PhosAgro Q1 2016 Net Profit up 60% to RUB 22.6 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 interim condensed consolidated IFRS financial results for the three months ended 31 March 2016.

PhosAgro's revenue for the period increased by 12% year-on-year to RUB 56.1 billion (USD 751 million), while EBITDA grew by 3% year-on-year to RUB 25.2 billion (USD 338 million).

Q1 2016 financial and operational highlights:

Result	Q1 2016		Q1 2015		year-on-year change (RUB vs. RUB), %
	RUB	**USD**	**RUB**	**USD**	
	million		million		
Revenue	56,073	751	50,224	808	12%
EBITDA*	25,249	338	24,590	395	3%
EBITDA margin	45%		49%		(4 p.p.)
Net profit	22,631	303	14,164	228	60%
	RUB	**USD**	**RUB**	**USD**	
Earnings per share	175	2	109	2	61%
Sales volumes	**Kmt**		**Kmt**		
Phosphate-based products	1,431.6		1,304.8		10%
Nitrogen-based fertilizers	429.8		412.5		4%
Apatit mine and beneficiation plant	843.7		724.3		16%
Other products	21.1		32.3		(35%)

RUB/USD rates: average Q1 2016: 74.6283; average Q1 2015: 62.1919
as of 31 March 2016: 67.6076; as of 31 December 2015: 72.8827
*EBITDA is calculated as operating profit adjusted for depreciation and amortisation.

Highlights

Interim dividend recommendation:

- At its meeting on 24 May 2016, PhosAgro's Board of Directors recommended that shareholders approve a dividend of RUB 8,159 million, which represents RUB 63 per share (RUB 21 per Global Depositary Receipt). Shareholders will vote on the dividend recommendation at the Extraordinary General Meeting of Shareholders scheduled for 29 July 2016.

Production, sales and logistics flexibility:

- As a result of debottlenecking activities, the Company managed to increase production and sales volumes by 10% and 8%, respectively, year-on-year during Q1 2016. Revenue for the period grew by 12% year-on-year, supported by an 8% increase in sales volumes and

depreciation of the RUB against the USD.
- In January 2016 PhosAgro signed an 18-month loan agreement for RUB 3 billion with Eximbank of Russia. This will enable the Company to strengthen flexibility of sales on export markets and to improve the turnover of PhosAgro's financing resources.

Strategic developments:

- In March 2016, PhosAgro launched another trading office: PhosAgro Baltics (Warsaw, Poland). This will strengthen the Company's position in its priority European market. New sales offices enable PhosAgro to better understand the needs of local customers, help it to react faster to market demand, facilitate promotion of the PhosAgro brand as the supplier of the best-quality phosphate-based fertilizers, and ensure that the Company offers local customers the right nutrient solutions.

Operating profit for the period was RUB 22.7 billion (USD 304 million), up 1% from RUB 22.5 billion (USD 361 million) in Q1 2015. PhosAgro's EBITDA was RUB 25.2 billion (USD 338 million) in Q1 2016, 3% higher year-on-year. The EBITDA margin decreased to 45% for Q1 2016, compared to 49% in Q1 2015.

Net profit for Q1 2016 increased by 60% to RUB 22.6 billion (USD 303 million), compared to RUB 14.2 billion (USD 228 million) in Q1 2015. Basic and diluted earnings per share increased by 61% to RUB 175 (USD 2) for Q1 2016 from RUB 109 (USD 2) in Q1 2015.

The higher average USD exchange rate during Q1 2016 in comparison with Q1 2015 (average USD foreign exchange rates for Q1 2016 and Q1 2015 were RUB 74.63 and RUB 62.19, 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. Appreciation of the rouble as of 31 March 2016 (RUB 67.61 per USD) compared to 31 December 2015 (RUB 72.88 per USD) resulted in a foreign exchange gain of RUB 6,867 million (USD 92 million) in Q1 2016; in Q1 2015 the foreign exchange loss was RUB 3,777 million (USD 61 million).

Cash flow from operating activities increased by 14% year-on-year in Q1 2016, to RUB 18.5 billion (USD 248 million), compared to RUB 16.3 billion (USD 262 million) in Q1 2015, driven by improved operating performance and the favourable effect of the rouble depreciation.

