters. Both of these shafts are being sunk using freezing technology, the success of which currently allows us to guide to 2013 for the completion of phase I sinking operations

Capex spending on both our potash projects amounted to RUB 8.2bn for the first nine months of the year, bringing the aggregate total to RUB 40bn since the start of our potash developments.

Distribution segment

Sales at our distribution and sales outlets in the CIS grew 42% to RUB 4.7bn in the third quarter of 2012 as compared to RUB 3.3bn in Q3 2011 and represented 10% of our total sales for the period. Distribution segment EBITDA continued expanding and gained 8% to RUB 226m.

FINANCIAL

Income statement

The expansion of our production base and market footprint drove third quarter consolidated revenues up 30% to RUB 47.1bn as the growth in nitrogen sales volumes compensated the effects of lower iron ore volumes and weaker average prices for all product groups. The third quarter financial performance also benefited from the further devaluation of the Russian rouble against the US dollar as it moved from a Q3 2011 average of 29.0 roubles to the US dollar to an average of 32.0 for the third quarter of 2012. Approximately half of third quarter sales were conducted in US dollars with the remaining half split evenly between roubles and Euros.

Cost of sales in the first nine months of 2012 outpaced the growth in revenues and increased 75% year-on-year to RUB 29.6bn on the consolidation of EuroChem Antwerpen, EuroChem Agro, and Severneft-Urengoy coupled with rising costs for key raw materials (natural gas, phosphate rock, ammonia, energy, etc.). For the same reasons, materials and components used or resold increased to RUB 20.8 bn and represented 70% of Q3 2012 costs of sales (2011: 63%). Q3 2012 gas costs for fertilizer production rose to RUB 3.9bn, which represented an increase of 22% over the third quarter of the previous year mostly due to the rise in the domestic price of gas as set by Russia’s FST.

Despite the year-on-year growth in production volumes, pressure on energy costs was alleviated by the effects of limited, as well as delayed, tariff increases in the Russian power generation sector during the first nine months of 2012. As compared to the third quarter of 2011, although energy costs increased from RUB 1.5bn to RUB 1.7bn in the third quarter of 2012, their share in the cost structure decreased from 9% to 6%.

Labour costs, which amounted to RUB 2.3bn, went from representing 11% of cost of sales in Q3 2011 to 8% in the third quarter of this year. The increase from the previous year's RUB 1.8bn was primarily due to new personnel additions from acquisitions, as well as a salary indexation from January 2012.

As compared to expenses of RUB 5.9bn in the third quarter of 2011, total distribution costs increased 5% to RUB 6.2bn in Q3 2012. Despite the consolidation of EuroChem Agro freight costs, the share of transportation costs within distribution costs retreated to 77% (2011: 84%) and amounted to RUB 4.8bn, which represented a 4% decline on the same quarter the previous year.

The third quarter of 2012 saw a slight 6% increase in total general and administrative (G&A) expenses as compared to the third quarter of 2011. While G&A expenses advanced to RUB 1.3bn, G&A labour costs, which accounted for 50% of G&A expenses in Q3 2011, decreased 7% year-on-year to RUB 575m and represented 44% of Q3 2012 G&A expenses. For the nine months ended 30 September 2012, total staff costs (including social expenses) amounted to RUB 10.3bn (9M 2011: RUB 8.4bn).

Other operating expenses for the third quarter of 2012 amounted to RUB 679m, versus a Q3 2011 other operating income of RUB 276m. Behind this reversal were operating foreign exchange losses of RUB 787m compared to gains of RUB 248m in the previous year.

As a result of accounting effects related to the fluctuations of the Russian rouble exchange rate on the company's primarily US dollar-denominated debt, for the three months ended 30 September 2012, we recognized an unrealized financial foreign exchange gain of RUB 3.4bn, compared to a loss of RUB 6.0bn in the same period last year.

Interest expense increased to RUB 1.0bn, from RUB 845m a year earlier, in line with the company's higher debt level. Other financial gains of RUB 1.4bn mainly arose from gains of RUB 1.1bn in favorable changes in the fair value of non-deliverable forward contracts and RUB 337m in cross currency interest rate swap.

