

PhosAgro 1Q 2017 EBITDA is RUB 12.7 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 interim condensed consolidated IFRS financial results for the three months ended 31 March 2017.

Revenue decreased by 21% year-on-year to RUB 44.4 billion (USD 755 million). EBITDA for the first quarter of 2017 was RUB 12.7 billion (USD 215 million), with an EBITDA margin of 29%. Net profit in the reporting period decreased by 46% year-on-year to RUB 12.3 billion (USD 208 million).

1Q 2017 financial and operational highlights:

	1Q 2017		1Q 2016		YoY change (in RUB), %
	RUB	USD	RUB	USD	
	million		million		
Revenue	44,398	755	56,073	751	(21%)
EBITDA*	12,675	215	25,249	338	(50%)
EBITDA margin	29%		45%		(16 p.p.)
Net profit	12,263	208	22,631	303	(46%)
Key Products Sales volumes	Kmt		Kmt		
Phosphate-based products	1,536.0		1,406.9		9.2%
Nitrogen-based fertilizers	460.5		429.8		7.1%
Phosphate rock	687.0		632.2		8.7%

RUB/USD rates: average 1Q 2017: 58.84; average 1Q 2016: 74.63
as of 31 March 2017: 56.38; as of 31 December 2016: 60.66

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

Annual dividend recommendation:

- At its meeting on 16 May 2017, PhosAgro's Board of Directors recommended that shareholders approve a dividend of RUB 2,720 million, which represents RUB 21 per share (RUB 7 per Global Depositary Receipt).

Commenting on the 1Q 2017 results, PhosAgro CEO Andrey Guryev said:

"I am very pleased that, despite sizeable FX headwinds 1Q 2017 and the low pricing environment, PhosAgro continues to benefit from the fundamental advantages that have supported its performance through numerous market cycles: production and sales flexibility, organic growth through debottlenecking and modernisation, a constant focus on cost optimisation and netback maximisation.

"Strong operating performance is one of PhosAgro's key fundamental strengths. In 1Q 2017 we managed to further increase downstream phosphate-based fertilizer production by almost 4% year-

on-year on the back of continued modernisation and debottlenecking projects. Phosphate rock production grew by more than 7% year-on-year in the first quarter, and we are well on track to deliver on the goals of our Strategy to 2020.

“As a company with mostly USD-linked sales and RUB-based costs, PhosAgro felt a significant effect from the sharp year-on-year appreciation of the rouble against other currencies, which offset the recent recovery in prices. In these circumstances, we remain focused on cost efficiency in order to mitigate the negative impact from FX fluctuations. In the first quarter, we managed to keep cost of sales (net of D&A) flat year-on-year, despite nearly 5% year-on-year CPI growth.

“Turning to the market environment, I would highlight continued strong performance by our domestic market in the first quarter. We increased our sales to the Russian market by almost 30% year-on-year, to more than 0.6 million tonnes. Looking at other geographies, sales to North and South America grew at a similar pace and exceeded half a million tonnes. In 1Q 2017, pricing in North America provided very attractive netbacks for us. Finally, we saw a slight 5% year-on-year increase in sales to Europe.

“Looking at global seaborne markets, we are seeing positive developments in the phosphates industry following a challenging year in 2016 that pushed overall sector profitability down. In 1Q 2017, realised product prices recovered from lows seen last year (DAP FOB Tampa reached USD 375 per tonne, up from USD 315 per tonne in mid-December) supported by tight product availability, greater rationalisation of Chinese producers and stronger demand for phosphates. According to fresh numbers, imports of phosphate to Brazil in January-March grew by more than 90% year-on-year in P2O5 content, driven by MAP imports almost tripling year-on-year. However, we currently see some seasonal softening after the end of the spring season in Europe and North America, and higher export potential from China. The revival of demand from southern Asia that typically occurs in May-June will be the next seasonal milestone.