Gross debt at 31 March 2016 amounted to RUB 122.9 billion (USD 1,818 million), compared to RUB 134.5 billion (USD 1,846 million) at 31 December 2015. Net debt at 31 March 2016 stood at RUB 96.6 billion (USD 1,429 million), down from 105.2 billion (USD 1,443 million) at 31 December 2015, as a result of RUB 2 billion of net repayments and rouble appreciation vs USD as of 31 March 2016. Most of the Company's debt is denominated in US dollars as a natural hedge against primarily USD-denominated sales. The Company's net debt to EBITDA ratio decreased to 0.96 as of 31 March 2016, from 1.28 as of 31 December 2015.

Commenting on Q1 2016 results, PhosAgro CEO Andrey Guryev said:

"I am extremely pleased to announce another set of exceptionally strong results, with PhosAgro's Q1 2016 EBITDA margin reaching 45%, while net profit margin rose to a record high 40%. It is especially worthy of note that we were able to achieve this performance in a very challenging environment for the industry overall.

"DAP/MAP prices bottomed out below USD 350/tonne in February, at or near levels seen during the 2009 global financial crisis. At the same time, we did not experience any dramatic decline in demand as in 2009. Fertilizer price movements in Q1 2016 were mostly driven by global uncertainty related to overall pressure on oil and other commodity prices. DAP prices have since stabilised, but are still below average production cash costs for the industry. As result, we saw significant reductions in production volumes during Q1 2016 across numerous regions, most notably in China. Chinese P2O5 exports have come down by around 40% year-on-year in the first quarter of 2016, which is very significant from the country that increased exports in 2015, and accounted for almost 40% of entire phosphate spot market.

“On the demand side, we think positive trends will significantly outweigh the negative this year.

“Our domestic market is showing exceptional growth, on the back of higher agricultural production supported by the food import substitution programme: our sales of phosphate-based fertilizers in Russia nearly doubled compared to Q1 2015.

“We have of course also focused significant attention on other priority markets: Phosphate-based fertilizer sales to Europe, the CIS, and Latin America represented over 70% of our export sales. In Latin America, we saw an impressive increase in sales volumes of 49% year-on-year for Q1 2016.

“Overall, trends are positive in the most important fertilizer-consuming regions: the DAP subsidy in India is supportive for higher demand and prices. Consumption of DAP in the first quarter increased by 50% compared to Q1 2015. The biggest issue facing Brazilian farmers, expensive credit, has been resolved; interest rate subsidies are now in place, and we saw phosphate-based fertilizer imports increase by more than 30% year-on-year in Q1 2016. Most of that growth was from complex fertilizers rather than MAP, but for PhosAgro it makes no difference how we sell our phosphates: we offer 30 different grades of phosphate-based fertilizers and can expand our portfolio further in respond to demand from farmers. This is one of the benefits of our exceptionally pure phosphate rock and our flexible production lines.

“Moving on to our operational achievements, we grew production volumes by 10% year-on-year on the back of our continuing modernisation and debottlenecking projects. This, combined with our successful marketing efforts in target regions and the weak rouble, has compensated for price weakness during the period. We had excellent free cash flow generation, were able to further reduce our debt levels, and the Board of Directors has recommend a dividend close to USD 1 per share.

“Looking ahead to the rest of the year, I expect phosphate-based fertilizer consumption in 2016 to increase, with more upside risk coming from complex fertilizers than from concentrated phosphate-based grades, as we saw in the first quarter. The recent recovery in grain and oil-seed prices will provide fundamental support for a fertilizer price recovery. We therefore are proceeding with all of our debottlenecking, optimisation, and marketing efforts. PhosAgro is ready to adapt to demand in the changing environment, supplying our wide variety of high-quality fertilizer grades to farmers, while at the same time continuing to provide good returns to shareholders.”

