EUROCHEM

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EuroChem Reports IFRS Financial Information for 2013

	Q4 2013		Q4 2012			2013		2012		
	RUB bn	USD m	RUB bn	USD m	*Y-o-Y, %*	RUB bn	USD m	RUB bn	USD m	*Y-o-Y, %*
Revenue	43.9	1,348	**41.7**	1,342	*+5%*	176.9	5,556	**166.5**	5,354	*+6%*
EBITDA	9.2	284	**10.3**	331	*-10%*	43.0	1,349	**49.2**	1,581	*-13%*
Net profit	2.6	80	**8.0**	257	*-67%*	12.3	385	**32.6**	1,047	*-62%*
Cash from operations	10.0	308	**5.2**	167	*+93%*	36.2	1,135	**38.9**	1,250	*-7%*

	31 December 2013	31 December 2012
Net Debt/ LTM[(1)] EBITDA[(2)]	2.07x	1.53x

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: 2013; 31.85; 2012: 31.09; Q4 2013:32.53; Q4 2012: 31.08

(1) Last Twelve Months

(2) Including estimated EBITDA for EuroChem Antwerpen and EuroChem Agro for the period prior to their respective acquisition as well as pro-rata Murmansk Commercial Seaport net income.

Moscow, 5 February, 2014 - EuroChem Mineral and Chemical Company ("EuroChem") today announced consolidated full year 2013 revenues according to IFRS of RUB 176.9bn (US$ 5.6bn), which represented a 6% increase on revenues of RUB 166.5bn (US$5.4bn) in 2012. Earnings before interest, taxes, depreciation, and amortization (EBITDA) amounted to RUB 43.0bn (US$ 1.3bn), as compared to RUB 49.2bn (US$ 1.6bn) in the previous year.

Full year fertilizer sales volumes for our nitrogen and phosphate segments, excluding sales of mining co-products, increased 788 thousand metric tons (KMT) or by 8% to 10.6 million metric tons (MMT) as compared to 2012 sales volumes (or up less than 1% on a like-for-like basis, excluding EuroChem Antwerpen and EuroChem Agro). Mining raw material sales volumes, which include iron ore and baddeleyite, added over half a million tonnes and grew to 5.9 MMT, which represented an 11% increase on the previous year.

CEO Dmitry Strezhnev commented: "Despite the growth in fertilizer demand falling short of market expectations, we continued to challenge ourselves to increase volumes and gain market share. As highlighted by our results, our unique asset base is well positioned to drive and support robust cash flow generation across the business cycle. The ensuing value creation is set to be boosted by our targeted strategic initiatives, such as in potash, nitrogen and phosphates, which will serve to further entrench our resilience."

2013 Market Conditions

The fertilizer markets had a rather tumultuous year. While the year started off slowly on account of adverse weather in some key markets, conditions had materially improved by late spring. Farmers quickly made up for the lost time as favourable soft commodity prices provided the incentive to increase yield and expand acreage. Despite the return of healthy demand levels for all three nutrients, the first quarter's inventory build-up limited any significant pricing appreciation. Urea prices proved the most vulnerable on account of record urea exports from China where ample coal supply and lower prices boosted the global competitiveness of local producers. On the demand side, India's currency devaluation coupled with what has been described as an archaic subsidy system left one of the world's largest fertilizer importers incapacitated for the better part of the year.

In a positive for both producers and customers, raw material price dynamics mirrored the softer market conditions. Over the course of the year, gradually weakening ammonia, sulphur and phosphate rock prices helped alleviate some of the margin pressure on the producer side. Prilled urea (FOB Yuzhny) averaged US$ 341/tonne in 2013, down 16% from its 2012 average of US$ 408/tonne. Ammonium nitrate (AN) (FOB Black Sea) performed slightly better and finished 2013 with an average of US$ 288, 5% below its average for the previous year.

While phosphate prices received some support from the growth in planted acreage in Latin America, the market remained otherwise fragile given the limited buying activity from India. Average MAP and DAP (FOB Baltic Sea) prices for 2013 were US$ 454 and US$ 457$/tonne respectively, trailing their 2012 average prices by 18% and 17% respectively.