“On the supply side, we believe China to remain the ‘swing’ player on the seaborne market. However, industry consolidation and rationalisation in the country, coupled with production and export curtailments, is likely to provide better stability in prices. On the downside, additional capacity scheduled to be commissioned in 2H 2017 in Morocco and Saudi Arabia may have a limiting factor for any significant price increases.

“In closing, I would once again confirm that our key investment projects, the construction of new ammonia and urea units, are both on schedule and due to be fully operational in autumn this year.”

1Q 2017 market conditions:

- The average price of DAP (FOB Tampa) in 1Q 2017 was USD 355 per tonne, which represents a 10% quarter-on-quarter increase from USD 324 per tonne in 4Q 2016. On a year-on-year basis, the price was 4% down from USD 370 per tonne in 1Q 2016. The quarterly increase in global prices for phosphate-based fertilizers was triggered by the start of the spring season in Europe, the US and China, as well as tight product availability due to supply disruptions in the US and Morocco.
- High DAP/NPK stocks in India (more than 2 million tonnes as of year-end) lowered demand for import volumes in 1Q 2017
- The recovery in phosphate prices was supported by strong import volumes to Brazil. In 1Q 2017 the overall import of phosphates (DAP/MAP/TSP/NP/NPK) reached 1.8 million tonnes, which implies an 80% year-on-year increase.

- The average urea price (FOB Baltic) in 1Q 2017 stood at USD 237 per tonne vs. USD 194 per tonne in 1Q 2016 and USD 205 per tonne in 4Q 2016. The recovery in prices was driven by two factors: 1) the start of the high season in North and South America, as well as Europe, and 2) production curtailments in China due to rising cash costs and stricter environmental regulations. Urea exports from China in 1Q 2017 stood at 1.2 million tonnes, down by 59% year-on-year.

Main feedstock prices:

- In 1Q 2017 the average price of ammonia (FOB Yuzhny) was USD 300 per tonne, which implies a 10% year-on-year increase from the USD 273 per tonne levels seen in 1Q 2016, and a 57% quarter-on-quarter increase from USD 191 per tonne in 4Q 2016.
- The average price for phosphate rock (FOB Morocco with 32% P₂O₅ content) in the first quarter 2017 was in the range of USD 80-105 per tonne, compared to USD 95-140 per tonne in 1Q 2016.
- The phosphoric acid price for India (CFR India) was agreed at USD 545-550 per tonne of P₂O₅ for 1Q 2017, and USD 570-590 per tonne of P₂O₅ for 2Q 2017.

Revenue in the reporting period decreased by 21% year-on-year to RUB 44.4 billion (USD 755 million). Year-on-year growth of 9% in the overall sales of fertilizers and MCP was offset by the more than 21% year-on-year appreciation in the average USD/RUB exchange rate and a 9% year-on-year decrease in the average revenue per tonne (USD denominated) for the phosphate-based fertilizers and MCP. A more detailed breakdown of revenue drivers is presented below:

- MAP/DAP fertilizers: revenue from DAP/MAP sales was down by 24% year-on-year to RUB 15.2 billion (USD 258 million) in 1Q 2017, reflecting a 25% year-on-year decrease in DAP/MAP average revenue per tonne denominated in RUB and an overall 1% year-on-year growth in sales volumes.
- NPK(S) fertilizers: revenue from NPK(S) decreased by a similar 24% year-on-year, to RUB 9.7 billion (USD 165 million) in 1Q 2017. NPK(S) average revenue per tonne denominated in RUB dropped by 34% year-on-year, which was compensated by a more than 14% year-on-year increase in sales volumes.
- Phosphate rock: revenue from phosphate rock sales declined by 27% year-on-year to RUB 5.7 billion (USD 98 million) in 1Q 2017. Revenue per tonne in RUB terms decreased by 33% year-on-year. Sales volumes increased by almost 9% year-on-year due to the greater demand on export markets.
- Nitrogen-based products: revenue from urea + AN sales was down by 4% year-on-year, at RUB 6.1 billion (USD 104 million). Revenue per tonne in RUB terms for AN and urea declined by 13% and 7% year-on-year, respectively, which was partially compensated by 21% year-on-year growth in AN sales (predominantly to the domestic market).

