

# PhosAgro 2016 Net Profit up 64% to RUB 59.9 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 audited consolidated IFRS financial results for the 12 months ended 31 December 2016.

PhosAgro's revenue for the period decreased by 1% year-on-year to RUB 187.7 billion (USD 2,801 million). EBITDA for 2016 was RUB 72.4 billion (USD 1,080 million), with an EBITDA margin of 39%. EPS increased by 64% year-on-year to RUB 462, from RUB 281 for 2015.

## FY2016 financial and operational highlights:

Result	2016		2015		year-on-year change (RUB vs. RUB), %
	RUB	USD	RUB	USD	
	million		million		
Revenue	187,742	2,801	189,732	3,113	(1%)
EBITDA*	72,365	1,080	82,464	1,353	(12%)
EBITDA margin	39%		43%		(4 p.p.)
Net profit	59,886	893	36,436	598	64%
	RUB	USD	RUB	USD	
Earnings per share	462	7	281	5	64%
<b>Sales volumes</b>	<b>Kmt</b>		<b>Kmt</b>		
Phosphate-based products	5,925.3		5,383.9		10%
Nitrogen-based fertilizers	1,394.0		1,365.4		2%
Apatit mine and beneficiation plant	3,418.0		2,917.0		17%
Other products	94.1		102.6		(8%)

RUB/USD rates: average 2016: 67.0349; average 2015: 60.9579

as of 31 December 2016: 60.6569; as of 31 December 2015: 72.8827

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

### Annual dividend recommendation:

- At its meeting on 21 March 2017, PhosAgro's Board of Directors recommended that shareholders approve a dividend of RUB 3,885 million, which represents RUB 30 per share (RUB 10 per Global Depositary Receipt). Shareholders will vote on the dividend recommendation at the Annual General Meeting of Shareholders scheduled for 30 May 2017.

### Production and sales:

- During 2016, fertilizer production and sales volumes grew both by 9% year-on-year thanks to the ongoing debottlenecking activities. Despite higher volumes and further RUB depreciation, revenue for the period decreased by 1% year-on-year due to lower global fertilizer prices.

EBITDA for 2016 decreased by 12% year-on-year to RUB 72.4 billion (USD 1,080 million) from RUB

82.5 billion (USD 1,353 million) in 2015. The EBITDA margin for the period declined by 4 p.p. to 39%, compared to 43% a year earlier. PhosAgro's operating profit in the reporting period was RUB 61.6 billion (USD 919 million), a 16% decrease from RUB 73.3 billion (USD 1,203 million) in 2015.

Net profit for 2016 grew 64% year-on-year to RUB 59.9 billion (USD 893 million), compared to RUB 36.4 billion (USD 598 million) in 2015. Basic and diluted earnings per share increased by 64% to RUB 462 (USD 7) for 2016 from RUB 281 (USD 5) in 2015.

The higher average USD/RUB exchange rate during 2016 in comparison with 2015 (average USD/RUB foreign exchange rates for 2016 and 2015 were RUB 67.03 and RUB 60.96, respectively) had a net positive 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 December 2016 (RUB 60.66 per USD) compared to 31 December 2015 (RUB 72.88 per USD) resulted in a foreign exchange gain of RUB 16,962 million (USD 253 million) in 2016; in 2015 the foreign exchange loss was RUB 22,178 million (USD 364 million).

Cash flow from operating activities decreased by 20% year-on-year in 2016, to RUB 50.4 billion (USD 751 million), compared to RUB 63.3 billion (USD 1,038 million) in 2015, due to lower operating cash flow and higher income tax payments, which was partially offset by favourable changes in working capital.

Gross debt at 31 December 2016 decreased to RUB 112.4 billion (USD 1,853 million), compared to RUB 134.5 billion (USD 1,846 million) at 31 December 2015. Net debt at 31 December 2016 stood at RUB 105.1 billion (USD 1,733 million), down from RUB 105.2 billion (USD 1,443 million) at 31 December 2015, as a result of rouble appreciation against the USD as of 31 December 2016. 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 EBITDA ratio increased to 1.45 as of 31 December 2016, from 1.28 as of 31 December 2015.

Commenting on the 2016 results, PhosAgro CEO Andrey Guryev said:

"I am very pleased that, despite the challenging environment in 2016 - a year when phosphate and nitrogen prices bottomed out at levels last seen during the 2009 financial crisis, PhosAgro continues to generate solid operating cash flows and, despite being in a capex-intensive period, is paying robust dividends to its shareholders. The total amount of dividends for 2016 has reached RUB 165 per share (RUB 55 per GDR), which represents a sector-leading dividend yield of over 6%. Since the IPO in 2011, PhosAgro has paid out almost USD 1.7 billion as dividends, which implies a more than 30% return on the IPO price. In terms of financial performance, in 2016 we delivered an EBITDA margin of nearly 40%, which remains an unachievable target for even our most integrated and largest phosphate-based fertilizer peers.

