

# PhosAgro Q1 2012 IFRS Net Profit up 29% to USD 266 Mln

**Moscow - PhosAgro** ("PhosAgro" or "the Company") (MICEX-RTS, LSE: PHOR), a leading global vertically integrated phosphate-based fertiliser producer, today announces its reviewed interim condensed consolidated IFRS financial statements for the three months ended 31 March 2012. PhosAgro earned a profit of RUB 8.0 billion (USD 266 million) in Q1 2012, up 29% year-on-year (y-o-y) from RUB 6.2 billion (USD 213 million) in Q1 2011. Basic and diluted earnings per share grew 21% y-o-y to RUB 52 (USD 1.7).

## Financial and Operational Highlights:

Result	Q1 2012		Q1 2011		y-o-y Change (RUB vs. RUB) %
	USD	RUB	USD	RUB	
Revenue	856m	25,918m	837m	24,486m	6%
EBITDA*	301m	9,099m	311m	9,109m	-
Adjusted EBITDA*	313m	9,481m	311m	9,109m	4%
Net Income	266m	8,047m	213m	6,235m	29%
Earnings per share	1.7	52	1.5	43	21%
<b>Sales volumes</b>	kmt		kmt		
Phosphate-based fertilisers (MAP/DAP/NPK/NPS)	1,067.3		975.2		9%
Nitrogen-based fertilisers	240.2		268.4		(11%)
Apatit mine and beneficiation plant	1,153.1		1,082.8		6%
Other products	84.2		102.9		(18%)

RUB/USD Rates: average Q1 2012: 30.2642; Q1 2011: 29.2698

As of 31 March 2012: 29.3282; as of 31 December 2011: 32.1961

\*EBITDA is calculated as operating profit adjusted for depreciation and amortisation. Adjusted EBITDA is defined as EBITDA adjusted to exclude items in the reporting period that the Company views as exceptional and non-recurring.

## Other Highlights

- Record NPK production during Q1 2012, up 63% year-on-year from 256 kmt in Q1 2011 to 416 kmt in Q1 2012 as a result of organic growth strategy focused on full production flexibility;
- Merger of Cherepovetsky Azot and Ammophos into PhosAgro-Cherepovets approved by EGMs on 27 February 2012;
- Supply contract for 600 thousand tonnes of phosphate-based fertilisers with India's Nagarjuna signed 12 April 2012;
- PhosAgro share split completed 24 February 2012;
- Urea capacity increase at Cherepovetsky Azot on track for launch end of June - beginning July 2012.

PhosAgro today reports its Q1 2012 net profit of RUB 8.0 billion (USD 266 million), an increase of 29% y-o-y from RUB 6.2 billion (USD 213 million) in Q1 2011. Revenue for the period was 6% higher y-o-y at RUB 25.9 billion (USD 856 million) compared to RUB 24.5 billion (USD 837 million) for Q1 2011.

Operating profit for Q1 2012 was RUB 7.5 billion (USD 249 million), a 1.7% decrease from Q1 2011. EBITDA margin remained at a comfortable 35%, the same level as in 2011.

Cash flow from operating activities amounted to RUB 9.9 billion (USD 328 million) in Q1 2012, compared to RUB 11.9 billion (USD 408 million) in Q1 2011. The company's capital expenditure (capex) in cash terms during the first three months of 2012 was RUB 3.5 billion (USD 116 million), compared to RUB 3.0 billion (USD 103 million) in Q1 2011.

Net debt at 31 March 2012 stood at RUB 9.2 billion (USD 312 million), down from RUB 15.2 billion (USD 472 million) on 31 December 2011. This puts PhosAgro's net debt to EBITDA at a very comfortable level of 0.25x.

Commenting on the Q1 2012 IFRS results PhosAgro CEO Maxim Volkov said: "We are delighted to have achieved growth in revenue and net profit despite challenging market conditions in the first quarter. I am equally pleased to announce that with today's disclosure we are furthering our commitment to transparency: PhosAgro from now on will disclose its consolidated IFRS results on a quarterly basis.

"PhosAgro's Q1 2012 results were driven by our production flexibility in phosphate-based fertilisers, which enabled us to adapt quickly to changes in the structure of demand that began in late 2011. NPK sales in Q1 2012 increased by almost 72% y-o-y, fully compensating for the 16% decrease in DAP/MAP sales. As a result of our strategy of strengthening sales and production flexibility we increased overall phosphate-based fertiliser sales by more than 9%, despite the market instability.