Gross profit in the first quarter of 2017 declined by 38% year-on-year to RUB 20.0 billion (USD 340 million), which implies a 12 p.p. year-on-year decrease in gross margin to 45%. Gross profit and margin performance for the phosphate-based and nitrogen-based segments were as follows:

- Phosphate-based segment saw a 40% year-on-year decrease in gross profit to RUB 17.1 billion (USD 291 million), with a gross margin of 45%, compared to a 58% margin in 1Q 2016.

- Gross profit for the nitrogen-based segment decreased by 15% year-on-year to RUB 2.9 billion (USD 48 million). Gross margin for the segment fell by 6 p.p. year-on-year to 46%.

EBITDA for 1Q 2017 decreased by 50% year-on-year to RUB 12.7 billion (USD 215 million), while the EBITDA margin for the period declined by 16 p.p. to 29%, compared to 45% a year earlier. Net profit in the reporting period dropped by 46% year-on-year to RUB 12.3 billion (USD 208 million), compared to RUB 22.6 billion (USD 303 million) in 1Q 2016.

The more than 21% year-on-year appreciation in the USD/RUB exchange rate during 1Q 2017 (the average USD/RUB foreign exchange rates for 1Q 2017 and 1Q 2016 were RUB 58.84 and RUB 74.63, respectively) had a net negative impact on PhosAgro's results in the reporting period, as prices for most of the Company's products are denominated in USD, while costs are primarily RUB-based. At the same time, the appreciation of the rouble as of 31 March 2017 (RUB 56.38 per USD) compared to 31 December 2016 (RUB 60.66 per USD) resulted in a foreign exchange gain of RUB 6.6 billion (USD 113 million) in 1Q 2017 (RUB 6.9 billion in Q1 2016).

Cash flow from operating activities decreased by 62% year-on-year in 1Q 2017, to RUB 7.0 billion (USD 120 million), compared to RUB 18.5 billion (USD 248 million) in 1Q 2016, predominantly due to lower profitability, as explained above, and less favourable changes in working capital.

Gross debt (including finance lease liabilities) at 31 March 2017 increased marginally, by 2% year-to-date to RUB 115 billion (USD 2.04 billion). Net debt at 31 March 2017 stood at RUB 105 billion (USD 1.86 billion), virtually flat year-to-date. Most of the Company's debt is denominated in US dollars and naturally hedged by primarily USD-denominated sales. The Company's net debt to LTM EBITDA ratio increased to 1.75 as of 31 March 2017, from 1.45 as of 31 December 2016.

Cost of Sales

Item	1Q 2017			1Q 2016			Change YoY
	RUB mln	USD mln	% of cost of sales	RUB mln	USD mln	% of cost of sales	% (RUB)
Materials and services	6,797	115	28%	6,062	81	25%	12.1%
Depreciation	2,801	48	12%	2,265	30	9%	23.7%
Salaries and social contributions	2,743	47	11%	2,682	36	11%	2.3%
Ammonia	2,262	38	9%	2,041	27	9%	10.8%
Natural gas	2,090	36	9%	2,108	28	9%	(0.9%)
Chemical fertilisers and other products for resale	1,683	29	7%	1,599	21	7%	5.3%
Potash	1,568	27	7%	1,816	24	8%	(13.7%)
Electricity	1,327	23	5%	1,102	15	5%	20.4%
Sulphur and sulphuric acid	1,231	21	5%	2,390	32	10%	(48.5%)

Ammonium sulphate	800	14	3%	814	11	3%	(1.7%)
Fuel	795	14	3%	626	8	3%	27.0%
Heating energy	245	4	1%	265	4	1%	(7.5%)
Other items	5	0	0%	2	0	0%	150.0%
Change in stock of WIP and finished goods	70	1	0%	219	3	1%	(68.0%)
Total	24,417	415	100%	23,991	321	100%	1.8%

