

# PhosAgro 9M 2014 EBITDA up 24% to RUB 25.8 bln

**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 reviewed condensed consolidated IFRS financial results for the nine months ended 30 September 2014. PhosAgro earned an EBITDA for the period of RUB 25.8 billion (USD 728 million), compared to RUB 20.8 billion (USD 657 million) in 9M 2013.

## 9M 2014 Financial and Operational Highlights:

Result	9M 2014		9M 2013		year-on-year change (RUB vs. RUB), %
	RUB	USD	RUB	USD	
	million		million		
Revenue	86,758	2,452	81,276	2,571	7%
EBITDA*	25,750	728	20,758	657	24%
EBITDA margin	30%		26%		4 p.p.
Net profit	6,273	177	9,094	288	(31%)
Earnings per share	46	1.30	64	2.02	(28%)
<b>Sales volumes</b>	Kmt		Kmt		
Phosphate-based products	3,614.1		3,568.3		1%
Nitrogen-based fertilizers	1,080.1		930.6		16%
Apatit mine and beneficiation plant	2,556.9		3,034.0		(16%)
Other products	173.7		143.8		21%

RUB/USD rates: average 9M 2014: 35.3878; average 9M 2013: 31.6170

As of 30 September 2014: 39.3866; as of 31 December 2013: 32.7292

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

## Other 9M 2014 Highlights

### *Interim dividend recommendation:*

· At its meeting on 18 November 2014, PhosAgro's Board of Directors recommended that shareholders approve an interim dividend of RUB 2,590 million for the first nine months of 2014, which represents RUB 20 per share (RUB 6.7 per global depositary receipt). The Board has called an EGM to vote on the dividend recommendation for 31 December 2014.

### *Production, sales and logistics flexibility:*

- During the first nine months of 2014, PhosAgro's revenue and sales volumes benefited from the Company's strategy of enhancing production flexibility, combined with strong global demand: total fertilizer production and sales volumes grew year-on-year by 6% and 4%, respectively. Revenue in 9M 2014 was 7% higher year-on-year, supported by year-on-year increases of over 11% and 3% in average realised prices for export DAP/MAP and NPK, respectively.

*Strategic developments:*

- In January 2014, the Group signed a USD 440.6 million loan agreement with the Japan Bank for International Cooperation (JBIC) and a group of banks consisting of Bank of Tokyo-Mitsubishi (BTMU), Citibank Japan and Mizuho Bank. The proceeds from the loan are being used to fund construction of a new 760 ths tonnes/year ammonia plant at PhosAgro-Cherepovets.
- In line with its strategy to develop downstream production capacity and expand its product portfolio, in August PhosAgro signed a contract with Chemoproject Nitrogen a.s. for design engineering and procurement of equipment for the construction of a 500 ths tonnes/year granulated urea production unit at PhosAgro-Cherepovets. Total investments in the construction of the new urea unit and production infrastructure are estimated at RUB 7.8 billion.

*Consolidation of ownership in production facilities and business development:*

- During the first nine months of 2014, the holders of 10.39% of all issued shares in OJSC PhosAgro-Cherepovets accepted PhosAgro's voluntary tender offer. PhosAgro completed the acquisition of these shares in 2Q 2014. Following completion of the voluntary tender offer, PhosAgro sent a compulsory share purchase notification (squeeze out) for the buyout of the ordinary shares belonging to the remaining minority shareholders (2.01%) of OJSC PhosAgro-Cherepovets.

Revenue for the period increased by 7% year-on-year to RUB 86.8 billion (USD 2,452 million), compared to RUB 81.3 billion (USD 2,571 million) for 9M 2013. Favourable market conditions led to higher prices year-on-year for most PhosAgro products. Cost savings in cost of sales (a more detailed discussion is provided in the analysis below) also contributed to PhosAgro's strong operating profit result for 9M 2014: operating profit for the period was RUB 19.7 billion (USD 558 million), up 32% from RUB 15.0 billion (USD 474 million) in 9M 2013. EBITDA was RUB 25.8 billion (USD 728 million) in 9M 2014, 24% higher year-on-year. EBITDA margin increased to 30% for 9M 2014 compared to 26% in 9M 2013.

