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EuroChem Reports IFRS Financial Information for the First Quarter of 2014

	Q1 2014		Q1 2013		Chng	Q4 2013		Chng
	RUB bn	USD m	RUB bn	USD m	Y-o-Y, %	RUB bn	USD m	Q-o-Q, %
Revenue	**49.4**	1,414	**46.7**	1,534	+6%	**43.9**	1,348	+13%
EBITDA	**14.2**	405	**12.4**	406	+15%	**9.2**	284	+53%
Net profit/loss	**-1.0**	-28	**4.8**	158	n/a	**2.6**	80	n/a
Cash from operations	**4.3**	123	**8.8**	289	-51%	**10.0**	308	-57%

	31-Mar-14	31-Mar-13	31-Dec-13
Net Debt/ LTM[1] EBITDA[2]	2.27x	1.73x	2.07x

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 USD/RUB exchange rate for the period: Q1 2014: 34.96; Q1 2013: 30.41; Q4 2013: 32.53
[1]Last Twelve Months
[2]Including pro-rata Murmansk Commercial Seaport net income

Moscow, 19 May 2014 - EuroChem today reported consolidated revenues for the first three months of 2014 of RUB 49.4bn (USD 1.4bn), which was 6% higher than the RUB 46.7bn recorded over the same period a year ago. Earnings before interest, taxes, depreciation, and amortisation (EBITDA) for the quarter increased 15% year-on-year to RUB 14.2bn (US$ 405m). While first-quarter gross profit climbed 15% year-on-year to RUB 19.8bn, non-cash foreign exchange translation losses brought on by the sharp depreciation of the Russian rouble led to first-quarter net loss of RUB 1.0bn, as compared to a net profit of RUB 4.8bn in the first quarter of 2013.

Excluding sales of iron ore, baddeleyite and hydrocarbons, our nitrogen and phosphates sales volumes for the quarter amounted to 2.74 million tonnes (MMT), as compared to 2.76 MMT in the first three months of 2013. Strong demand in Europe helped drive nitrogen fertiliser sales volumes up 3% year-on-year to 2.1 MMT while phosphates pulled back 11% to 0.6 MMT over the same period. At our raw material mining operations, good quality ore buoyed first quarter sales volumes to 1.3 MMT or 9% above last year’s 1.2 MMT.

EuroChem CEO Dmitry Strezhnev commented: “The first quarter is traditionally our best quarter in the year, given the high season in Western Europe and Russia. While prices for most of our products are materially down year-on-year, we were able to show stable EBITDA in US dollar terms this quarter mainly due to higher iron ore sales and a weaker rouble exchange rate. We continued to invest in our business across all segments and in several geographies to ensure we stay competitive in the long run, with potash projects remaining our top priority.”

Market Conditions

Fertilizer market conditions continued to improve in the first quarter of the year as demand for nitrogen and phosphate products benefited from the positive pricing dynamics in soybeans, wheat, and corn prior to peak planting season in major fertilizer markets. Following a challenging third quarter, especially for potash, prices for nitrogen and phosphate-based products rallied well into mid-February to more comfortable levels before slowly abating as planting season progressed.

As compared to the fourth quarter of last year, with the exception of MOP, which lost 12%, fertilizer priced increased from 9% and 11% in the case of urea and ammonium nitrate (AN) to 24% for MAP/DAP product. Nevertheless, average prices for the first quarter of 2014 remained below their Q1 2013 averages. Prilled urea (FOB Yuzhny) averaged USD 339/tonne which was 15% lower year-on-year as downward revisions to this year's urea export tax in China drove higher export volumes. At USD 307/tonne, average ammonium nitrate (FOB Black Sea) prices were 9% below their Q1 2013 average. UAN (FOB Yuzhny) prices were also down, finishing the quarter 12% behind their average for the January to March 2013 period.

Phosphates prices had a strong rally as weather-related disruptions kept supply from reaching customers at the onset of planting season in major markets. As the quarter progressed and logistical issues faded, the early end to planting in Western Europe and India's delayed entrance into the market eroded some of the pricing gains achieved. MAP and DAP (FOB Baltic Sea) prices for the first three months of 2014 averaged USD 464 and 467/tonne, down 6% and 7% respectively.