In 1Q 2017 PhosAgro's cost of sales grew slightly by 2% year-on-year to RUB 24.4 billion (USD 415 million). The key factors behind the growth were:

- Spending on materials and services grew by 12% year-on-year to RUB 6.8 billion (USD 115 million) driven by a 10% increase in phosphate rock processing, 2% growth in overall fertilizer production, and 4.6% year-on-year CPI inflation.
- An 11% year-on-year increase in spendings on purchased ammonia to RUB 2.3 billion (USD 38 million) was due to a 21% increase in purchase volumes, which was partially offset by a 9% decrease in RUB-denominated prices. The growth in purchased volumes was driven by an almost 4% year-on-year increase in phosphate-based fertilizer production, as well as a 6% decrease in own ammonia processing.
- Spending on natural gas was marginally down by 1% year-on-year to RUB 2.1 billion (USD 36 million). Lower consumption due to a decline in ammonia production was almost fully compensated by slightly higher gas consumption per unit of production. Gas tariffs were unchanged year-on-year.
- A year-on-year decrease in expenditure on potash of 14% to RUB 1.6 billion (USD 27 million) in 1Q 2017 was due to a 27% decrease in RUB-denominated prices, which was counterbalanced by 13% growth in purchased volumes.
- Electricity costs increased by 20% year-on-year to RUB 1.3 billion (USD 23 million) on the back of 5% growth in consumption (resulting from increased extraction of apatite-nepheline ore from underground mining, where electricity is primarily consumed) and a 15% increase in the average electricity price.
- Expenditures on sulphur and sulphuric acid were down significantly by 49% year-on-year to RUB 1.2 billion (USD 21 million), primarily triggered by a nearly identical decline in RUB-denominated prices

Administrative expenses rose by 31% year-on-year to RUB 3.8 billion (USD 65 million) in 1Q 2017, primarily due to an increase in personnel costs, which rose by 49% year-on-year to RUB 2.5 billion (USD 42 million). This increase was mainly due to bonuses, which are accrued on a monthly basis since 1 January 2017, compared to semi-annually in prior periods.

In 1Q 2017 selling expenses were flat year-on-year at RUB 5.5 billion (USD 93 million). This was primarily due to the following changes:

- Russian Railways infrastructure tariff and operators' fees increased by 14% year-on-year to RUB 2.4 billion (USD 40 million) mainly due to a 6% increase in railway tariffs as well as growth in fertilizer sales (primarily to the domestic market, where predominantly CPT shipments increased by 27% year-on-year).

- Freight, port and stevedoring expenses decreased by 9% year-on-year primarily on the back of sizeable USD/RUB exchange rate appreciation. The majority of tariffs are USD-linked.

Cash spent on capital expenditure in 1Q 2017 amounted to RUB 8.9 billion (USD 152 million), an increase of 3% year-on-year. Capital expenditure is primarily focused on finalisation of the construction of the new 760 ths tonnes/year ammonia plant and the new 500 ths tonnes/year urea plant at PhosAgro-Cherepovets.

Outlook

Market outlook

- The end of the spring season in North and South America, as well as in Europe resulted in some price softening at the beginning of 2Q 2017
- As the high season in South Asia (India and Pakistan), Latin America (Brazil) as well as in Russia develops, this is likely to support prices going forward.
- In India, the rainfall season (Monsoon) is expected to be within long-term averages that shall support phosphate consumption (in terms of P2O5 content).
- According to Fertecon and CRU, growth of phosphate imports to Latin America may reach 5% year-on-year in 2017
- China remains the “swing” player on the seaborne market. However, industry consolidation in the country, coupled with production and export curtailments is likely to stabilise prices.
- On the downside, additional capacity scheduled to be commissioned in 2017 in Morocco and Saudi Arabia may have a limiting factor for any significant price increases.

Company

- All major development projects are on track, including the new ammonia plant designed to increase cost efficiency and support further expansion of PhosAgro’s complex fertilizer production capacity.