Q1 2016 market conditions:

- The average price of DAP was USD 370/tonne FOB Tampa in Q1 2016, down by 12% from 4Q 2015 (USD 421/tonne), and by 23% from Q1 2015 (USD 483);
- Weak oil and soft commodities prices were the main factors behind the downwards pressure on fertilizer prices. Increased competition between the world’s main fertilizer producers also affected the market, with seasonally slow demand from India and Latin America;
- Lower prices led Chinese producers to curtail production and export volumes. Chinese DAP/MAP exports in Q1 2016 declined by 37% year-on-year to 888 kt. Overall Chinese export

of phosphate-based fertilizers fell by 40% year-on-year to 508 kt of P2O5;
- The decline in Indian subsidy levels was small relative to the decrease in global phosphate-based fertilizer prices, leading to active import demand from the country in late-March and April 2016;
- Brazil’s programme to subsidise interest rates for farmers has been in place since the beginning of the year. February and March saw a significant increase in import demand from Brazil, as well as from Argentina, where export duties for most agricultural products were lowered or removed early in the year. Demand from these countries helped to stabilise global prices, with Brazilian demand for phosphate-based fertilizers (DAP/MAP/TSP/NP/NPK) in Q1 2016 amounting to 1,024 kt, up by 34% year-on-year. Argentina imported 278 kt of DAP/MAP during Q1 2016, an increase of 84% year-on-year;
- Global urea prices were also under pressure in Q1 2016, due to seasonally low demand in India and Latin America, as well as heightened competition in western European and US markets due to factors like the launch of new US capacities and higher utilisation rates for north African capacities;
- The average price of urea in Q1 2016 was USD 194/tonne FOB Baltic, which was 21% lower than 4Q 2015 (USD 246/tonne), and down by 33% from Q1 2015 (USD 289/tonne).

Phosphate-Based Products Segment

Result	Q1 2016 RUB mln	Q1 2015 RUB mln	year-on-year change, %
Revenue	49,499	42,860	15%
Cost of goods sold	(20,565)	(16,712)	23%
Gross profit	28,934	26,148	11%

Phosphate-based products segment revenue grew by 15% year-on-year and totalled RUB 49,499 million (USD 663 million) in Q1 2016. PhosAgro increased production and sales volumes of phosphate-based fertilizers and MCP by 13% and 10%, respectively, year-on-year in Q1 2016. Sales volumes for phosphate rock and nepheline concentrate in Q1 2016 increased by 16% 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 substantially increase sales of MAP, DAP and NPK to the domestic market.

- MAP/DAP fertilizers: Revenue from DAP/MAP sales was down 6% year-on-year, from RUB 21,113 million (USD 339 million) in Q1 2015 to RUB 19,862 million (USD 266 million) in Q1 2016, reflecting the overall 4% year-on-year growth in sales volumes and a 10% decrease in DAP/MAP average revenue per tonne denominated in RUB.
- NPK fertilizers: Revenue from NPK sales was up by 11% year-on-year, from RUB 8,910 million (USD 143 million) in Q1 2015 to RUB 9,898 million (USD 133 million) in Q1 2016, reflecting the overall 2% year-on-year growth in sales volumes and a 9% increase in NPK average revenue per tonne denominated in RUB.
- Phosphate rock: revenue from phosphate rock sales rose by 55% year-on-year to RUB 7,858 million (USD 105 million) in Q1 2016. Revenue per tonne in RUB terms increased by 27% year-on-year. Sales volumes increased by 22% year-on-year as a result of increased supplies to the domestic market.

The phosphate-based products segment’s gross profit for Q1 2016 increased by 11% year-on-year to RUB 28,934 million (USD 388 million), resulting in a gross profit margin of 58%, compared to a 61% margin in Q1 2015.

Nitrogen Segment

Result	Q1 2016 RUB mln	Q1 2015 RUB mln	year-on-year change, %
Revenue	6,422	7,028	(9%)
Cost of goods sold	(3,068)	(2,730)	12%
Gross profit	3,354	4,298	(22%)

Nitrogen segment revenue decreased by 9% year-on-year to RUB 6,422 million (USD 86 million) in Q1 2016, from RUB 7,028 million (USD 113 million) in Q1 2015. Production volumes of nitrogen-based fertilizers remained the same, while sales volumes increased by 4% year-on-year.

Export revenue from urea was 15% below year-on-year, from RUB 4,416 million (USD 71 million) in Q1 2015 to RUB 3,767 million (USD 50 million) in Q1 2016, due to a 18% year-on-year decrease in revenue per tonne, balanced by increase in sales volumes of 4% year-on-year. Total revenue from ammonium nitrate (AN) rose by 3% year-on-year, from RUB 2,507 million (USD 40 million) in Q1 2015, to RUB 2,585 million (USD 35 million) in Q1 2016, due to 5% year-on-year increase in sales volumes balanced by 2% year-on-year decrease in revenue per tonne.