"During Q1 2012 and following the reporting date there were several other developments I would underscore that are likely to have important impacts on our performance going forward. First, we have increased sales flexibility by introducing container sales from January 2012, enabling us to enter new markets by shipping smaller volumes when needed. Second is the contract for the supply of 600 thousand tonnes of phosphate-based fertilisers through February 2013 with India's Nagarjuna announced on 12 April 2012. Finally, Russia's antimonopoly service on 29 May 2012 announced rules that indicate the government's desire to liberalise the domestic phosphate rock market, which should have a significant positive effect on Apatit's performance after 2013.

"Looking forward, we believe the market will remain stable, especially considering recent developments with Indian contracts. By mid-July we plan to select two finalists from the four remaining candidates in the tender for contractors for our new 760 ktpa capacity ammonia plant, and we aim to finalize contract negotiations by the end of this year. We also intend to focus our efforts on continuing the consolidation of our key subsidiaries, and on other developing projects that will help us take advantage of our unique resource base. PhosAgro continues to focus on its growth strategy of increasing sales and production flexibility, while also benefitting from high levels of vertical integration and operational efficiency."

## **Market Conditions**

### **Q1 2012**

- Russia, Europe, US and Brazil showed very strong demand during the period;
- The Indian market was challenging in Q1 2012, as the DAP subsidy was reduced by almost

30% to Rs 14,350/tonne from Rs 19,763/tonne; resulting in almost no DAP supply to India in Q1 2012.

## Current trends and expectations

- DAP prices recovered by more than 17% from their lowest level of USD 495/tonne (FOB Tampa) at the end of March 2012, and are currently at USD 580/tonne;
- Demand from Brazil/Latin America, Asia (excl. India) and Russia remains strong;
- Indian demand is recovering, with a one million tonne contract signed at the price of USD 580/tonne CFR at the beginning of June. Contracts for over two million tonnes have been signed since then;
- US and Europe demand is expected to pick up soon with the next planting season due to start.

## Phosphate segment

Result	Q1 2012 RUB mln	Q1 2011 RUB mln	Year-on-year change %
Revenue	23,013	21,105	9%
Cost of goods sold	(13,469)	(11,750)	15%
Gross profit	9,544	9,355	2%

Phosphate segment revenue increased by 9% y-o-y and totalled RUB 23,013 million (USD 760 million) in Q1 2012. The Company increased production of phosphate-based fertilisers and MCP by 5% year-on-year, while sales volumes were up 9% year-on-year. Production and sales volumes for phosphate rock and nepheline concentrate increased in Q1 2012 compared to Q1 2011 by 1% and 7%, respectively.

Revenue from NPK fertiliser export sales increased 160% y-o-y in Q1 2012 from RUB 1,676 million to RUB 4,358 million as a result of a 10% increase in revenue per tonne from export sales of NPK and a 137% increase in NPK export sales volume. The record levels of NPK production and sales contributed to a 15% decline in export sales revenue for DAP/MAP, from RUB 10,384 million for Q1 2011 to RUB 8,885 million in the three months ended 31 March 2012. However, the 16% reduction in sales volumes was partially compensated by 3% increase in DAP revenue per tonne. Domestic sales revenue from phosphate rock increased 32% y-o-y in the first quarter of 2012, reaching RUB 3,100 million on higher revenue per tonne (up 26% y-o-y) and higher sales volumes (up 4% y-o-y). Revenue from export sales of MCP increased 73% to RUB 670 million in Q1 2012.

The phosphate segment's gross profit for Q1 2012 increased 2% y-o-y to RUB 9,544 million (USD 315 million), resulting in a gross profit margin of 41%, compared to 44% in Q1 2011, mainly as a result of a 15% y-o-y increase in cost of sales, from RUB 11,750 million (USD 401 million) to RUB 13,469 million (USD 445 million) in the first quarters of 2011 and 2012, respectively.

