

PhosAgro's revenue in 4Q 2017 increased by 14% y/y to RUB 45.8 billion

Moscow - PhosAgro ("PhosAgro" or the "Company") (Moscow Exchange, LSE: PHOR), one of the world's leading vertically integrated phosphate-based fertilizer producers, today announces its consolidated IFRS financial results for the three months (4Q) and twelve months (FY) ended 31 December 2017.

Revenue in 4Q 2017 increased by 14% year-on-year to RUB 45.8 billion (USD 784 million), bringing FY 2017 revenue to RUB 181.4 billion (USD 3.1 billion). EBITDA for 4Q 2017 was RUB 12.8 billion (USD 219 million), with an EBITDA margin of 28%. EBITDA for FY 2017 was RUB 51.3 billion (USD 879 million). Net income (adjusted for non-cash FX items) in 4Q 2017 decreased by 50% year-on-year to RUB 3.7 billion (USD 63 million), bringing adjusted net income for FY 2017 to RUB 21.2 billion (USD 363 million).

4Q and FY 2017 financial and operational highlights

<i>RUB million or %</i>	4Q 2017	4Q 2016	<i>Chng, %YoY</i>	FY 2017	FY 2016	<i>Chng, %YoY</i>
Revenue	45,778	40,135	14%	181,351	187,742	-3%
EBITDA**	12,752	13,442	-5%	51,263	72,365	-29%
EBITDA margin	27.8%	33.5%	-6 pp	28.3%	38.5%	-10 pp
Net income	4,256	11,371	-63%	25,331	59,886	-58%
Net income adj*	3,700	7,431	-50%	21,190	42,924	-51%
	31-12-2017 31-12-2016					
Net debt	119,985	105,115				
ND/LTM EBITDA	2.3x	1.5x				
<i>Sales, 000' mt</i>	4Q 2017	4Q 2016	<i>Chng, %YoY</i>	FY2017	FY2016	<i>Chng, %YoY</i>
Phosphate-based	1,599	1,418	13%	6,489	5,829	11%
Nitrogen-based	411	327	26%	1,616	1,394	16%
Phosphate rock	734	609	21%	2,732	2,448	12%

RUB/USD rates: average 4Q 2017: 58.4; average 4Q 2016: 63.1; as of 31 December 2017: 57.6; as of 31 December 2016: 60.7

** EBITDA is calculated as operating profit adjusted for depreciation and amortisation.

* adjusted for non-cash FX items

PhosAgro CEO Andrey Guryev said: "Despite the effects of the RUB appreciation, which remain unfavourable for all exporters, I believe that PhosAgro has successfully passed the peak of its capex cycle and remains well positioned to benefit from the ongoing recovery in fertilizer prices. The contribution from our newly-built ammonia and urea units, as well as further organic growth in both upstream and downstream operations, should multiply the positive effects of our efforts to keep operating and capital expenses, as well as working capital, under control. Going forward, our primary focus will be on continuing to enhance vertical integration and on further optimising existing business processes.

"We successfully reached our highly ambitious production milestones in 2017, and do not plan to

stop there: in 2018 we are targeting a year-on-year increase in downstream fertilizer production of up to 10%. We have a strong track record of delivering organic production growth, and this enables us to address the key issue of growing revenue while keeping opex under control thanks to the 'scale effect'.

"Our sales strategy, which is based on the principle of moving closer to our end customers, is also a cornerstone of our long-term strategy. In 2017 we increased the share of direct sales to more than 90%, which helps us to maximise net-back prices. However, this benefit was balanced by growth in working capital, which put pressure on the Company's cash flows in 4Q 2017. To mitigate this negative impact and normalise working capital, we plan to evaluate new financial instruments.

"Looking ahead to 2018 market conditions, we remain optimistic on price dynamics on the back of inflated feedstock prices and the tight supply/demand balance throughout 1Q and beginning of 2Q, with more upside to prices expected as the high season kicks off in Latin America and India. Despite a significant 30% year-on-year decrease in phosphate exports in 4Q 2017, China is still considered the wild card in the phosphate segment, and we will all be paying close attention to Chinese export numbers for April and May. At the same time, we remain confident that ongoing inflation in coal and sulphur prices, combined with significant tightening of environmental regulations in the country, should put additional pressure on production and export numbers in China."

4Q 2017 market conditions

- The average price of DAP (FOB Tampa) in 4Q 2017 was USD 364 per tonne, which implies a year-on-year increase of USD 41, or 13%, per tonne.
- The key reasons behind the recovery in phosphate prices were: 1) a nearly 30% year-on-year decrease in phosphate exports (DAP/MAP/NP/TSP) from China in 4Q 2017 due to a spike in feedstock prices and stricter environmental regulations; 2) robust activity on the Indian market, where overall DAP imports grew by more than 60% year-on-year to 900k+ tonnes; and 3) idling of Plant City by Mosaic.
- The average price of urea (FOB Baltic) in 4Q 2017 was USD 241 per tonne vs. USD 206 per tonne in 4Q 2016. The price increase was supported by seasonal demand in South Asia and Brazil, coupled with a substantial decrease in exports from China.