Midway through the year, unexpected strategic repositioning by Uralkali wreaked chaos over the potash landscape. Citing lost market share and declining sales volumes, the Russian potash producer's abrupt exit from the BPC marketing vehicle, which it formed with neighbour Belaruskali, brought the market to a standstill. Potash prices reacted in a knee-jerk fashion and went on to shed over 25% by year end. While many potash expansion projects were reassessed in the wake of this market reshuffling, EuroChem reiterated its commitment to the "third nutrient" with work continuing at both its greenfield potash projects in Russia. At an average of USD 352/tonne in 2013 MOP (FOB Baltic Sea) contract prices fell 17% year-on-year as compared to an average of USD 424/tonne in 2012. The spot price premium to contract prices tightened as buyers held out given the market uncertainty. MOP (FOB Baltic Sea) spot prices ended 2013 with an average US$ 379/tonne, 19% behind their 2012 average of US$ 467/tonne. Spot prices for MOP on the Baltics finished the year at around US$ 290/tonne, or ca. 40% below their late December 2012 levels.

Buoyed by stronger-than-expected demand from China, iron ore (63.5%Fe, China CFR) averaged USD 136/tonne for the year, a 3% increase versus its 2012 average.

BUSINESS SEGMENTS

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

Nitrogen segment

Our 2013 nitrogen segment sales volumes continued to benefit from the added depth to our fertiliser production chain. Full year volumes increased 11% and rose to 8,217 KMT, which corresponded to an additional 838 KMT of product as compared to 2012. While the year proved challenging for urea and AN trading, the breadth and flexibility of our production and distribution assets alleviated some of the pressure. The consolidation of EuroChem Antwerpen and EuroChem Agro yielded significant gains for our more advanced crop nutrition products. Sales in NPK, UAN, and granulated AN increased a combined 978 KMT over the previous year, more than compensating the slightly lower urea and AN sales volumes, which slipped 7% and 11% year-on-year respectively. CAN sales volumes were also strong, increasing 24% to 943 KMT as compared to 759 KMT in 2012.

Our nitrogen revenues for the 12 months ended 31 December 2013 climbed to a record high of RUB 100.1bn, which represented an 8% increase on what was a strong 2012 performance. Average prices for nitrogen products nevertheless reflected the challenging market backdrop and pulled nitrogen segment EBITDA down 14% to RUB 26.2bn as compared to RUB 30.6bn in 2012.

Sales to Europe, which represented 26% of total nitrogen sales in 2012, increased 29% and accounted for 31% of the Group's nitrogen sales in 2013. The increase in sales to Europe was primarily brought on by the expansion of our distribution network and asset base in Western Europe coupled with challenging conditions on the other side of the Atlantic. Our sales to Russia increased 14% and accounted for 23% of segment sales (2012: 22%).Urea's relative weakness versus other nitrogen products was especially felt in the Americas. Sales to Latin America and North America decreased 31% and 18% respectively. Together these two regions accounted for 23% of sales in 2013 (2012: 32%).

At our upstream nitrogen operations, our Severneft-Urengoy (SNU) natural gas subsidiary provided RUB 5.1bn and RUB 1.5bn to the Group's revenues and EBITDA, respectively. Natural gas sales volumes increased 27% year-on-year to reach 830 million m3 while gas condensate sales volumes expanded 26% to 141 KMT as compared to 2012. The natural gas volumes were sold to Novomoskovskiy Azot at regulated prices less a 5% discount.

For the year, our Novomoskovskiy Azot and Nevinnomysskiy Azot ammonia facilities paid average natural gas prices of RUB 3,966 and RUB 4,120 per 1,000m^3 respectively (c. US$ 3.87 and US$ 4.03/mmBtu), as compared to average prices of RUB 3,432 and RUB 3,594 per 1,000m3 respectively (c. US$ 3.43 and 3.60/mmBtu) for the 12 months ended 31 December 2012. Two natural gas price increases were implemented in 2013 in Russia. An increase of 15% took effect from July 1st followed by a 2-3% raise from October 1st. No price increases have been announced for 2014.

Phosphate segment

Total sales volumes for the phosphate segment, excluding raw material mining operations, slipped 2% or 50 KMT to 2,405 KMT in 2013, as compared to last year. MAP/DAP sales remained practically flat with a modest 13 KMT year-on-year increase while NP sales finished the year 53 KMT below their 2012 levels. Iron ore demand remained resilient throughout the year. Sales of our apatite-mining co-product finished the year up 11% to 5,858 KMT as compared to 2012.