"Strong operating performance is one of PhosAgro's key fundamental strengths. In 2016 we managed to increase overall fertilizer production by 9.4% year-on-year on the back of continued modernisation and debottlenecking projects. Since 2012 when we initiated the debottlenecking programme, production of phosphate-based fertilizers has grown by 1.6 mln tonnes, or by 37%. At the same time, this debottlenecking programme cost PhosAgro only USD 95 million, or USD 59 per tonne of new capacity, which is far below any green- or brownfield project in the sector.

"Turning to the market environment, I would like to highlight the tremendous performance of our domestic market in 2016: demand grew by 16% year-on-year for all fertilizers, and by 24% year-on-

year for phosphate-based fertilizers (DAP/MAP/NPK). During the same period, our total domestic sales grew by more than 30% year-on-year and reached almost 2.1 million tonnes. Looking at our performance since the IPO in 2011, PhosAgro's domestic sales have more than doubled, and our market share has reached almost 30%. We are extremely pleased that our home market holds one of the best growth opportunities globally thanks to state support for the agriculture industry.

"Global demand for phosphate-based fertilizers remained robust in 2016, and grew by more than 3% according to preliminary numbers from IFA. Growing demand was supported by a recovery in consumption in Latin America, driven by stable soybean prices and favourable exchange rates. Both factors helped farmers in Brazil and Argentina to maintain highly attractive margins on soybean production. Furthermore, the profitability of farmers in Argentina was supported by a reduction in export duties. India's phosphate consumption remained stable despite challenges related to the currency reform.

"On the supply side, lower production and exports from China due to rising cash costs and new environmental restrictions were offset by higher volumes from other major players that have undertaken large-scale development programmes, as well as increased production from non-integrated players due to low feedstock prices.

"Looking ahead to 2017, we have started the year at prices that represent historical lows for the past 10 years. However during January-February we witnessed a combination of fundamental factors that played out simultaneously and pushed DAP/MAP prices up by USD 50-70 to USD 375 per tonne DAP FOB Tampa and USD 370-385 per tonne MAP FOB Baltics. These factors included the quick development of the high season in key agriculture regions, tight product availability on the seaborne market due to minimal export flows from China, and rising cash costs in the industry due to a sharp recovery in feedstock prices. I expect price seasonality in 2017 to be in line with what the market sees in a normal year. In terms of potential downside risks, we believe that new production capacities coming online in North Africa and Saudi Arabia could constrain potential price growth.

"Returning to PhosAgro and our plans, we remain focused on completing our main investment projects on schedule. These projects aim to improve self-sufficiency in ammonia, increase production volumes, and further reduce cash costs to sustain Company's leading position in the sector. These contributions to our performance going forward, in addition to reduced capital expenditure, should further improve our free cash flow, which I expect should be reflected in returns to shareholders."

FY2016 market conditions:

- The average prices of DAP (FOB Tampa) and MAP (FOB Baltics/Black Sea) in 2016 were USD 347 per tonne and USD 339 per tonne, which represent respective year-on-year declines of 24% and 26%. The decrease in global prices for phosphate-based fertilizers was triggered by weak market conditions in the main commodity markets, combined with a higher supply of fertilizers from new capacities in Morocco (2 million tonnes of DAP/MAP/NPS/NPK in 1Q 2016 and 3Q 2016), and heightened competition.
- A significant decrease in major feedstock prices triggered a spike in India's domestic DAP production, which lowered demand for import volumes. DAP import into India for 2016 stood at 4.3 million tonnes, which implies a 30% year-on-year decline. The import of NP/NPKs into India dropped by 26% year-on-year to 0.5 million tonnes.
- Relatively low prices for phosphate-based fertilizers, coupled with favourable economics in Brazil's and Argentina's agriculture industries, spurred a recovery in consumption and import of phosphate-based fertilizers. In 2016, DAP/MAP/TSP/NP/NPK imports grew by 23% year-on-

year and exceeded 6.3 million tonnes, including 2.7 million tonnes of imported MAP. Liberalisation of agricultural export rules in Argentina was an additional driver of growth in fertilizer consumption. Argentina's DAP/MAP imports in 2016 grew by 74% year-on-year to 1.15 million tonnes.