In potash, though demand eventually returned late in the first quarter, buyer activity remained limited as market participants awaited the settlement of the contract with India. Averaging USD 292/tonne, first quarter MOP (FOB Baltic Sea) contract prices were 21% down year-on-year. Mirroring the trend, MOP (FOB Baltic Sea) spot prices finished the quarter at an average of USD 283/tonne, significantly below last year's USD 415/tonne.

Despite record import levels, credit concerns in China applied downward pressure on iron ore prices from late January. For the first three months of 2014 iron ore (63.5% Fe, CFR China) averaged USD 123/tonne, 16% below its Q1 2013 average and trailing its previous-quarter average by 9%.

Average prices (USD/tonne)	Q1-14	Q1-13	y-o-y change, %	Q4-13	q-o-q change, %
Prilled urea (FOB Yuzhny)	339	399	-15%	312	+9%
Ammonia (FOB Yuzhny)	437	564	-23%	417	+5%
AN (FOB Black Sea)	307	337	-9%	277	+11%
MAP(FOB Baltic)	464	496	-6%	374	+24%
Iron ore (CFR China)	123	149	-16%	135	-9%
MOP (FOB Baltic, spot)	283	415	-33%	320	-12%

BUSINESS SEGMENTS

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

Nitrogen segment[1]

Sales volumes including sales to other segments (KMT)	Q1-14	Q1-13[2]	y-o-y change, %
Nitrogen	**2,110**	**2,051**	**+3%**
Ammonia	51	14	+256%
Urea (granular)	266	184	+45%
Urea (prilled)	171	260	-34%
AN	428	435	-2%
UAN	244	271	-10%
Complex fertilizers	416	379	+10%
NP	31	29	+8%
CAN	329	247	+33%
Granulated AN	54	102	-47%
Organic synthesis products	113	124	-9%
Melamine	7	7	-1%
Natural gas (kcm)	223	188	+18%
Gas condensate (ths m3)	36	31	+18%

First-quarter nitrogen sales volumes rose 59 thousand tonnes or 3% and amounted to 2,110 KMT as compared to 2,051 KMT last year. The year-on-year increase was achieved as strong demand for CAN and complex fertilizer products from our Antwerp operations alleviated the shortfalls in AN, UAN and granulated AN sales. While CAN and complex fertilizers generated a combined increase of 119 KMT, AN, UAN and granulated AN volumes together fell 82 KMT as compared to Q1 2013.

Our first quarter nitrogen revenues increased 5% year-on-year as the favourable impact of additional specialty volumes on our sales mix and a stronger euro more than compensated the weaker pricing environment. First-quarter nitrogen revenues amounted to RUB 26.6 as compared to RUB 25.3bn in the first three months of 2013. EBITDA for the segment increased 4% to RUB 8.3bn.

Following a series of natural gas price hikes in Russia in the second half of 2013, our Novomoskovskiy Azot ammonia facility paid an average of RUB 4,254 per 1,000m3 (c. USD 3.79/mmBtu) for the three-month period ended 31 March 2014, while our Nevinnomysskiy Azot facility paid 4,425 per 1,000m3 (c. USD 3.94/mmBtu). This compares to average prices of USD 3.69/mmBtu and 3.90/mmBtu at Novomoskovskiy and Nevinnomysskiy respectively in the first quarter of 2013. No gas price increases have yet been announced in Russia for 2014.

While total gas consumption rose on higher ammonia output, the drilling and equipping of additional wells at our Severneft Urengoy gas field generated a 20% increase in gas production, which translated in a 4% reduction in gas costs. With a high gas-to-condensate ratio of 2/5, the ramp-up of operations and increase in production wells generated a 39% year-on-year increase in revenues and boosted EBITDA by 58%. First-quarter revenues at Severneft Urengoy amounted to RUB 1.5bn while EBITDA came in at RUB 532m.

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[1] From 1 January 2014 the results of our EuroChem Agro distribution network were reallocated from *Nitrogen* and *Other* to the *Distribution* segment.

[2] Restated as described in Note 1.