The strong iron ore backdrop lent support to our phosphate segment revenues for the January to December 2013 period and limited the effects of the year's lacklustre MAP/DAP showing. Full year revenues for our phosphate segment amounted to RUB 58.3bn, representing a 4% decline on 2012 segment revenues of RUB 60.8bn. Phosphate segment EBITDA had a more pronounced decline, pulled down by the lower average realized prices for phosphate fertilizer products, particularly MAP/DAP, and finished the year at RUB 13.9bn, 15% below the RUB 16.2bn recorded a year earlier.

Our mining operations mitigated the weakness in phosphate-based fertilizers as healthy demand from China carried average iron ore prices 3% higher year-on-year. Iron ore and baddeleyite, which are the co-products of apatite mining operations at our Kovdorskiy GOK mine, together generated 38% and 74% of phosphate segment revenues and EBITDA, respectively, as compared to 31% and 51% in 2012.

The sales geography of our phosphate segment reflected the contribution of mining co-products to the segment's performance. The share of revenue from Asia increased three percentage points as compared to 2012 and accounted for 30% of total segment sales. Higher feed phosphate sales drove gains in Europe. As in 2012, it was our second largest phosphate market and represented 29% of 2013 sales, a three percentage point increase on last year. Sales to Russia declined six percentage points on lower MAP/DAP prices and accounted for 18% of sales in 2013.

In late October 2013 we announced the launch of drilling and blasting operations at our phosphate rock mining project in Kazakhstan. Most of the major equipment items required to build the initial phase have been purchased, including but not limited to excavators, dozers, haul trucks, crushers, as well as screening, conveying and loading facilities. First production is expected to come on stream in the fourth quarter of 2014. With its targeted initial production capacity of around 640 KMT of phosphate ore per year, our Kazakh mining project has been an important part of the company's upstream raw material strategy.

Potash segment

Eurochem VolgaKaliy (Gremyachinskoe deposit, Volgograd region)

With the cage shaft bottom cleared of water and debris, we resumed sinking in the fourth quarter and had progressed to a depth of -148 meters as of 31 January. As previously announced, the restart of sinking was delayed by several months. Once the shaft was cleared, detailed surveying revealed that corrections to the shaft liner were required. These issues were inherited from our initial contractor for the project and included the need to remove and replace eleven tubing rings and the concrete backing. Please refer to the Legal Proceedings section at the end of this release for further information.

Work also continued on schedule at the skip shaft #1 where the freeze wall was completed in December. Sinking operations resumed after extensive testing of the water and pressure below the bottom concrete plug. The plug was then removed and sinking operations resumed from -572 meters. As of 31 January, the skip shaft #1 had reached a depth of -601 meters out of its planned -1,147 meters.

The freeze wall for the skip shaft #2 was further developed and had achieved its designated thickness at the time of this release. Sinking efforts on our phase 2 skip shaft are currently scheduled to start later this month.

On the surface, we saw good progress on the construction of the main process beneficiation building, warehousing facilities, and loading and shipping facilities. The main electrical substation is essentially complete and undergoing rigorous commissioning checks prior to energizing.

EuroChem Usolskiy Potash (Verkhnekamskoe deposit, Perm region)

We successfully completed cage shaft sinking operations in October 2013 and expect to wrap up skip shaft sinking efforts within the next quarter. The abandonment of the site's two freeze walls, which were designed, installed, and operated by Thyssen Schachtbau is underway, a program also contracted with the German mining specialists.

As of 31 January, underground operations at the Usolskiy skip shaft were down to 509 meters with only 37 meters left to sink before the shaft's planned depth. We also made progress on other excavations in this shaft such as openings for the loading bins and pockets.

Above ground, our teams were engaged in the construction of the tailings pond and railroads. The landscape of the site further evolved with the erecting of the foundations for various buildings including the administration building, mine rescue building and permanent canteen.

For the January to December 2013 period, total capital expenditure at both VolgaKaliy and Usolskiy amounted to RUB 12.4bn, bringing the aggregate total to RUB 57bn since the start of our greenfield potash developments.

Distribution segment

Our distribution segment comprises the sale of fertilizers and services via a number of retailers located within the CIS, specifically in Russia, Ukraine and Belarus. Our strategy to provide our clients with “yields, not just fertilizers” is there to support our customers improve yields through better crop nutrient balance. In 2013, our distribution segment realized sales of RUB 17.0bn and generated EBITDA of RUB 683m.

FINANCIAL

Income statement

Consolidated revenues for the twelve months ended 31 December 2013 grew 6% to RUB 176.9bn (US$ 5.6bn). The additional 838 KMT in nitrogen sales volumes coupled with an 11% increase in iron ore sales volumes helped alleviate the pricing erosion in phosphates and drive the year-on-year revenue expansion. Excluding EuroChem Antwerpen and EuroChem Agro, consolidated from Q2 and Q3 2012, respectively, our revenues and EBITDA for 2013 amounted to RUB 135.0bn and RUB 39.2bn respectively.

