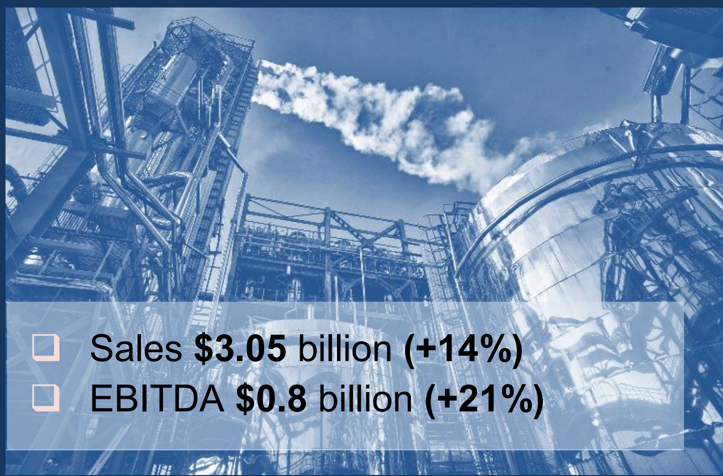
1H 2019 IFRS Results

EuroChem – a leading global fertilizer producer



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Key Indicators	1H 2019	1H 2018	Change, y-o-y
Sales, *US$m*	3,046	2,671	**14%**
Sales, *KMT*	11,774	10,949	**8%**
EBITDA, *US$m*	819	677	**21%**
EBITDA margin, %	*27%*	*25%*	***+2 pp***
Net Income, *US$m*	612	210	**191%**
Cash flow from operations, *US$m*	567	507	**12%**
Free cash flow, *US$m*	136	(41)	n/a

Leverage	1H 2019	FY 2018	1H 2018
Net Covenant Debt, *US$m*	3,417	3,455	3,359
Net Covenant Debt/LTM(*) EBITDA(**)	2.09x	2.29x	2.78x

(*)Last 12 months
(**)Including net income from associates and joint ventures

Zug, Switzerland, August 6, 2019 – EuroChem Group AG (hereinafter “EuroChem” or the “Group”) a leading global fertilizer company, today reported consolidated sales for the first half of 2019 of US$3.05 billion, 14% higher than the same period last year, on the back of a favorable pricing environment and an increase in sales volumes.

The first-half performance took Group EBITDA to US$819 million, 21% higher than the corresponding period in 2018. EBITDA growth was driven primarily by sales and prices improvements, the positive effects of foreign exchange rates for rouble-denominated costs and control of costs (the average RUB/US$ exchange rate was: 65.3 in 1H2019 compared to 59.4 in 1H2018).

For the period ending June 30, 2019, the Group generated cash flow from operating activities of U$567 million, 12% higher than a year ago, and turned free cash flow positive. Operating cash flow for the first half of the year was 1.2 times higher than the Group’s requirements for capital expenditures, enabling EuroChem to finance ongoing investment projects internally. Following the ramp-up of EuroChem’s major investment projects and EBITDA growth, the share of CAPEX to EBITDA decreased from 81% in the first half of 2018 to 57% in the first half of 2019.

“EuroChem has delivered strong half-year results which, with the full launch of our new ammonia facility at Kingisepp and the excellent progress with potash production volumes at Usolskiy, leaves us well positioned for the remainder of the year,” said Petter Ostbo, EuroChem Group Chief Executive Officer. “Taken together, these new production plants position us among the most competitive players in the fertilizer industry.”

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Market overview

Average Market Prices *US$/t*	1H 2019	1H 2018	Change, y-o-y	Last 12M	
				MAX	MIN
Prilled urea (FOB Yuzhny)	245	228	**7%**	303	220
Ammonia (FOB Yuzhny)	246	258	**-5%**	346	203
MAP (FOB Baltic sea)	380	400	**-5%**	434	341
MOP (FOB Baltic sea, spot)	277	247	**12%**	284	229
Iron Ore (63,5% Fe, CFR China)	94	72	**32%**	121	64

Note: 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

Global **urea** prices grew by 7% in the first half of the year compared to the same period a year ago, to US$245/t FOB Yuznhy on average. Downward price pressure was observed in the market versus the end of last year on the back of new capacity from other companies, notably in Azerbaijan. Other factors at play included: an oversupply in Latin America with low season in Brazil; high stocks in India at the beginning of the year; weather issues in Europe and North America that kept prices ahead of the active spring season; and shipments from Iran at discounted levels. However, following new Indian tender announcements and increased activity in Latin America, Asia and Africa during the second quarter of the year, the pricing environment grew more supportive.