Phosphate segment

Sales volumes including sales to other segments (KMT)	Q1-14	Q1-13	y-o-y change, %
Phosphates	**626**	**705**	**-11%**
MAP, DAP	508	523	-3%
NP	44	45	-1%
Feed phosphates	70	82	-14%
Apatite	4	54	-93%
Mineral raw materials	**1,326**	**1,215**	**+9%**
Iron ore	1,323	1,213	+9%
Baddeleyite	2	2	+44%

Phosphate segment sales volumes for the first quarter of 2014 amounted to 626 KMT or 11% below the 705 KMT realised over the same period a year ago. While MAP/DAP sales volumes retreated 3%, the bulk of the year-on-year decrease in our phosphate segment was primarily driven by lower apatite sales volumes. The lower MAP/DAP sales volumes reflected the prevailing lacklustre market activity in some of our traditional MAP/DAP markets, such as India where lower fertilizer subsidies and a weaker currency dampened buyer activity.

Sales volumes of iron ore and baddeleyite, the co-products of our apatite (high-grade phosphate rock) mining operations, increased 9% as compared to the first quarter of 2013. Despite some maintenance work on our crushing unit, the high F_2O_3 content of the ore processed yielded 1,326 KMT of iron ore or an additional 111 KMT over the same period a year ago.

The increase in iron volumes coupled with a stronger US dollar offset the impact of lower MAP/DAP sales volumes and lifted phosphate segment revenues 2% to RUB 15.5bn, generating EBITDA of RUB 3.8bn, which represented a 12% improvement on Q1 2013 EBITDA of RUB 3.4bn.

Iron ore and baddeleyite, accounted for 34% of this year's first-quarter phosphate segment revenues and contributed 48% of the segment's EBITDA.

Potash segment

EuroChem VolgaKaliy (Gremyachinskoe potash deposit, Volgograd region)

With the freeze walls on all three of the project's shafts fully generated, we reduced our systems to maintain existing conditions. Thyssen Schachtbau, one of our main contractors for our potash shafts, and EuroChem teams are monitoring the walls with the aid of a 3-D model built on real-time measurements. Engineers also continued to finalize design work on the shafts' lower water seals to protect the shafts and future potash mine from any risk of water inflow.

The first quarter ended with the cage shaft at -209 meters and as of early May, sinking was down to a depth of -253 meters. Good progress was also achieved at the skip shaft #1, where work is being performed below -676 meters. While sinking efforts on the site's skip shaft #2 only started late in the first quarter, the shaft had already reached -82 meters as of early May.

Surface work also progressed to plan with work being done on the foundations and structure of the main beneficiation plant. As well, we continued working on the product storage buildings, water treatment facilities, and the fresh water supply system. In nearby Kotelnikovo, where we are building a new district to accommodate VolgaKaliy's workers and their families, the construction of cottages, apartment buildings and a hotel advanced considerably in the first three months of the year.

EuroChem Usolskiy Potash (Verkhnekamskoe potash deposit, Perm region)

With the cage shaft at shaft bottom since October 2013, first-quarter direct sinking operations focused mainly on the site's skip shaft #1, which had reached -530 meters as of early May. Horizontally, we progressed with the excavation of the haulage sections and loading stations ("dozer" chambers). The abandonment operations for the freeze holes at both shafts are underway and expected to be completed later this year. On the surface, the major task of ground levelling the future plant site is expected to keep ground crews busy through the summer. Other support work on surface continues such as rail system, ponds and the beginning of piling for surface buildings. At RUB 2.8bn, first-quarter capital expenditure (capex) for our potash projects remained modest, although the pace of spending is expected to increase as we enter the summer construction period. As of March 31 2014, the Group had spent an aggregate total of RUB 60.7bn on its two greenfield potash projects.

Distribution segment

Our distribution segment encompasses retail sales of mineral fertilizers (including those not produced by the Group), seeds, and crop protection items via a number of retailers located in the Europe, the CIS, Latin America and Asia. From January 2014, as part of the company's internal reorganisation, the results of our EuroChem Agro distribution network are represented in the Distribution segment. On a like-for-like basis, distribution revenues during the first quarter of 2014 grew 39% to RUB 23.1bn, up from RUB 16.7 in the first quarter of 2013. Distribution EBITDA rose 9% to RUB 1.1bn

With close to three-quarters of distribution revenues generated by NPK, MAP/DAP, AS, and CAN products, the first quarter results highlighted our distribution network's extended reach across developed fertilizer markets. Complex fertilizers (NPK) generated 29% of revenues while MAP/DAP, AS and CAN accounted for 15%, 15%, and 14%, respectively.

In addition to 24 distribution centres in Russia, we operate a distribution network in Ukraine, where we currently have four distribution outlets.