For the twelve months ended December 2013, our total cost of sales displayed a 15% increase over the previous year and amounted to RUB 112.8bn. The increase in costs outpaced the 6% revenue growth as average costs and tariffs for key raw materials such as natural gas, phosphate rock, ammonia, and energy moved slightly higher than in the previous year. In line with the growth in production volumes, group costs for materials and components used or resold increased from RUB 64.6bn in 2012 to RUB 70.1 bn in 2013. However, their share within the Group’s costs of sales structure decreased four percentage points to 62%.

Within cost of sales, labour costs, which include social fund contributions, increased 11% in 2013 and amounted to RUB 10.9bn. Most of the uptick in labour costs was driven by a salary indexation in January 2013 combined with an increase in personnel brought on by the integration of assets acquired in the previous year. As in 2012, labour costs comprised 10% of the Group’s total costs of sales in 2013.

Despite the considerable increase in production volumes, the share of energy costs within our cost structure remained flat at 7%. Although we registered a 14% year-on-year increase in energy costs following the upward revision to tariffs in the Russian power generation, our efficiency upgrade program yielded substantial savings. Particularly, in addition to increasing internal power generation capacity at Phosphorit, the replacement of obsolete catalysts at Novomoskovskiy Azot provided RUB 45m in energy savings in 2013.

Total distribution costs ticked up 8% to RUB 25.3bn as compared to RUB 23.3bn for the same period in 2012. Within S&D costs, transportation expenses registered a slight 3% growth to RUB 18.6bn (2012: RUB 18.1bn). Despite increasing year-on-year, transportation costs comprised 74% of total distribution expenses in 2013, down from 78% a year earlier. While lower maritime freight rates provided a 14% reduction in transportation costs, the savings were offset by an increase in rail shipments of iron ore concentrate to Zabaikalsk (Chinese border).

General and administrative (G&A) expenses for the Group increased 20% from RUB 5.6bn in 2012 to RUB 6.7bn in 2013. Accounting for 47% of G&A expenses, labour costs increased 16% over the same period. Total staff costs, including social expenses, grew to RUB 16.6bn, up15% from RUB 14.4bn a year ago. As highlighted earlier, the growth in staff expenses was primarily linked to recent acquisitions and organic growth initiatives. Some of the key ongoing projects of 2013 were the development of phosphate rock mining operations in Kazakhstan, the launch of our railcar depot to service the Group's 6,500+ rolling stock, and our ambitious VolgaKaliy and Usolskiy potash projects in Russia.

For the full year 2013 we recognized other operating expenses of RUB 425m versus other operating income of RUB 371m in 2012. The main items behind other operating expenses for the period were sponsorship expenses of RUB 839m (2012: RUB 516m) and foreign exchange gains of RUB 393m (2012: losses of RUB 263m). The main sponsorship expenses included a new sports facility in Kėdainiai, Lithuania, constructed as part of celebrations commemorating Lifosa's 50th anniversary, and the upgrade of social infrastructure and public utilities in Novomoskovsk, site of our Novomoskovskiy Azot nitrogen facility.

Below the operating profit line, we recognized unrealized financial foreign exchange losses of RUB 5.9bn, compared to an unrealized gain of RUB 4.3bn in 2012. Changes in these noncash items reflect the impact of the weaker Russian rouble on the company's primarily US dollar-denominated debt which matches our mainly US$-denominated revenues.

Interest expenses for 2013 increased in line with the Company's higher debt level and amounted to RUB 5.2bn (2012: RUB 4.3bn). For 2013 we recognized other financial losses of RUB 945m on changes in the fair value of US$/RUB non-deliverable forward contracts and changes in the fair value of cross currency interest rate swaps in amounts of RUB 535m and RUB 165m, respectively.

Balance sheet

Working capital needs decreased slightly as lower prices for finished goods slightly balanced higher prices for certain raw materials. The Company's net working capital decreased 3% from RUB 23.9bn in 2012 to RUB 23.1bn as at 31 December, 2013

EuroChem's portfolio of borrowings from banks remained fairly unchanged until late August when we successfully closed a club facility for an amount of US$1.3bn. 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.