Balance sheet

Reflecting the consolidation of both our newly acquired western European assets and our EuroChem Agro global trading platform, net working capital had increased to RUB 21.1bn as of 30 September 2012, as compared to RUB 12.9bn at the end of Q3 2011.

The portfolio of bank borrowings did not materially evolve in the course of the third quarter. In September 2012 the Group signed a USD 120 million 1-year credit line agreement bearing a floating interest rate based on 3-months' Libor. The facility had been fully utilized as at 30 September 2012 (USD 120 million outstanding).

As at 30 September 2012, EuroChem held 2,005,434 shares, or 1.048% of the issued share capital of K+S Group. Our equity stake in the German potash and salt producer represented a fair value of RUB 3.1bn according to the 30 September 2012 closing price of EUR 38.27 per share.

Despite proceeding with a series of major acquisitions in the first nine months of the year, as at 30 September 2012, the Group had a comfortable net debt to 12-month rolling EBITDA ratio of 1.22x, as compared to 1.35x at the end of 2011 and 1.15x as at 30 September 2011.

Cash flow

At RUB 11.6bn, operating cash flow for the third quarter of 2012 was fairly stable as compared to RUB 12.4bn in Q3 2011. The slight increase stemmed from the EuroChem Antwerpen and EuroChem Agro consolidations.

Corporate developments

On 2 July 2012, we completed the acquisition of K+S Nitrogen, a global distributor of nitrogen fertilizers, comprising distribution companies operating in Germany, France, Spain, Italy, Mexico, Singapore, China, Greece, and Turkey, as well as certain intellectual property. This includes recognized brands and technology for the production and marketing of stabilized fertilizers with performance enhancing inhibitors which, among other things, can reduce evaporation and lower N_2O emissions in nitrogen products. Subsequently renamed EuroChem Agro, this acquisition supports our strategy of moving closer to customers in core markets, by further bolstering our product offering with specialty fertilizer grades tailored to specific markets and expanding our geographical footprint.

Claim against Shaft Sinkers (Pty) Ltd.

In October 2012 the Group filed a claim against Shaft Sinkers (Pty) Ltd., a company involved in the construction of the Gremyachinskoe potash deposit under a contract which was terminated in April 2012. The claim seeks USD 800 million in compensation for the direct costs and substantial foregone profits from the delay in commencing potash production as a result of the inability of Shaft Sinkers (Pty) Ltd. to fulfill its contractual obligations and complete the construction of the Gremyachinskoe cage shaft. As a result of the discontinued relationship with the contractor, an outstanding advance of RUB 495m had to be writen-off in the nine months ended 30 September 2012 (nine months ended 30 September 2011: nil). Due to the failure of the grouting technology employed in the cage shaft, previously capitalised construction expenses of RUB 3.1bn were written off in Q3 2012.

In October 2012 Shaft Sinkers presented an interim claim letter to the Group claiming compensation of USD 45 million in costs incurred by them up to and inclusive of 30 September 2012 in connection with the termination of the construction contract. Management believes that this claim is without merit.

OUTLOOK

While farm economics remain robust on paper, the current fertilizer market environment saw a return of hand-to-mouth buying patterns as buyers remain cautious on pricing risks. While subsidy issues in India remain, DAP prices are expected to rebound from their seasonal lull by year-end. In nitrogen, despite the close of the export window, some market pressure remains as deliveries to India and other Asian markets are covered by Chinese product stored from bonded warehouses. However, these are short-term considerations and we share the market’s optimism on the upcoming planting season and the first quarter of 2013. More importantly, our global expansion across markets and specialty niche products is expected to preserve our competitiveness despite both sector and broader macroeconomic headwinds.

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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 of fertilizers. EuroChem is currently developing the Gremyachinskoe and Verkhnekamskoe greenfield potash projects in Russia, which have an aggregate planned annual capacity of over 8 million tonnes per year.

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 nine month period ended 30 September 2012 is available at: http://www.eurochem.ru/investors/results-center/

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