Nitrogen segment gross profit for Q1 2016 decreased by 22% year-on-year to RUB 3,354 million (USD 45 million). The gross margin for Q1 2016 was 52%, compared with 61% in Q1 2015. This was primarily due to the decrease in prices: during Q1 2016, average revenue per tonne for the Company’s nitrogen-based fertilizers decreased by 12%.

Item	Q1 2016			Q1 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	5,891	79	25%	4,361	70	22%	1,530	35%
Salaries and social contributions	2,644	35	11%	2,303	37	12%	341	15%
Sulphur and sulphuric acid	2,390	32	10%	2,231	36	11%	159	7%
Depreciation	2,253	30	9%	1,884	30	10%	369	20%
Natural gas	2,108	28	9%	1,977	32	10%	131	7%
Ammonia	2,041	27	8%	2,136	34	11%	(95)	(4%)
Potash	1,816	24	8%	1,519	24	8%	297	20%
Chemical fertilisers and other products for resale	1,599	22	7%	1,076	18	5%	523	49%
Electricity	1,102	15	5%	977	16	5%	125	13%
Ammonium sulphate	814	11	3%	821	13	4%	(7)	(1%)
Fuel	626	9	3%	641	10	3%	(15)	(2%)
Heating energy	265	4	1%	241	4	1%	24	10%
Other items	2	-	-	3	-	-	(1)	(33%)
Change in stock of WIP and finished goods	219	3	1%	(426)	(7)	(2%)	645	(151%)
Total	**23,770**	**319**	**100%**	**19,744**	**317**	**100%**	**4,026**	**20%**

PhosAgro's cost of sales increased by 20% year-on-year in Q1 2016, to RUB 23,770 million (USD 319 million), while overall fertilizers sales volumes increased by 8% year-on-year. This cost of sales performance was primarily due to the following factors:

- An increase of RUB 1,530 million (USD 21 million), or 35%, year-on-year in the cost of materials and services primarily due to a 29% increase in apatite-nepheline ore mining, 10% growth in fertilizer production volumes, and 4% year-on-year inflation.
- A year-on-year increase in personnel costs of RUB 341 million (USD 5 million), or 15%, primarily due to payroll indexation.
- An increase in expenditure on sulphur and sulphuric acid of RUB 159 million (USD 2 million), or 7%, year-on-year from RUB 2,231 million (USD 36 million) in Q1 2015 to RUB 2,390 million (USD 32 million) in Q1 2016. This was driven by a 14% year-on-year increase in volumes consumed due to higher production of phosphate-based fertilizers, mainly MAP/DAP and NPK, balanced by a 6% decline in sulphur and sulphuric acid purchased prices denominated in RUB.
- A year-on-year decrease in expenditure on purchased ammonia of RUB 95 million (USD 1 million), or 4%, from RUB 2,136 million (USD 34 million) in Q1 2015 to RUB 2,041 million (USD 27 million) in Q1 2016. This was due to a 20% decline in RUB-denominated prices, balanced by higher purchase volumes, year-on-year. Growth in ammonia purchase volumes was due to increase in fertilizer production volumes.
- A year-on-year increase in expenditure on potash of 20%, from RUB 1,519 million (USD 24 million) in Q1 2015, to RUB 1,816 million (USD 24 million) in Q1 2016. This was mainly due to a 9% rise in RUB-denominated potash purchase prices and 10% growth in potash purchase volumes as a result of a 7% increase in NPK production volumes with higher potash content.
- A year-on-year increase in expenditure on natural gas of RUB 131 million, or 7%, to RUB 2,108 million (USD 28 million) in Q1 2016. This was due to growth in RUB-denominated natural gas purchase prices by 7%.
- A year-on-year increase in expenditure on electricity of RUB 125 million, or 13%, to RUB 1,102 million (USD 15 million) in Q1 2016. This was due to growth in RUB-denominated electricity purchase prices by 11% year-on-year.
- A decrease in expenditure on fuel of 2%, from RUB 641 million (USD 10 million) in Q1 2015 to RUB 626 million (USD 9 million) in Q1 2016. This was mainly driven by an 8% increase in heating oil consumption balanced by a 10% decline in overall fuel purchase prices denominated in RUB. Heating oil is primarily used for drying of phosphate rock and nepheline concentrate, for which production volumes grew by 6% and 8% year-on-year, respectively.