Significant RUB depreciation resulted in a foreign exchange loss of RUB 9,471 million (USD 268 million), which impacted PhosAgro's bottom line in 9M 2014. The Company's 9M 2014 net profit was RUB 6.3 billion (USD 177 million), a decrease of 31% year-on-year from RUB 9.1 billion (USD 288 million) in 9M 2013. Basic and diluted earnings per share came to RUB 46 (USD 1.30) for 9M 2014, compared to RUB 64 (USD 2.02) in 9M 2013.

Cash flows from operating activities increased by 35% and amounted to RUB 21.5 billion (USD 606 million) in 9M 2014, compared to RUB 15.9 billion (USD 502 million) in 9M 2013.

Gross debt at 30 September 2014 amounted to RUB 73.3 billion (USD 1,861 million), compared to RUB 52.8 billion (USD 1,612 million) at 31 December 2013. Net debt at 30 September 2014 stood at RUB 52.7 billion (USD 1,339 million), up from RUB 43.8 billion (USD 1,339 million) at 31 December 2013. Most of the Company's debt is denominated in USD as a natural hedge against primarily USD-denominated sales. The depreciation of the Russian rouble against the US dollar was the primary reason for the increase of PhosAgro's net debt in RUB terms. The Company's net debt to annualised EBITDA ratio decreased to 1.5 as of 30 September 2014, from 1.8 as of 31 December 2013.

Commenting on the 9M 2014 results, PhosAgro Management Board Chairman and CEO Andrey Guryev said:

"The favourable market conditions, supported by supply-demand fundamentals and a strong pricing environment, have improved PhosAgro's margins back to what we consider to be normal levels, with gross profit margin close to 42% and a solid EBITDA margin of 30%. Healthy global demand for phosphate-based fertilizers has pushed DAP prices to USD 500 per tonne FOB Tampa and higher in 3Q 2014. The average DAP FOB Tampa price for the first nine months of 2014 was up 2% year-on-year to USD 475, compared to an average of USD 466 last year. While current DAP prices have softened to around USD 455 FOB Tampa as a result of the seasonal slowdown, they are still about USD 100 per tonne higher than they were at this time last year.

"Our cost-cutting initiatives also contributed to PhosAgro's improved financial results, and the recent substantial RUB devaluation has further strengthened our cost advantage. We also continued to operate at close to 100% utilization thanks to our excellent production flexibility.

"In addition to delivering strong financial results, I am pleased to report that we have completed the buyout of the remaining minority shareholders in PhosAgro-Cherepovets, with only minor technical procedures outstanding. This means we have successfully completed our three-year effort to consolidate 100% ownership in all of our main production subsidiaries."

## **9M 2014 Market Conditions**

- Supply constraints in Morocco, the United States, Saudi Arabia and Russia decreased spot supplies of DAP/MAP by 600-700 ktonnes in 1Q 2014. Combined with early demand from Latin America and Europe following very weak volumes in 4Q 2013, this led to a sharp recovery in DAP/MAP prices in January 2014, followed by a further seasonal recovery up to USD 500 per tonne (FOB Tampa) in February-March 2014.
- Prices softened back to USD 450-460 per tonne FOB Tampa in April-May as a result of the increased supply of lower-grade phosphate-based fertilizers from China and softer-than-expected demand from India.
- Development of seasonal demand in Brazil in conjunction with a summer programme of purchases in the US market contributed to higher prices for DAP/MAP in July and August above USD 500 per tonne FOB Tampa, despite continued weakness in the Indian market and increased Chinese exports.
- The average DAP price in the third quarter of 2014 was USD 498 per tonne FOB Tampa, against USD 428 per tonne FOB Tampa in 3Q 2013. The average price for nine months increased from USD 466 per tonne FOB Tampa in 2013 up to USD 475 per tonne FOB Tampa in 2014.