In the first half of 2019, **ammonia** prices softened with supply exceeding steady demand, low natural gas prices in Western Europe, and rainy conditions in the USA, which impacted the application season. Ammonia FOB Yuzhny price was 5% down in the first half of 2019, year-on-year.

In **phosphates**, meanwhile, muted new buying interest from key global regions weakened the market. MAP FOB Baltic prices decreased by 5% in the first half of 2019, compared with the same period last year.

Balanced market supply with expectations of stable purchases helped ensure favorable pricing dynamics for **potassium chloride** (potash) prices. Last year's bullish sentiments continued to drive the potash industry forward, and the spot price for MOP FOB Baltic averaged US$277/t, a 12% increase on a year ago.

Iron ore prices in the first half of 2019 reached highs not seen since 2014 (US$121/t maximum for 63.5% Fe, CFR China) due to decreased supply, reflecting production volume cuts at Vale mines, and boosted demand against a backdrop of falling inventory levels. With recovering margins in the steel industry, iron ore prices were up 32% compared to the same period a year ago.

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Sales

EuroChem & 3rd Party Products	1H 2019 (KMT)	1H 2018 (KMT)	Change, y-o-y	1H 2019 (US$m)	1H 2018 (US$m)	Change, y-o-y
Nitrogen products, including:	4,693	4,386	**7%**	1,156	997	**16%**
Nitrogen fertilizers	*4,687*	*4,378*	***7%***	*1,155*	*995*	***16%***
Phosphate products & complex fertilizers, including:	2,679	2,604	**3%**	1,113	1,042	**7%**
Phosphate fertilizers	*1,098*	*1,138*	***-4%***	*485*	*485*	***0%***
Complex fertilizers	*1,390*	*1,260*	***10%***	*542*	*469*	***15%***
Potash fertilizers	389	136	**186%**	146	48	**205%**
Total fertilizer sales	**7,761**	**7,126**	**9%**	**2,416**	**2,087**	16%
Mining products, including:	3,016	2,914	**4%**	261	208	**26%**
Iron ore concentrate	*2,934*	*2,910*	***1%***	*235*	*190*	***24%***
Industrial products	997	909	**10%**	309	299	**3%**
Other sales	n/a	n/a	n/a	60	76	-22%
Total, including:	**11,774**	**10,949**	**8%**	**3,046**	**2,671**	**14%**
3rd party sales	*1,984*	*1,881*	*5%*	*667*	*548*	*22%*

In the first half of 2019 the Group reported fertilizer sales of 7.8 million metric tonnes (MMT), a 9% increase year-on-year. In monetary terms, sales were 16% ahead, and amounted to US$2.42 billion, reflecting the favorable pricing environment.

Sales volumes were up across all fertilizer segments, apart from a slight dip in **phosphate** sales, which were down 40 KMT. This was mainly for DAP products and due to an increase in stocks and softening prices.

With the Group's Usolskiy Potash project now operational, **potash** fertilizers sales in volume terms rose to 389 KMT (up by 253 KMT from a year ago). Just under two thirds of potash sales went to Latin America, a strong performance that followed an increase in Group distribution capabilities in the region, and reflecting the surging demand for the second plantation season.

Iron ore sales in the first half of 2019 were broadly flat on a year ago (1% increase in volume terms), while in financial terms they rose 24% on the back of a bullish market with pricing levels reaching highs last seen in 2014.

Geography of Sales	1H 2019 (US$ mln)	1H 2018 (US$ mln)	Change, y-o-y	1H 2019 (% of total)	1H 2018 (% of total)	Change, y-o-y
Europe	889	811	**10%**	29.2%	30.4%	**-1.2 pp**
Latin America	538	379	**42%**	17.7%	14.2%	**+3.5 pp**
Russia	582	530	**10%**	19.1%	19.8%	**-0.7 pp**
North America	570	436	**31%**	18.7%	16.3%	**+2.4 pp**
Asia Pacific	270	303	**-11%**	8.9%	11.3%	**-2.5 pp**
CIS	157	147	**6%**	5.1%	5.5%	**-0.4 pp**
Africa	41	64	**-36%**	1.3%	2.4%	**-1.0 pp**

In April 2019 the **European Union** introduced a preliminary 34% antidumping duty for UAN originating from Russia. A final decision on the duty is expected in October 2019 (with the proposition also to switch to

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a fixed rate duty). Meanwhile, the Group decreased the volume of UAN exported to European markets and redirected the product to customers in other regions. In the first half of 2019, UAN sales rose 7%, notwithstanding the duties in question. Europe remains the Group's most significant market, accounting for 29% of total sales.