PhosAgro is largely self-sufficient in key raw materials for phosphate fertiliser production, and therefore is not subject to price inflation for phosphate rock. However, expenditure on sulphur and sulphuric acid, used primarily in the production of phosphate fertilisers, amounted to RUB 982 million (USD 32 million) in Q1 2012, a 17% increase from RUB 838 million (USD 29 million) in the first three months of 2011 as result of a 20% increase in the average price of sulphur from RUB 2,196 (USD 75) to RUB 2,646 (USD 87) per tonne. Expenditure on potash, a key raw material for NPK fertilisers, increased 112% y-o-y in the first quarter of 2012, reaching RUB 1,177 million, as result of record NPK production volumes.

*Revenue per tonne for the principal phosphate-based fertiliser and feed phosphate*

<b>Product</b>	<b>Q1 2012 RUB</b>	<b>Q1 2011 RUB</b>	<b>Year-on-year change %</b>
<b>Domestic:</b>			
MAP	18,070	15,018	20%
DAP	17,978	17,321	4%
NPK	14,365	14,575	(1%)
MCP	19,355	20,114	(4%)
<b>Export:</b>			
MAP	15,479	15,871	(2%)
DAP	16,471	15,916	3%
NPK	14,069	12,803	10%
MCP	16,754	15,527	8%

### **Nitrogen segment**

<b>Result</b>	<b>Q1 2012 RUB mln</b>	<b>Q1 2011 RUB mln</b>	<b>Year-on-year change %</b>
Revenue	2,679	3,175	(16%)
Inter-segment revenues	1,585	861	84%
Cost of goods sold	(2,187)	(1,927)	13%
Gross profit	2,077	2,109	(2%)

Revenue in the nitrogen segment was RUB 2,679 million (USD 89 million) in Q1 2012, a decrease of 16% year-on-year, compared to RUB 3,175 million (USD 108 million) the first three months of 2011. Production of nitrogen-based fertilisers declined 12% year-on-year, while sales volumes were 11% lower y-o-y in Q1 2012, mainly as a result of work on ammonia plant modernisations, which was completed in February 2012.

The 11% decline in nitrogen-based fertiliser sales volumes was balanced by a 21% rise in revenue per tonne from AN export sales. Urea export sales revenue increased RUB 253 million, or 21%, y-o-y from RUB 1,198 million in Q1 2011 to RUB 1,451 million in Q1 2012. Urea export revenue was higher as a result of a 14% increase in revenue per tonne and 29% growth in sales volumes.

As a result, nitrogen segment gross profit decreased by 2% y-o-y to RUB 2,077 million (USD 69 million) in Q1 2012, with a gross profit margin of 49%.

#### *Revenue per tonne for the principal nitrogen-based fertilisers*

<b>Product</b>	<b>Q1 2012 RUB</b>	<b>Q1 2011 RUB</b>	<b>Year-on-year change %</b>
<b>Domestic:</b>			
Ammonium nitrate	8,471	7,599	11%
Urea	9,779	10,100	(3%)
<b>Export:</b>			
Ammonium nitrate	9,907	8,169	21%
Urea	11,908	10,438	14%

### **Cost of sales**

PhosAgro's cost of sales increased by 7% y-o-y in Q1 2012 to RUB 14,509 million (USD 479 million). This was in line with the 5% increase in overall fertiliser sales volumes and Russian PPI of 2.9% in Q1 2012. The increase in cost of sales was primarily due to the following changes from Q1 2011 to

Q1 2012:

- A 5% increase in salaries and social contributions to RUB 2,823 million due to higher labour rates;
- A 112% increase in expenditure on potash due to substantially higher NPK production and sales (up 63% and 71% y-o-y, respectively) as well as a 45% increase in potash prices, from RUB 5,977/tonne in Q1 2011 to RUB 8,659/tonne in Q1 2012.
- An 8% decrease in expenditure on natural gas, from RUB 1,430 million to RUB 1,310 million. This was primarily due to a 6% decrease in consumption of natural gas from 475,736 thousand cubic meters in Q1 2011 to 445,057 thousand cubic meters in the period ended 31 March 2012. The decrease in consumption was due to a 14% reduction in production volumes of ammonia, as well as modernization of ammonia production lines at Cherepovetsky Azot that contributed to lower per-unit gas consumption.