While our operational and financial exposure to the region remains limited, the Ukrainian market nevertheless represented 7% of EuroChem's total sales in the first quarter of 2014. An established presence in Ukraine is an important part of our CIS distribution strategy and we continue to carefully monitor the developments in the region. We remain optimistic and hope that the current political tensions will gradually ease without significant effects on the region, its people, and EuroChem's commitment to its Ukrainian customers. Our trade debtors and inventories in Ukraine amounted to RUB 1.0bn at the end of the first quarter, a figure which is currently declining pending political stabilisation in the country.

FINANCIAL

Income statement

	Total sales			EBITDA		
RUB, bn	Q1-2014	Q1-2013	change, %	Q1-2014	Q1-2013	change, %
Nitrogen	26.6	25.3	+5%	8.3	8.0	+4%
Phosphates	15.5	15.2	+2%	3.8	3.4	+12%
Potash	-	-	-	-0.3	0.0	n/a
Distribution	23.1	16.7	+39%	1.1	1.0	+9%
Other	7.6	5.8	+30%	1.3	-0.1	n/a
Elimination	-23.4	-16.3	+44%	-0.1	0.0	n/a
Total	**49.4**	**46.7**	**+6%**	**14.2**	**12.4**	**+15%**

The Group's first-quarter consolidated revenues rose 6% year-on-year, from RUB 46.7bn in the first quarter of 2013 to RUB 49.4bn in the first three months of 2014. Over the same period, EBITDA increased 15% to RUB 14.2bn as compared to RUB 12.4bn a year ago. While first-quarter prices for commodity fertilizer products in both nitrogen and phosphates were weaker than a year ago, higher sales of specialty products coupled with increases in our iron ore and hydrocarbons output mitigated the softer pricing environment. Additionally, the depreciation of the Russian rouble against major currencies had a positive impact on our financial results, as the bulk of our revenues are settled in dollars or euros while our reporting functional currency is the Russian rouble. Our two biggest markets for the January to March 2014 period were Western Europe and Russia, which accounted for 42% and 20% of the Group's total sales, respectively. Asia, where as in Russia our market presence extends beyond fertilizers to mining products, generated 11% of sales, while North America and the CIS (ex-Russia) represented 10% and 8% respectively (Q1 2013: Western Europe: 39%, Russia: 21%, Asia: 13%, North America: 12%, and the CIS: 7%).

Total cost of sales for the first three months of 2014 amounted to RUB 29.6bn, as compared to RUB 29.4bn for the same period last year. Displaying less than a 1% increase over the first quarter of 2013, cost of sales remained stable year-on-year as lower raw material prices offset the increase in natural gas prices in Russia. Our ability to achieve higher production rates at Severneft Urengoy also helped bring down natural gas costs at Novomoskovskiy Azot. Raw materials, which represented 43% of costs of sales, decreased 2% year-on-year to RUB 12.9bn (Q1 2013: RUB 13.2bn).

Amounting to RUB 2.1bn, our first-quarter energy costs showed a 7% year-on-year increase, while their share within our cost structure remained flat at 7%. This increase was mainly generated from a rise in electricity prices for industrial consumers in Russia. Nonetheless the commissioning of additional internal power generation capacity at Phosphorit, as part of the facility's sulphuric acid unit upgrade, and improvements in nitrogen separation as well as the installation of new catalysts at Novomoskovskiy Azot provided upwards of RUB 85m in energy savings as compared to the first quarter of 2013.

Labour costs, including contributions to social funds, increased 12% year-on-year to RUB 3.1bn. These expenses accounted for 10% of our total cost of sales, as compared to 9% in Q1 2013. The increase in labour costs was primarily generated by a salary indexation of 7%, on average, from January 2014, coupled with the effects of the Russian rouble's 19% depreciation versus both the euro and Lithuanian litas, the functional currencies of EuroChem Antwerpen and Lifosa respectively.

The Group's total distribution costs grew 12% to RUB 6.6bn in the first quarter of 2014 (Q1 2013: 5.9bn). As in Q1 2013, transportation costs were the most significant item and accounted for 73% of distribution costs. Amounting to RUB 4.9bn, transportation costs rose 13% year-on-year as compared to the first quarter of 2013. This increase was mainly driven by higher freight rates and the impact of a weaker Russian rouble, which on average fell 15% and 19% over the U.S. dollar and euro respectively. As such, in rouble terms, a 30% increase in iron ore freight rates to China, translated into RUB 280m in additional costs as compared to the first quarter of 2013.