Latin America is a strategically important market for EuroChem, which has a wide distribution network across Brazil and Argentina, as well as three new fertilizer blending facilities in Brazil. The region accounted for 17.7% of sales in the first half of the year, compared with 14.2% a year ago. Sales to Latin America amounted to US$538 million during the period.

In the first half of 2019 there was an 11% year-on-year reduction in sales to **Asia** on the back of low agricultural activity and weak demand at the beginning of 2019, following drought conditions in the region that led to softer price levels.

Leverage

The Group ended the first half of 2019 with net leverage of 2.09x on covenant net debt of US$3.4 billion and 12-month rolling EBITDA of US$1.7 billion.

Cash flow

The Group generated cash flow from operating activities in the first half of the year of U$567 million, 12% up on a year ago, and turned **free cash flow positive**. This was in line with expectations as the Group neared the end of the investment cycle and its new ammonia and potash facilities ramped up.

Capital expenditure (including mineral rights) as of June 30, 2019 amounted to US$464 million, 16% less than in the same period a year ago.

Corporate developments

In June 2019 Petter Ostbo, former Executive Vice-President and CFO of Yara International, joined the company as **Group CEO**.

In the same month, EuroChem officially opened its **ammonia plant** in Kingisepp, Russia. The facility, with an annual capacity of 1 million tonnes (2,890 tonnes per day), means EuroChem is now fully self-sufficient in ammonia.

EuroChem opened its third new fertilizer blending plant in **Brazil** at Araguari, in the Minas Gerais state, to facilitate its growing distribution business in Latin America. The launch enables EuroChem to enter the important south-eastern region of Brazil. Production capacity of the new facility is 6,000 tonnes per day, with storage capacity of 100 KMT.

Following the opening of a new urea phosphate (UP) production facility at **Lifosa** in 2018, the first half of 2019 was notable for the first shipments of product to EuroChem customers in Latin America and Europe.

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EuroChem's **Usolskiy** Potash project ramp-up for Phase 1 is picking up with two shafts, 19 mining machines, and all four flotation trains fully operational as of August 1, 2019. Two out of three planned compaction lines have been completed and the third compaction train is being commissioned and turned over to plant operations. Projected total capacity for 2019 is estimated at 1.1 MMT. At the end of the first half of the year, 467 KMT of potassium chloride was produced and 389 KMT of potash fertilizers were delivered mainly to customers in North and South Americas and Europe. The first stage of the project initially envisaged design capacity of 2.3 MMT, and this can be reached by the end of next year. With some minor equipment upgrades, the Group expects to achieve 2.9 MMT of MOP production in the next two years.

Work to bring EuroChem's **VolgaKaliy** Potash project to production continues apace. As of June 30, 2019 35 KMT of ore was accumulated which translates into some 12 KMT of finished product. The plant is ready for operations with the frontend crushing and flotation plant already commissioned and working in test mode to assure grades and quality. Underground development has been somewhat slower than planned due to difficulties with geology. Detailed analysis of 3D seismic surveys are expected by the end of this year and will improve mine planning. Of the two existing shafts, the skip shaft is completed with hoists and skips, while the second shaft remains in use for mine development and transporting equipment and people. The two existing shafts and plant design capacities remain as previously reported at approximately 10-12 MMT of ore a year to make a total of 2.3 MMT of finished product per year, respectively.

Market outlook

The **nitrogen segment** promises healthy demand prospects with a supportive pricing environment. The UAN markets are awaiting US pricing for the summer fill, with indications of higher than initially anticipated levels. The strong demand outlook for AN and CAN looks to continue, with some producers already sold out to the end of August. September AN prices are quoted US$25 per tonne higher than in May. The unexpectedly high purchase volume of 1.7 MMT of Urea by India in its latest import tender for shipment through to mid-August is requiring a call on incremental sourcing from the marginal Chinese suppliers. Urea markets are expressing forward demand at around US$265-275/t FOB Baltic equivalent through September on the basis of a continued short global exclusive position of potential exports from China.

Major Chinese **phosphate** producers have announced a curtailment of up to 20% of production throughout the rest of the year, with an immediate market response of a US$5 per tonne price increase for DAP – suggesting an affirmative outlook into the autumn for phosphates.

The **potash** market appears to remain slightly undersupplied, signaling a steady price outlook.

Iron ore prices, having demonstrated healthy growth rates recently, are, in the short-term, expected to reside in a corridor of U$100-120/t CFR China.

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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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