- Phosphoric acid prices for Indian DAP producers have increased three times during 9M 2014, from USD 615 per tonne of P<sub>2</sub>O<sub>5</sub> at the end of 2013 to USD 681 per tonne of P<sub>2</sub>O<sub>5</sub> in 1Q 2014, then to USD 715 per tonne in 2Q and USD 765 per tonne of P<sub>2</sub>O, CFR. At current prices for phosphoric acid and ammonia (over USD 600 per tonne CFR), the cash costs for domestic DAP production in India is estimated at above USD 540 per tonne.
- The increase in demand and prices for phosphoric acid and fertilizers caused the price of phosphate rock to rise on average by USD 10 per tonne by the end of the third quarter to USD 110-140 per tonne FOB Morocco (32% P<sub>2</sub>O<sub>5</sub>), compared to USD 90-140 per tonne FOB at the beginning of the quarter.
- Strong demand from India and Latin America against the backdrop of limited exports from Ukraine and North Africa helped the recovery of urea prices in the 3<sup>rd</sup> quarter of 2014 to USD 318 per tonne FOB Baltic, versus USD 294 per tonne FOB Baltic in the 2<sup>nd</sup> quarter of 2014 and USD 295 per tonne FOB Baltic in the 3<sup>rd</sup> quarter of 2013.

### Phosphate-Based Products Segment

<b>Result</b>	<b>9M 2014</b>	<b>9M 2013</b>	<b>year-on-year change, %</b>
	<b>RUB mln</b>	<b>RUB mln</b>	
Revenue	74,233	70,926	5%
Cost of goods sold	(44,222)	(46,312)	(5%)
Gross profit	30,011	24,614	22%

Phosphate-based products segment revenue increased by 5% year-on-year and totalled RUB 74,233 million (USD 2,098 million) in 9M 2014. PhosAgro increased production of phosphate-based fertilizers and MCP by 3.8% year-on-year in 9M 2014, while sales volumes increased by 1.1% year-on-year. Production and sales volumes for phosphate rock and nepheline concentrate decreased in 9M 2014 compared to 9M 2013 by 3.2% and 15.7%, respectively.

The increase in sales volumes was primarily due to favourable market conditions and higher demand, which enabled the Company to increase substantially the sales of both concentrated fertilizers and NPKs to Latin America and Russia.

- MAP/DAP fertilizers: MAP exports increased by 54% year-on-year, with price increases in RUB terms of 10%. This was offset by a 48% decrease in DAP exports. Domestic MAP sales increased by 37% year-on-year. Revenue from DAP/MAP sales increased by 16% year-on-year, from RUB 25,399 million (USD 803 million) in 9M 2013 to RUB 29,464 million (USD 833 million) in 9M 2014, representing an overall 5% year-on-year increase in sales volumes and 10% increase in DAP/MAP average revenue per tonne denominated in roubles.
- NPK fertilizers: Domestic NPK sales volumes increased by 36% year-on-year, which partially compensated for weaker domestic NPK prices during 9M 2014. As a result, revenue from domestic NPK sales increased by 32% year-on-year, from RUB 6,509 million (USD 206 million) in 9M 2013 to RUB 8,578 million (USD 242 million) in 9M 2014. Revenue from NPK export sales decreased by 10% year-on-year, from RUB 10,200 million (USD 323 million) in 9M 2013 to RUB 9,185 million (USD 260 million) in 9M 2014, as a result of a 13% year-on-year decline in NPK export sales volumes, which was partially compensated by a 3% increase in revenue per tonne denominated in roubles.
- Phosphate rock: Total sales of phosphate rock decreased by 20% year-on-year to RUB 10,828

million (USD 306 million) in 9M 2014 due to higher internal consumption of phosphate rock by PhosAgro production sites and lower phosphate rock production volumes as a result of the optimisation of mining operations.

The phosphate-based products segment's gross profit for 9M 2014 increased by 22% year-on-year to RUB 30,011 million (USD 848 million), resulting in a gross profit margin of 40%, compared to a 35% margin in 9M 2013, which was the result of higher sales combined with cost savings (a more detailed discussion is provided in the CoGS analysis below).