- Export of phosphate-based fertilizers (DAP/MAP/NP/TSP) from China in 2016 declined by 19% year-on-year to 10.1 million tonnes. Separately, the export of DAP dropped by 15% year-on-year, to 6.8 million tonnes. Production curtailments due to low efficiency and stricter environmental regulations were the key reasons for the decline in exports.
- The average urea price (FOB Baltic) in 2016 stood at USD 194 per tonne vs. USD 267 per tonne in 2015. The decline in prices was driven by two factors: 1) stronger competition on the main markets thanks to the launch of the new capacities in the Middle East and US, and 2) a nearly 3.0 million tonne year-on-year decline in urea export to India due to growth in domestic production.

### Main feedstock prices:

- In 2016 the average price of ammonia (FOB Yuzhny) was USD 240 per tonne, which implies a 38% year-on-year decline from USD 390 per tonne in 2015. In the course of the year, the price for ammonia touched USD 165-170 per tonne (October), which is the lowest level since the crisis in 2008-09.
- The average price for sulphur (FOB Middle East) in 2016 was USD 85 per tonne, which implies a 42% year-on-year decrease.
- The average price for phosphate rock (FOB Morocco with 32% P<sub>2</sub>O<sub>5</sub> content) in 2016 was USD 106 per tonne, a year-on-year decline of USD 19 per tonne.

### Phosphate-Based Products Segment

Result	2016 RUB mln	2015 RUB mln	year-on-year change, %
Revenue	168,136	167,430	-
Cost of goods sold	(74,667)	(70,344)	6%
Gross profit	93,469	97,086	(4%)

Phosphate-based products segment revenue increased slightly to RUB 168.1 billion (USD 2,508 million) in 2016. PhosAgro increased both production and sales volumes of phosphate-based fertilizers and MCP by 11% year-on-year in 2016. Sales volumes for phosphate rock and nepheline concentrate in 2016 increased by 17% year-on-year.

The growth in fertilizer sales volumes was primarily due to the Company's flexible production and sales models, which enabled it to increase substantially sales of MAP and NPK to the domestic market, NPS to export markets, and phosphate rock to both markets.

- MAP/DAP fertilizers: revenue from DAP/MAP sales was down by 13% year-on-year, from RUB 73.4 billion (USD 1,203 million) in 2015 to RUB 63.9 billion (USD 953 million) in 2016, reflecting a 15% year-on-year decrease in DAP/MAP average revenue per tonne denominated in RUB and an overall 2% year-on-year growth in sales volumes.
- NPK fertilizers: revenue from NPK sales increased by 1% year-on-year, from RUB 38.9 billion (USD 638 million) in 2015 to RUB 39.2 billion (USD 585 million) in 2016, reflecting the 9% year-on-year increase in sales volumes and an overall 7% year-on-year decrease in NPK average revenue per tonne denominated in RUB.
- Phosphate rock: revenue from phosphate rock sales rose by 36% year-on-year to RUB 26.0 billion (USD 388 million) in 2016. Revenue per tonne in RUB terms increased by 9% year-on-

year. Sales volumes increased by 25% year-on-year as a result of increased supplies to both export and domestic markets.

The phosphate-based products segment's gross profit for 2016 decreased by 4% to RUB 93.5 billion (USD 1,394 million), resulting in a gross profit margin of 56%, compared to a 58% margin in 2015.

### Nitrogen Segment

Result	2016 RUB mln	2015 RUB mln	year-on-year change, %
Revenue	18,829	21,574	(13%)
Cost of goods sold	(11,025)	(12,063)	(9%)
Gross profit	7,804	9,511	(18%)

Nitrogen segment revenue decreased from RUB 21.6 billion (USD 354 million) in 2015 to RUB 18.8 billion (USD 281 million) in 2016. PhosAgro increased production and sales volumes of nitrogen-based fertilizers by 4% and 2%, respectively, year-on-year in 2016.

Export revenue from urea declined from RUB 15.7 billion (USD 258 million) in 2015 to RUB 13.3 billion (USD 199 million) in 2016. The decrease in revenue per tonne of 18% year-on-year was partially balanced by a 3% year-on-year increase in sales volumes. Total revenue from ammonium nitrate (AN) decreased by 13% year-on-year, from RUB 5.4 billion (USD 88 million) in 2015, to RUB 4.6 billion (USD 69 million) in 2016, due to a 10% year-on-year decrease in sales volumes and a 4% year-on-year decrease in revenue per tonne.