Total general and administrative (G&A) expenses for the first three months of 2014 amounted to RUB 1.8bn, as compared to RUB 1.5bn for the same period a year ago. Accounting for 54% of expenses, general and administrative labour costs, the main G&A expense item, rose 35% to RUB 957m. This growth stemmed from a combination of currency movements, annual indexation, and additional hires, most notably to support the development of our phosphate rock project in Kazakhstan. Total first-quarter 2014 Group staff costs (including social expenses) amounted to RUB 4.7bn or 17% above last year’s corresponding period.

First-quarter other operating expenses amounted to RUB 94m, as compared to RUB 55m in the first three months of 2013. In addition to our traditional sponsorship activities, which include our hockey development program and our university and chemistry programs, the main expenses behind this line were costs associated with the dismantling of obsolete equipment at our Phosphorit, Nevinnomysskiy Azot and Novomoskovskiy Azot facilities.

Below the operating profit line, we recorded an unrealized foreign currency translation loss of RUB 7.4bn in the first quarter of 2014, compared to a loss of RUB 1.7bn in the first three months of 2013. This currency exchange loss reflects the strengthening of the US currency on the value of the Group’s mostly US dollar-denominated debt. The RUB 2.4bn financial loss below the operating level has the same origin and also represents a non-cash item from the Group’s cash flow perspective given the currency structure of its revenues.

Balance sheet

The Company’s net working capital grew to RUB 30.5bn in the first three months of 2014, as compared to RUB 23.1bn as of 31 December 2013. A significant portion of the 32% increase reflected the effects of the appreciation of the euro against the rouble on the prices for finished goods and certain raw materials at our Western European production units and distribution assets outside Russia. It is expected that a material reduction in net working capital will occur in the second quarter.

The Group’s net debt to 12-month rolling EBITDA ratio to 2.27x, as compared to 2.07x at the end of 2013. We expect gearing to return to its 2013 year-end level over the next quarters.

Cash flow

Pushed down by the increase in net working capital, operating cash flow came in at RUB 4.3bn in the first quarter of 2014, as compared to RUB 8.8bn in Q1 2013. All or most of the increase in net working capital is expected to be recovered in Q2.

Our total capex spending for the January to March 2014 period amounted to RUB 6.6bn (USD 190m), comprised of investments of RUB 2.8bn in potash, RUB 2.3bn in nitrogen and RUB 1.5bn in phosphates. The remainder was allocated to our distribution network and logistics infrastructure. This year’s first-quarter capex was 10% below the Group’s capex spending during the first three months of 2013.

Corporate developments

As part of its upstream strategy, in February 2014, the Group acquired 20.1% of the issued share capital of OJSC “Astrakhan oil and gas company” in Russia’s Astrakhan region for RUB 1.3bn paid in cash and is awating permission from the Federal Anti-Monopoly to acquire 100%

of its shares. The investment is viewed as a long-term option to hedge against potential gas price increases in the South of Russia, where 2 of the Group's plants are located.

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 24 of the Group's 3M 2014 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.

OUTLOOK

The opening of the lower tax window in China coupled with lower cost input prices and efficiency increases at certain Chinese plants should apply some pressure on urea prices. However, some of this pressure is expected to be mitigated by the shutdown of capacity in Ukraine on the heels of the political unrest observed in the region. At the same time, while exports from China have increased over the last few years, further annual growth in volumes appears capped by transhipment capacity and a desire to limit shipments from bonded warehouse. As a result, while we could see volatility increase in the short-term, we would not expect to see prices dip materially below today's level of USD 300/ tonne (FOB Yuzhny), with perhaps some room for pricing appreciation depending on the strength of demand from India.

Despite good demand in Latin America, we expect MAP/DAP pricing to remain fragile until India reengages the market. The end of the country's five-week long elections coupled with a strengthening currency and lower prices should help the world's largest phosphate importer actively return to the market.

While a pick-up in demand has stabilized the potash market, the higher utilization rates at producer level are likely to keep prices from significantly increasing over the medium-term.

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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 three-month period ended 31 March 2014 is available at: http://www.eurochem.ru/investors/results-centre/

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