*Revenue per tonne for the principal phosphate-based products*

<b>Product</b>	<b>9M 2014 RUB</b>	<b>9M 2013 RUB</b>	<b>year-on-year change, %</b>
<b>Domestic:</b>			
MAP	16,854	15,589	8.1%
DAP	15,712	15,068	4.3%
NPK	13,671	14,149	(3.4%)
NPS	10,605	11,438	(7.3%)
MCP	20,562	19,952	3.1%
PKS	10,581	-	-
SOP	24,274	19,890	22.0%
STPP	30,937	30,209	2.4%
<b>Export:</b>			
MAP	16,904	15,329	10.3%
DAP	16,558	15,040	10.1%
NPK	12,789	12,363	3.4%
NPS	10,948	10,487	4.4%
MCP	19,709	17,520	12.5%
PKS	11,234	-	-
SOP	25,382	16,727	51.7%
STPP	34,222	29,193	17.2%

**Nitrogen Segment**

<b>Result</b>	<b>9M 2014 RUB mln</b>	<b>9M 2013 RUB mln</b>	<b>year-on-year change, %</b>
Revenue	12,018	9,802	23%
Inter-segment transfers	8	95	(92%)
Cost of goods sold	(7,297)	(7,171)	2%
Gross profit	4,729	2,726	73%

Nitrogen segment revenue increased by 23% year-on-year to RUB 12,018 million (USD 340 million) in 9M 2014 from RUB 9,802 million (USD 310 million) in 9M 2013. Production and sales volumes of nitrogen-based fertilizers increased by 12% and 16% year-on-year, respectively, in 9M 2014.

Export revenue from urea increased by 24% year-on-year from RUB 6,681 million (USD 211 million) in 9M 2013 to RUB 8,271 million (USD 234 million) in 9M 2014, in line with the 22% increase in sales volumes. Ammonium nitrate (AN) sales volumes decreased by 5% year-on-year, which, combined with a 2% decrease in revenue per tonne, was the major factor behind the 7% decline in revenue from AN sales from RUB 1,941 million (USD 61 million) in 9M 2013 to RUB 1,799 million (USD 51 million) in 9M 2014.

Nitrogen segment gross profit during 9M 2014 increased by 73% year-on-year to RUB 4,729 million (USD 134 million), as a result of the significant revenue growth and minimal cost inflation, resulting in a gross profit margin of 39%, compared to 28% in 9M 2013.

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

<b>Product</b>	<b>9M 2014 RUB</b>	<b>9M 2013 RUB</b>	<b>year-on-year change, %</b>
<b>Domestic:</b>			
Ammonium nitrate	9,607	9,852	(2.5%)
Urea	11,083	12,959	(14.5%)
<b>Export:</b>			
Ammonium nitrate	-	9,591	-
Urea	11,014	10,868	1.3%
NP	10,664	9,121	16.9%

#### **Cost of Sales**

<b>Item</b>	<b>9M 2014</b>		<b>% of cost of sales</b>	<b>9M 2013</b>		<b>% of cost of sales</b>	<b>Change y-on-y</b>	
	<b>RUB mln</b>	<b>USD mln</b>		<b>RUB mln</b>	<b>USD mln</b>		<b>RUB mln</b>	<b>%</b>
Materials and services	16,986	480	34%	15,190	481	29%	1,796	12%
Salaries and social contributions	7,264	205	14%	9,271	293	18%	(2,007)	(22%)
Natural gas	5,545	157	11%	4,353	138	8%	1,192	27%
Depreciation	5,482	155	11%	5,322	168	10%	160	3%
Potash	3,036	86	6%	3,416	108	7%	(380)	(11%)
Sulphur and sulphuric acid	3,035	86	6%	2,812	89	6%	223	8%
Electricity	2,674	76	5%	2,574	81	5%	100	4%
Ammonia	2,209	62	4%	3,687	117	7%	(1,478)	(40%)
Fuel	2,126	60	4%	3,284	104	6%	(1,158)	(35%)
Heating energy	919	26	2%	292	9	1%	627	215%
Ammonium sulphate	491	14	1%	892	28	2%	(401)	(45%)
Other items	14	-	-	47	2	-	(33)	(70%)
Change in stock of WIP and finished goods	870	24	2%	608	19	1%	262	43%
<b>Total</b>	<b>50,651</b>	<b>1,431</b>	<b>100%</b>	<b>51,748</b>	<b>1,637</b>	<b>100%</b>	<b>(1,097)</b>	<b>(2%)</b>