Nitrogen segment gross profit for 2016 decreased by 18% year-on-year to RUB 7.8 billion (USD 116 million). The gross margin for 2016 was 41%, compared with 44% in 2015. This was primarily due to the decrease in prices: during 2016, average revenue per tonne for the Company's nitrogen-based fertilizers decreased by 15%.

### Cost of Sales

Item	2016			2015			Change y-on-y	
	RUB mln	USD mln	% of cost of sales	RUB mln	USD mln	% of cost of sales	RUB mln	%
Materials and services	25,746	384	30%	22,905	376	27%	2,841	12%
Salaries and social contributions	10,784	161	12%	10,155	167	12%	629	6%
Depreciation	9,377	140	11%	8,057	132	10%	1,320	16%
Natural gas	8,084	121	9%	7,484	123	9%	600	8%
Potash	7,104	106	8%	7,559	124	9%	(455)	(6%)
Sulphur and sulphuric acid	6,065	90	7%	8,385	138	10%	(2,320)	(28%)
Ammonia	5,801	87	7%	8,190	134	10%	(2,389)	(29%)
Electricity	4,462	67	5%	3,927	64	5%	535	14%
Chemical fertilisers and other products for resale	4,254	63	5%	4,091	67	5%	163	4%
Ammonium sulphate	2,547	38	3%	2,176	36	3%	371	17%

Fuel	2,299	34	3%	2,865	47	3%	(566)	(20%)
Heating energy	676	10	1%	718	12	1%	(42)	(6%)
Other items	42	1	-	23	-	-	19	83%
Change in stock of WIP and finished goods	(850)	(13)	(1%)	(3,471)	(57)	(4%)	2,621	(76%)
<b>Total</b>	<b>86,391</b>	<b>1,289</b>	<b>100%</b>	<b>83,064</b>	<b>1,363</b>	<b>100%</b>	<b>3,327</b>	<b>4%</b>

PhosAgro's cost of sales increased by 4% year-on-year in 2016, to RUB 86.4 billion (USD 1,289 million), while overall fertilizer sales volumes increased by 9% year-on-year. This cost of sales performance was primarily due to the following factors:

- An increase of RUB 2.8 billion (USD 42 million), or 12%, year-on-year in the cost of materials and services primarily due to an increase in repair expenses, a 23% increase in apatite-nepheline ore mining, 9% growth in fertilizer production volumes, and 5% year-on-year inflation.
- A year-on-year increase in personnel costs of RUB 629 million (USD 9 million), or 6%, primarily due to payroll indexation and PhosAgro 15th-anniversary bonuses.
- A decrease in expenditure on sulphur and sulphuric acid of RUB 2.3 billion (USD 35 million), or 28%, year-on-year from RUB 8.4 billion (USD 138 million) in 2015 to RUB 6.1 billion (USD 90 million) in 2016. This was driven by a 34% decline in sulphur and sulphuric acid purchase prices denominated in RUB, which was partially offset by a 9% year-on-year increase in volumes consumed due to higher production of phosphate-based fertilizers, mainly MAP/DAP and NPS.
- A year-on-year decrease in expenditure on purchased ammonia of RUB 2.4 billion (USD 36 million), or 29%, from RUB 8.2 billion (USD 134 million) in 2015 to RUB 5.8 billion (USD 87 million) in 2016. This was mainly due to a 30% decline in RUB-denominated prices, which was slightly offset by a 1% year-on-year decrease in consumption volumes.
- A year-on-year decrease in expenditure on potash of 6%, from RUB 7.6 billion (USD 124 million) in 2015, to RUB 7.1 billion (USD 106 million) in 2016. This was due to a 16% decrease in RUB-denominated prices and 11% growth in purchase volumes as a result of a 7% increase in NPK production during the period.
- A year-on-year increase in expenditure on natural gas of RUB 600 million (USD 9 million), or 8%, to RUB 8.1 billion (USD 121 million) in 2016. This was mainly due to an 8% increase in ammonia production volumes.
- A year-on-year increase in expenditure on electricity of RUB 535 million (USD 8 million), or 14%, to RUB 4.5 billion (USD 67 million) in 2016. This was due to a 7.5% indexation in tariffs since 1 July 2016, and a 9% year-on-year increase in phosphate rock production volumes (Apatit is the main consumer of electricity from third parties).
- A year-on-year increase in expenditure on ammonium sulphate of RUB 371 million (USD 6 million), or 17%. This was due to 32% year-on-year growth in ammonium sulphate purchase volumes as a result of higher production volumes of NPS. Purchase prices decreased by 11% year-on-year in 2016.
- A decrease in expenditure on fuel by 20%, from RUB 2.9 billion (USD 47 million) in 2015 to RUB 2.3 billion (USD 34 million) in 2016. This was driven by a 14% decline in overall fuel purchase prices denominated in RUB. Lower fuel consumption volumes resulted from an increase in extraction of apatite-nepheline ore from underground mining, where electricity is primarily consumed.
- A year-on-year decrease in heating energy expenses of RUB 42 million (USD 1 million), or by 6%, from RUB 718 million (USD 12 million) in 2015 to RUB 676 million (USD 10 million) in 2016. This was mainly due to a 5% decline in RUB-denominated prices.