Financial performance

Revenue in 4Q 2017 increased by 14% year-on-year to RUB 45.8 billion (USD 784 million). Year-on-year growth of 15% in total sales of fertilizers and MCP was offset by a further 7% year-on-year appreciation in the average RUB/USD exchange rate and a 17% year-on-year decrease in the average realised price for phosphate rock (in USD terms). On the positive side, revenue growth was supported by respective increases of 10% and nearly 25% year-on-year in the average realised prices (USD-denominated) for phosphate- and nitrogen-based fertilizers on export markets, which accounted for over 80% of total sales in 4Q 2017. A more detailed revenue breakdown by key products is presented below.

Revenue breakdown by key products

<i>RUB million</i>	4Q 2017	4Q 2016	<i>Chng, % YoY</i>	FY 2017	FY 2016	<i>Chng, % YoY</i>
DAP/MAP	14,955	13,505	11%	62,188	63,906	-3%
NPK(S)	12,297	10,543	17%	48,487	49,693	-2%

PhosRock	5,357	5,760	-7%	21,158	26,037	-19%
Nitrogen-based	6,362	4,266	49%	21,766	18,754	16%

Gross profit remained virtually flat year-on-year at RUB 20.9 billion (USD 358 million), while the gross margin decreased by 8 p.p. year-on-year to 46%. Gross profit and margin performance for the phosphate-based and nitrogen-based segments were as follows:

- The phosphate-based segment saw a 10% year-on-year decrease in gross profit to RUB 18.4 billion (USD 315 million), with a gross margin of 48%, compared to 58% in 4Q 2016.
- Gross profit for the nitrogen-based segment more than doubled year-on-year to RUB 2.5 billion (USD 43 million). The gross margin for the segment increased by 10 p.p. year-on-year to 37%.

EBITDA decreased by 5% year-on-year in 4Q 2017, to RUB 12.8 billion (USD 219 million), while the EBITDA margin declined by 6 p.p. to 28%, compared to 33% in 4Q 2016. Net profit (adjusted for non-cash FX items) dropped by half year-on-year to RUB 3.7 billion (USD 63 million) in 4Q 2017.

The RUB appreciated by almost 7% year-on-year during the quarter (the average RUB/USD foreign exchange rates for 4Q 2017 and 4Q 2016 were RUB 58.4 and RUB 63.1, respectively), which had a net negative impact, as prices for most of the Company's products are denominated in USD, while costs are primarily RUB-based. The appreciation of the RUB as of 31 December 2017 (RUB 57.6 per USD) compared to 30 September 2017 (RUB 58.0 per USD) resulted in an FX gain of RUB 0.6 billion (RUB 3.9 billion gain in Q4 2016).

Cash flow from operating activities in 4Q 2017 stood at RUB 3.5 billion (USD 60 million) compared to RUB 0.9 billion (USD 14 million) in 4Q 2016, predominantly due to slower growth in accounts receivables. Operating cash flow for the year stood at RUB 30 billion (USD 514 million).

Gross debt (including finance lease liabilities) as of 31 December 2017 increased by 7% quarter-on-quarter, to RUB 122.7 billion (USD 2.1 billion), primarily due to extra short-term financing for working capital, which was partially counterbalanced by the slight RUB appreciation in the fourth quarter. Net debt as of 31 December 2017 stood at RUB 120 billion (USD 2.1 billion). Most of the Company's debt is denominated in USD and thus is naturally hedged by primarily USD-denominated sales. The net debt to LTM EBITDA ratio increased marginally to 2.3x as of 31 December 2017, up from 2.1x as of 30 September 2017.