Item	Q1 2012			Q1 2011			Change y-o-y	
	RUB mln	USD mln	% of cost of sales	RUB mln	USD mln	% of cost of sales	RUB mln	%
Materials and services	4,710	156	33%	5,039	172	37%	(329)	(7%)
Salaries and social contributions	2,823	93	19%	2,680	92	20%	143	5%
Potash	1,177	39	8%	555	19	4%	622	112%
Natural gas	1,310	43	9%	1,430	49	11%	(120)	(8%)
Depreciation and amortisation	1,447	48	10%	1,332	46	10%	115	9%
Fuel	1,343	44	9%	1,301	44	10%	42	3%
Sulphur and sulphuric acid	982	32	7%	838	29	6%	144	17%
Electricity	858	28	6%	956	33	7%	(98)	(10%)
Other items	9	0	0%	12	0	0%	(3)	(25%)
Change in stock of WIP and finished goods	(150)	(5)	(1%)	(600)	(20)	(5%)	450	75%
<b>Total</b>	<b>14,509</b>	<b>479</b>	<b>100%</b>	<b>13,543</b>	<b>464</b>	<b>100%</b>	<b>998</b>	<b>7%</b>

Administrative expenses rose by 33% to RUB 1,480 million (USD 49 million) in the three months ended 31 March 2012, mainly due to an increase in salaries and social contributions of RUB 166 million, or 26%, which is mostly due to a lump sum severance payout associated with staff redundancy.

Selling expenses rose by 20% y-o-y, from RUB 1,538 million (USD 53 million) in Q1 2011 to RUB 1,849 million (USD 61 million) in Q1 2012. This was primarily due to increased sales volumes as well as an increase in port and stevedoring expenses and Russian Railway infrastructure tariff and operators' fees. Salaries and social contributions decreased owing to a reduction in headcount, while an increase in materials and services reflected general price inflation.

PhosAgro's capital expenditure, which consists of all additions to property, plant and equipment, amounted to RUB 3,360 million (USD 111 million) for Q1 2012 and RUB 2,168 million (USD 74 million) Q1 2011. Capital expenditure focused on construction of the main ore shaft № 2 at the Kirovsky underground mine (expected to enable the mine to increase production to 14 mtpa in 2-3 years), as well as construction of new 500 kmt p.a. urea capacity and a 32 MW gas-powered electricity generation facility at Cherepovetsky Azot.

Total debt at 31 March 2012 amounted to RUB 31,851 million (USD 1,086 million), versus RUB 32,153 million (USD 999 million) at the end of 2011. The increase in total debt in US dollar terms was due to new short-term debt facilities obtained during the period, denominated primarily in USD and EUR. Total debt decreased in rouble terms due to a decline in the RUB/USD and RUB/EUR rates from 31 December 2011 to 31 March 2012 (from RUB/USD 32.1961 to 29.3282 and RUB/EUR 41.6714 to 39.1707, respectively).

## **Outlook**

### *Market:*

- With recent developments in demand from India, PhosAgro does not expect any serious slow-downs;
- Record planting acreage and historically high prices for key grains will drive demand for fertilisers.

### *Company:*

- New urea plant is due to come online in summer 2012 with a capacity of 500 kmt per year;
- Selection of contractors for new 760 ktpa capacity ammonia plant progressing, with two final candidates due to be selected in July 2012, and aim to complete contract negotiations by the end of 2012;
- PhosAgro remains on track for overall increase in fertiliser production and sales in 2012 vs. 2011, with a greater share of NPKs.

## **Conference Call and Webcast**

On Monday, 18 June 2012 at 13:00 London time (16:00 Moscow; 08:00 New York), PhosAgro will host a conference call and webcast to discuss its reviewed interim condensed consolidated IFRS financial results for Q1 2012.

PhosAgro CEO Maxim Volkov will present the results and answer questions from conference call and webcast participants.

The call will be held in English, with simultaneous translation into Russian on a separate line. **Participants will be required to tell the operator which language to connect to when dialling in.**

### **Webcast links:**

*English:* <http://www.media-server.com/m/p/yg5d9cba/lan/en>

*Russian:* <http://www.media-server.com/m/p/yg5d9cba/lan/ru>

### **Conference call dial-ins:**

**+7 499 272 4337** Moscow

**+1 646 843 4608** New York

**+44 (0) 20 3003 2666** London

Toll Free:

**0808 109 0700** UK

**1 866 966 5335** USA

**8 10 8002 1774011** Russia (Moscow only)

Conference call password: PhosAgro