While the company's debt ratio remained well below bank covenant levels and at all times within our targeted across-the-cycle range, the volatility in the fertiliser markets prompted the Group's shareholders to proceed with a pre-emptive USD 300m capital injection in the fourth quarter of 2013 through the acquisition of 2.36% of share capital of the Group's holding company. Consequently, we closed 2013 with a net debt to 12-month rolling EBITDA ratio of 2.07x as compared to 2.27x in Q3 2013 (2012: 1.53x).

Highlighting EuroChem's strong product and geographic diversification, its partial vertical integration and its advantageous 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 / stable outlook in 2013.

Cash flow

At RUB 36.2bn, operating cash flow for the twelve months ended 31 December 2013 remained within 7% of the previous year's level.

Our total capex spending for the January to December 2013 period amounted to RUB 32.6bn (US$ 1.0bn), comprised of investments of RUB 12.4bn in potash, RUB 10.4bn in nitrogen and RUB 8.6bn in phosphates. The remainder was allocated to our distribution network and logistics infrastructure.

2013 corporate developments

In 2013 the Group finalized the acquisition of 54,613 ordinary shares of OJSC "Murmansk Commercial Seaport" for a total consideration of RUB 3.15bn. These ordinary shares represent 48.26% of the total number of the ordinary shares and 36.20% of the total issued share capital of the Company. As at 31 December 2013, the Group held 36.20% of the OJSC "Murmansk Commercial Seaport" voting rights.

On 10 July 2013, EuroChem announced its intention to consider building an ammonia and urea production plant in Louisiana. A final decision on the parameters and location of the facility should be taken later in 2014.

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 by the end of 2014.

Legal proceedings

In October 2012 the group filed a claim against Shaft Sinkers (pty) ltd and Rossal 126 (pty) limited (formerly known as Shaft Sinkers (pty) ltd.), ("Shaft Sinkers"), the contractor involved in the construction of the mining shafts at the Gremyachinskoe potash deposit, seeking compensation for the direct costs and substantial lost profits arising from the delay in commencing potash production, due to the inability of that construction company to fulfil its contractual obligations. Further details of the proceedings are available in note 34 of the Group's 2013 IFRS accounts.

In March 2013 the Group filed a claim against International Mineral Resources B.V. ("IMR") which, the Group believes, held a controlling interest in Shaft Sinkers, claiming IMR is responsible for its subsidiary's actions. In July 2013, a Dutch court granted EuroChem definitive leave for levying the requested prejudgment attachments against IMR's Dutch assets, while fixing the amount for which the leave is granted, including interest and cost at euro 886 million. The court held an in-depth hearing on 21 January 2014 where it considered the arguments and witnesses of both sides, following which, the court notified that a final judgment is to be rendered on 16 April 2014.

OUTLOOK

Despite the lingering presence of global imbalances and market volatility, the growth of the fertilizer industry remains solidly underpinned by global food demand. Growing yield gaps in certain regions coupled with the increasing pressure on the global food system from emerging economies and dietary shifts will continue to support and further drive the use of fertilisers.

Following their significant rally, nitrogen prices have reached more comfortable levels which could be sustained heading into the second quarter on account of plant turnarounds in the Middle East and limited export flows from China to North America as compared to last year. At the same time, weather related delays to spring planting in the US could erode some of the price gains. Nevertheless most producers are in a comfortable spot with many reportedly sold out until March. While Chinese urea export parameters have been relaxed for 2014, EuroChem expects yearly export volumes from China to remain in line with 2012-2013 levels. In Europe, annual benefit payments to the agricultural sector have been distributed and should provide a positive impact on fertiliser purchasing activity.

Re-emerging demand in phosphates has tightened supply and provided a boost to prices. While lower ammonia prices may help margins at producer levels, we would expect to see any significant upward movement in DAP/MAP prices to be matched by a ramp-up in capacity utilization. Prices are expected to gradually come down as seasonal demand diminished. India’s market presence is likely to remain limited until after the May elections.

In potash, contract prices have established a floor price for the upcoming months. Potash producers have been applying upward pressure on spot prices with product in Latin America and Southeast Asia trading at around $ 350 CFR. While the changes in the ownership of Uralkali should eventually restore the joint marketing of product with Belaruskali, this does not appear to be imminent in the near term and presents a challenge to significant price appreciation.

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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 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 Moscow, it operates production facilities in Russia and Western Europe and employs more than 20,000 employees globally.

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 twelve month period ended 31 December 2013 is available at: http://www.eurochem.ru/investors/results-centre/

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

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