Administrative expenses rose by 21% year-on-year to RUB 2,903 million (USD 39 million) in Q1 2016, primarily due to an increase in personnel costs of RUB 347 million (USD 5 million), or 26%, year-on-year. The increase was mainly due to the indexation of salaries.

Selling expenses rose by 16% year-on-year, from RUB 4,920 million (USD 79 million) in Q1 2015 to RUB 5,722 million (USD 77 million) in Q1 2016. This was primarily due to the following changes:

- Russian Railways infrastructure tariff and operators' fees increased by 37% from RUB 1,530 million (USD 25 million) in Q1 2015 to RUB 2,093 million (USD 28 million) in Q1 2016. This was mainly due to an increase in railway tariffs in Q1 2016 by 9% as well as a 31% increase in shipments to the domestic market, where the basic delivery term is CPT.
- Growth of 20% in materials and services from RUB 866 million (USD 14 million) in Q1 2015, to RUB 1,039 million (USD 14 million) in Q1 2016. This was mainly driven by an increase in multimode shipment volumes on the export market.

After the commissioning of Smart Bulk Terminal in June 2015, the Company transferred its shipping activity from Baltic ports to Ust-Luga. This helped the Company to achieve sustainable savings in freight, port and stevedoring expenses, which decreased by 2%, from RUB 2,364 million (USD 38 million) in Q1 2015 to RUB 2,318 million (USD 31) in Q1 2016.

PhosAgro’s foreign exchange gain in Q1 2016 was RUB 6,867 million (USD 92 million), versus a foreign exchange loss of RUB 3,777 million (USD 61 million) in Q1 2015. This was primarily the result of the devaluation of USD-denominated debt due to the rouble’s 7% appreciation against the US dollar during Q1 2016 (from RUB 72.8827 at 31/12/2015 to RUB 67.6076 at 31/03/2016), in comparison with a 4% rouble depreciation against the US dollar during Q1 2015 (from RUB 56.2584 as of 31/12/2014 to RUB 58.4643 as of 31/03/2015).

Cash spent on capex in Q1 2016 amounted to RUB 8,587 million (USD 115 million), an increase of 33% in comparison with RUB 6,477 million (USD 104 million) in Q1 2015. PhosAgro’s capital expenditure, which consists of additions to property, plant and equipment, amounted to RUB 7,659 million (USD 103 million) for Q1 2016, compared to RUB 5,054 million (USD 81 million) in Q1 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

- June marks the start of seasonal demand from key markets in Asia (India, Pakistan) and Latin America (Brazil, Argentina), with the highest levels of activity taking place from June to September; this is expected to have a stabilising effect on the market;
- At the same time, the decline in prices during Q1 2016 has made fertilizers more accessible to consumers, with the ratio of fertilizer prices to agricultural products prices currently more favourable for fertilizers, meaning that stable demand can be expected from all fertilizer-consuming regions;
- In addition, recent increases in soft commodities prices, especially corn and soy, may stimulate farmers to increase crop acreage, as well higher fertilizer application volumes;
- On the supply side, China clearly remains a key player for global markets. However, following the decline in prices, Chinese export this year is likely to decrease and loss-making capacities are expected to remain shut;
- Reduced Chinese export is more likely to be compensated by increase of export from OCP with the launch in Morocco of a new 1 million tonne/year DAP/MAP/NPK capacity at the end of 2015, and another 1.0 million tonnes due to come online in mid-2016. Otherwise, high levels of competition may continue to hold back fertilizer price growth.

Company:

- The rouble depreciation, which accelerated at the end of 2015, continued in Q1 2016, and there is limited potential for significant appreciation unless oil prices increase dramatically.
- As a result of marketing efforts at new sales offices, the Company expects to further increase sales in its target regions, and intends to invest further into expanding the number of NPK and other fertilizer grades it produces.
- 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.