PhosAgro's cost of sales decreased by 2% year-on-year in 9M 2014, to RUB 50,651 million (USD 1,431 million), while overall fertilizers sales volumes increased by 4%. Such changes in cost of sales were primarily due to the following factors:

- An increase of RUB 1,796 million (USD 51 million), or 12%, year-on-year in the cost of materials and services due to price inflation of 6% (PPI 9M 2014 vs 9M 2013) and outsourcing of certain functions, compensated by a significant decrease in personnel costs.
  - A 22%, or RUB 2,007 million (USD 57 million), year-on-year decrease in personnel costs as a result of the staff optimisation programme.
- A year-on-year decrease in expenditure on purchased ammonia of RUB 1,478 million (USD 42 million), or 40%, from RUB 3,687 million (USD 117 million) in 9M 2013 to RUB 2,209 million (USD 62 million) in 9M 2014. This was due to year-on-year declines in purchase volumes by 30% and prices by 15%. PhosAgro was able to decrease purchases from third parties after the modernisation of ammonia production facilities in Cherepovets, which helped to increase production of ammonia by 142 thousand tonnes, or by 19% in 9M 2014.
- A year-on-year increase in expenditure on natural gas of RUB 1,192 million (USD 34 million), or 27%, to RUB 5,545 million (USD 157 million) in 9M 2014. Natural gas is required primarily for the production of ammonia. The price per cubic metre of natural gas rose by 12%, while natural gas consumption increased by 14% year-on-year. The price increase was due to a 15% tariff increase in the second half of 2013. The 14% growth in volumes of gas purchased was due to an 18% year-on-year increase in ammonia production as a result of higher production capacity following completion of modernisations in 3Q 2013.
  - A year-on-year decrease in expenditure on potash by 11%, or RUB 380 million (USD 11 million), to RUB 3,036 million (USD 86 million) in 9M 2014. This was mainly due to a 25% decrease in potash purchase prices, which was partially balanced by an 18% increase in potash purchase volumes as a result of an 8% year-on-year increase in NPK production.
- A year-on-year decrease in expenditure on fuel by RUB 1,158 million (USD 33 million), or 35%, from RUB 3,284 million (USD 104 million) in 9M 2013 to RUB 2,126 million (USD 60 million) in 9M 2014, which was in line with a 37% decrease in fuel consumption as a result of the replacement of heating oil purchases with direct purchases of heating energy, as well as decreased open-pit mining.
- The decline in production of NPS/NPK grades with a high nitrogen content led to a decrease in purchases of ammonium sulphate by RUB 401 million (USD 11 million), or 45%, year-on-year.
- Heating energy expenses increased by RUB 627 million (USD 18 million) year-on-year, from RUB 292 million (USD 9 million) in 9M 2013 to RUB 919 million (USD 26 million) in 9M 2014, as a result of the replacement of heating oil, which is consumed in boilers generating heating energy at Apatit, with direct purchases of heating energy, providing significant savings on fuel.
- An increase in expenditure on sulphur and sulphuric acid by RUB 223 million (USD 6 million), or 8%, year-on-year from RUB 2,812 million (USD 89 million) in 9M 2013 to RUB 3,035 million (USD 86 million) in 9M 2014. This was driven by a 6% increase in volumes consumed due to higher production of phosphate-based fertilizers and feed phosphates, and by a 2% increase in purchase prices.

Administrative expenses rose by 5% year-on-year to RUB 6,039 million (USD 171 million) in 9M

2014, primarily due to an increase in payroll expenses as result of the implementation of the new management KPI incentive system that links overall Company performance with semi-annual bonus payments (previously annual bonus payments were made once a year), and expenses for professional services.

Selling expenses rose by 30% year-on-year, from RUB 5,964 million (USD 189 million) in 9M 2013 to RUB 7,767 million (USD 219 million) in 9M 2014. This was primarily due to the following changes from 9M 2013 to 9M 2014:

- A 9% increase in the Russian Railways infrastructure tariff and operators' fees from RUB 3,209 million (USD 101 million) to RUB 3,496 million (USD 99 million). An increase in container shipments, combined with a 27% increase in domestic fertiliser sales (largely shipped on a CPT basis), led to higher use of rail freight transport.
- An 83% increase in port and stevedoring expenses due to significantly increased CFR sales vs. FOB in 9M 2014 compared to 9M 2013.