Cost of Sales

<i>RUB million</i>	4Q 2017	4Q 2016	<i>Chng, % YoY</i>	FY 2017	FY 2016	<i>Chng, % YoY</i>
Materials and services	7,785	6,734	16%	31,597	27,199	16%
D&A	4,173	2,725	53%	13,719	9,424	46%
Salaries	3,082	2,637	17%	11,234	10,937	3%
Natural gas	3,159	2,149	47%	9,715	8,084	20%
Potash	2,136	1,659	29%	8,772	7,104	23%
Sulphur and sulph. acid	1,991	1,036	92%	6,471	6,065	7%
Electricity	1,493	1,212	23%	5,539	4,462	24%
Ammonium sulphate	1,071	759	41%	2,424	2,547	-5%
Ammonia	884	1,242	-29%	6,650	5,801	15%

Fertilisers for resale	833	621	34%	4,753	4,254	12%
Fuel	827	655	26%	3,034	2,299	32%
Heating energy	199	214	-7%	671	676	-1%
Other items	-3	32	n/m	9	42	n/m
Change in stock of WIP	-2,931	-2,924	n/m	-3,159	-850	n/m
Total	24,699	18,751	32%	101,429	88,044	15%

Cost of sales grew by 32% year-on-year in 4Q 2017 to RUB 24.7 billion (USD 424 million). The key factors behind the growth were:

- Spending on materials and services grew by 16% year-on-year to RUB 7.8 billion (USD 134 million), driven by a 6% year-on-year increase in phosphate rock processing, 13% growth in overall fertilizer production and 2.6% year-on-year CPI inflation.
- D&A was up significantly by 53% year-on-year to RUB 4.2 billion (USD 72 million), due to the commissioning of assets (Main Shaft #2 at the Kirovsk mine, as well as newly built assets including those related to the new ammonia and urea unit) and depreciation of capitalised repairs.
- Salaries increased by 17% year-on-year to RUB 3.1 billion, mainly due to additional headcount hired for the newly built ammonia and urea units and additional accruals for vacation and bonuses.
- Spending on natural gas increased by 47% year-on-year to RUB 3.2 billion (USD 55 million), mainly due to a 60% year-on-year increase in ammonia production, for which natural gas is the main feedstock.
- A year-on-year increase in expenditure on potash of 29%, to RUB 2.1 billion (USD 36 million), due to 11% growth in purchased volumes (thanks to the greater share of NPKs with high potash content) and a 16% increase in RUB-denominated prices.
- Expenditures on sulphur and sulphuric acid were up by 92% year-on-year to RUB 2.0 billion (USD 34 million). The key reason behind this was the almost doubling of RUB-denominated prices (in sulphur equivalent)
- Electricity costs increased by 23% year-on-year to RUB 1.5 billion (USD 26 million), mostly on the back of 21% growth in the average electricity price.
- A 29% year-on-year decrease in spending on purchased ammonia, to RUB 0.9 billion (USD 15 million), was mainly due to a 38% year-on-year decrease in purchase volumes after the launch of PhosAgro's new ammonia unit. The drop in purchased volumes was partially compensated by an 18% year-on-year increase in average RUB-denominated prices
- Spendings on ammonium sulphate increased by 41% year-on-year to RUB 1.1 billion (USD 19 million), mostly on the back of 18% growth in average RUB-denominated prices and 19% growth in consumption (on the back of the higher NPK and NPS production).

Administrative expenses decreased by 11% year-on-year to RUB 3.7 billion (USD 63 million) in 4Q 2017, primarily due to a 30% decrease in personnel costs to RUB 1.8 billion (USD 31 million) on the back of lower bonus payments and lower reserves created for future payments.

In 4Q 2017 selling expenses increased by 44% year-on-year to RUB 7.7 billion (USD 132 million). The main factors behind the growth were: 1) freight, port and stevedoring expenses grew by 52% year-on-year to RUB 4.1 billion (USD 71 million) primarily due to a 26% year-on-year increase in export sales of rock and fertilizers as well as growth in shipping rates; 2) materials and services grew significantly to RUB 0.9 billion (USD 15 million) due to higher import duties paid as the Company increased export sales to European markets, as well as higher transportation and storage expenses due to expanding distribution and retail business operations in Russia and abroad; 3)

spending on transportation grew by 29% year-on-year to RUB2.3 billion (USD39 million), driven by the 16% year-on-year growth in overall sales and the indexation in railroad tariffs.

Cash spent on capex in 4Q 2017 amounted to RUB 12.6 billion (USD 216 million), an increase of 18% year-on-year. Capex for FY 2017 reached RUB 35.9 billion (USD 615 million).

Outlook

Market outlook

- Phosphate exports from China in 1Q 2018 remain limited due to the traditional high season for domestic consumers.
- We expect the US to be active on DAP/MAP import markets after the cut in domestic production due to the idling of Plant City by Mosaic.
- The supply/demand balance in 1Q /early 2Q18 will remain tight in the light of export and production cuts in Tunisia (due to a shortage of phosphate rock production) and Morocco (due to bad weather), and this may push prices up to USD 410-415 per tonne of DAP FOB Tampa.
- Significant growth in the price of phosphoric acid in India (by USD 110 per tonne of P2O5 to USD 678 CFR India in 1Q 2018), coupled with low inventories will lead to earlier than usual import activity.
- We expect Latin America to be active on the market in 2Q 2018.