Administrative expenses rose by 14% year-on-year to RUB 13.9 billion (USD 207 million) in 2016,

primarily due to an increase in personnel costs of RUB 1.1 billion (USD 16 million), or 16%, year-on-year. The increase was mainly due to the indexation of salaries, PhosAgro 15th-anniversary bonuses, and the relocation of a significant proportion of operational management to Cherepovets.

Selling expenses rose by 19% year-on-year, from RUB 17.8 billion (USD 291 million) in 2015 to RUB 21.1 billion (USD 315 million) in 2016. This was primarily due to the following changes:

- Russian Railways infrastructure tariff and operators' fees increased by 34% from RUB 6.1 billion (USD 100 million) in 2015 to RUB 8.2 billion (USD 122 million) in 2016. This was mainly due to an increase in railway tariffs by 9% since 1 January 2016, as well as growth in fertilizer sales (primarily to the domestic market, where predominantly CPT shipments increased by 31% year-on-year).
- Growth of 54% in materials and services from RUB 1.6 billion (USD 27 million) in 2015, to RUB 2.5 billion (USD 37 million) in 2016. This was mainly driven by an increase in multimode shipment volumes to export markets.
- Growth in freight, port and stevedoring expenses by 2%, from RUB 9.2 billion (USD 151 million) in 2015 to RUB 9.4 billion (USD 140 million) in 2016 mainly due to an increase in export shipment volumes of 7%. After the commissioning of Smart Bulk Terminal in June 2015, the Company transferred its shipping activity from Baltic ports to Ust-Luga. This helped PhosAgro to achieve sustainable savings in port fees, which was balanced by an increase in export shipment volumes.

PhosAgro's foreign exchange gain in 2016 was RUB 16.96 billion (USD 253 million), versus a foreign exchange loss of RUB 22.2 billion (USD 364 million) in 2015. This was primarily the result of the devaluation of USD-denominated debt due to the rouble's 17% appreciation against the US dollar during 2016 (from RUB 72.8827 at 31/12/2015 to RUB 60.6569 at 31/12/2016), in comparison with 30% rouble depreciation against the US dollar during 2015 (from RUB 56.2584 as of 31/12/2014 to RUB 72.8827 as of 31/12/2015).

Cash spent on capital expenditure in 2016 amounted to RUB 40.2 billion (USD 600 million), a decrease of 6% in comparison with RUB 42.7 billion (USD 700 million) in 2015. PhosAgro's capital expenditure, which consists of additions to property, plant and equipment, amounted to RUB 45.3 billion (USD 676 million) for 2016, compared to RUB 44.2 billion (USD 725 million) in 2015. Capital expenditure focused on 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 start of spring season in Western Europe, the US, and Latin America coupled with very tight export flows from China (due to a primary focus on the domestic market) supported prices at the beginning of 2017.
- DAP/MAP prices have grown by USD 50-70 per tonne from the lows seen in October-November 2016, and now stand at USD 375 per tonne for DAP (FOB Tampa) and USD 370-385 per tonne for MAP (FOB Baltics).
- Urea prices touched USD 260 per tonne (FOB Baltics) in February, which implies a nearly USD 100 per tonne recovery from the bottom in the middle of 2016.
- The average utilisation rates in the Chinese fertilizer industry remain low, standing at 60% for urea production and 60-70% for phosphate-based fertilizers. Taken together, this limits export flows of all types of fertilizers from China to the seaborne market.
- Indian rupee appreciation (at the beginning of 2017), coupled with expectations of a subsidy

hike for phosphate-based fertilizers is likely to support import demand for DAP/NPK/NPS in 2017.

- The demand for phosphates in Latin America (Brazil and Argentina) is likely to remain robust on the back of still favourable margins in the agricultural industry and low fertilizer stocks.
- Looking ahead, the beginning of the high season in Latin America (Brazil) and South Asia (India and Pakistan) is an additional supporting factor for phosphate 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, although there may be no net increase in supply due to lower utilisation rates in China.

#### *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.