PhosAgro's foreign exchange loss increased by 276% year-on-year, from RUB 2,517 million (USD 80 million) in 9M 2013 to RUB 9,471 million (USD 268 million) in 9M 2014 as a result of significant RUB depreciation during 9M 2014 by 20% (from RUB 32.7292 at 31/12/2013 to RUB 39.3866 at 30/09/2014), compared to just 6% during 9M 2013 (from RUB 30.3727 at 31/12/2012 to RUB 32.3451 at 30/09/2013). Over RUB 9 billion of that loss represents an unrealized exchange loss on outstanding long-term USD denominated debt.

Cash spent on capex in 9M 2014 amounted to RUB 11,981 million (USD 339 million), decreasing by 8% in comparison with RUB 13,086 million (USD 414 million) spent in 9M 2013. PhosAgro's capital expenditure, which consists of additions to property, plant and equipment, amounted to RUB 12,132 million (USD 343 million) for 9M 2014, compared to RUB 12,150 million (USD 384 million) in 9M 2013. Capital expenditure focused on construction of the main ore shaft № 2 at the Kirovsky underground mine, the new 760 ths tonnes/year ammonia plant at PhosAgro-Cherepovets as well as the construction of new storage facilities for liquid ammonia at Balakovo.

## **Outlook**

### *Market:*

- DAP prices have recently softened to USD 455 per tonne FOB Tampa, reflecting the typical seasonal slowdown.
- However, feedstock prices increased significantly, driving the cash costs of most significant players up: spot sulphur CFR prices in most regions are above USD 150 per tonne, while ammonia in the US has peaked at USD 655 per tonne CFR Tampa and is close to the same level in Morocco. This has led major producers to announce curtailment of DAP production. Decreased production of DAP/MAP in the US and in Morocco, together with the increase in export taxes in China (up to 15% until the end of the year) should support prices in the short term.
- Low imports by India in 1H 2014 have depleted local fertilizer stocks and the market is showing increased activity. Increased demand from India, combined with approaching seasonal demand in Europe, the US domestic market, Central and South America will



contribute to higher prices for phosphate-based and nitrogen-based fertilizers going into the first quarter of 2015.

- Agricultural commodities performance could be a limiting factor for further fertilizer price increases. At the same time, high yields of corn and soybeans have depleted nutrients in the soil, requiring increased application.

#### *Company:*

· PhosAgro's low cash cost position and flexible production make the Company well placed to respond to changes in global demand for concentrated or complex fertilizers and NPS. The Company intends to invest further into both increasing capacity and expanding the number of NPK grades it produces.

· Dramatic RUB depreciation from the middle of September 2014 has led to a further significant decrease in the Company's production cash costs, although going into 2015 it may result in higher RUB costs inflation.

- Following completion of the voluntary tender offer, PhosAgro sent a compulsory share purchase notification (squeeze out) to OJSC PhosAgro-Cherepovets for the buyout of the ordinary shares belonging to the remaining minority shareholders (2.01%) of OJSC PhosAgro-Cherepovets. All procedures related to the squeeze out are almost completed.
- All major development projects are on track, including the new ammonia plant designed to increase cost efficiency and support further expansion of complex fertilizer production capacity.
- PhosAgro continued its restructuring process in May with the merger of two production subsidiaries, OJSC Apatit and CJSC Balakovo Mineral Fertilizers, which will enhance further cost efficiency.

#### **Conference call and webcast**

On 20 November 2014, PhosAgro will hold a conference call and webcast at 13.30 London time (16:30 Moscow; 08:30 New York).

The call will be held in English, with simultaneous translation into Russian on a separate line.

#### **Webcast links:**

*English:* <http://engage.vevent.com/rt/webcasting/index.jsp?seid=238>

*Russian:* <http://engage.vevent.com/rt/webcasting/index.jsp?seid=242>

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