

PhosAgro 6M 2016 Net Profit up 30% to RUB 36.1 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 six months ended 30 June 2016.

PhosAgro's revenue for the period increased by 9% year-on-year to RUB 102.0 billion (USD 1,452 million). EBITDA for 6M 2016 was nearly unchanged year-on-year at RUB 41.6 billion (USD 591 million).

6M 2016 financial and operational highlights:

Result	6M 2016		6M 2015		year-on-year change (RUB vs. RUB), %
	RUB	USD	RUB	USD	
	million		million		
Revenue	102,049	1,452	93,232	1,624	9%
EBITDA*	41,555	591	41,496	723	-
EBITDA margin	41%		45%		(4 p.p.)
Net profit	36,114	514	27,686	482	30%
	RUB	USD	RUB	USD	
Earnings per share	279	4	214	4	30%
Sales volumes	Kmt		Kmt		
Phosphate-based products	2,907.7		2,724.8		7%
Nitrogen-based fertilizers	786.7		715.7		10%
Apatit mine and beneficiation plant	1,706.6		1,428.2		19%
Other products	49.1		55.6		(12%)

RUB/USD rates: average 6M 2016: 70.2583; average 6M 2015: 57.3968
as of 30 June 2016: 64.2575; as of 31 December 2015: 72.8827

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

Highlights

Dividend recommendation:

- At its meeting on 16 August 2016, PhosAgro's Board of Directors recommended that shareholders approve a dividend of RUB 4,274 million, which represents RUB 33 per share (RUB 11 per Global Depositary Receipt). Shareholders will vote on the dividend recommendation at an Extraordinary General Meeting of Shareholders scheduled for 3 October 2016.

Production, sales and logistics flexibility:

- As a result of debottlenecking activities, the Company managed to increase fertilizer production and sales volumes by 9% and 8%, respectively, year-on-year during 6M 2016. Revenue for the period grew by 9% year-on-year, supported by depreciation of the RUB against the USD.

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 36.5 billion (USD 520 million), down 2% from RUB 37.1 billion (USD 647 million) in 6M 2015. PhosAgro's EBITDA was RUB 41.6 billion (USD 591 million) in 6M 2016, nearly unchanged from the previous year's result of RUB 41.5 billion (USD 723 million). The EBITDA margin decreased to 41% for 6M 2016, compared to 45% in 6M 2015.

Net profit for 6M 2016 increased by 30%, to RUB 36.1 billion (USD 514 million), compared to RUB 27.7 billion (USD 482 million) in 6M 2015. Basic and diluted earnings per share increased by 30% to RUB 279 (USD 4) for 6M 2016 from RUB 214 (USD 4) in 6M 2015.

The higher average USD exchange rate during 6M 2016 in comparison with 6M 2015 (average USD foreign exchange rates for 6M 2016 and 6M 2015 were RUB 70.26 and RUB 57.40, 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 30 June 2016 (RUB 64.26 per USD) compared to 31 December 2015 (RUB 72.88 per USD) resulted in a foreign exchange gain of RUB 11,279 million (USD 161 million) in 6M 2016; in 6M 2015 the foreign exchange gain was RUB 11 million (USD 0.19 million).

Cash flow from operating activities decreased by 10% year-on-year in 6M 2016, to RUB 29.5 billion (USD 420 million), compared to RUB 32.7 billion (USD 569 million) in 6M 2015, due to increase of income tax payments.

Gross debt at 30 June 2016 decreased to RUB 123.4 billion (USD 1,920 million), compared to RUB 134.5 billion (USD 1,846 million) at 31 December 2015. Net debt at 30 June 2016 stood at RUB 97.2 billion (USD 1,512 million), down from 105.2 billion (USD 1,443 million) at 31 December 2015, as a result of rouble appreciation vs USD as of 30 June 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 1.18 as of 30 June 2016, from 1.28 as of 31 December 2015.

Commenting on the 6M 2016 results, PhosAgro CEO Andrey Guryev said:

"Fertilizer markets are going through challenging times across all nutrient groups. Prices for concentrated fertilizers have reached the lowest point in several years, similar to 2009 levels, and

we see declining margins across the industry. Despite this trend, I am extremely pleased to report excellent financial results in such a challenging environment, with our H1 2016 EBITDA margin of 41% and net profit margin of more than 35%. This clearly shows that our strategy of integrated flexible low-cost production is paying off, particularly in what is a difficult time for the industry, and we will stick to this strategy.

"Fertilizer price movements in early 2016 were mostly driven by global uncertainty related to overall pressure on oil and other commodity prices. Although we saw some recovery in soft commodities in May-June, further recent pressure was actually due to a positive underlying factor - specifically the very favourable growing conditions in many regions globally and, as such, very strong harvest expectations. This bodes well for next season's nutrient demand as soil is depleted and very low nutrient prices provide more incentive for farmers to replenish the soil.

"Overall on the demand side most factors remain supportive.

"As to the supply side, the current picture is very different to what we have seen in the last couple of years for both of our major nutrients - phosphate and nitrogen. In essence, we are seeing oversupply in the market, specifically in terms of capacity. In terms of production, it is a bit more complicated, as we do not have a clear picture on Chinese production of both DAP/MAP and urea, and taken as a whole China as a region is the largest producer. However, we see a significant reduction in exports from the country of both nutrients, which supports the view that most local production is high-cost.

"At the same time, other players on the phosphate spot market are increasing utilisation rates, notwithstanding a significant deterioration of margins. We see the most notable increase in sales volumes from Morocco, which was expected given their substantial development programme. I would say that this was the major reason why we saw a further decline of DAP prices in the second quarter, which are now at just USD 340 per tonne, FOB Tampa.

"As to PhosAgro, I would specifically point out that in addition to our well-known competitive advantages in terms of low-cost flexible production and production of some of the best-quality fertilizers in terms of impurities, we now have one more significant advantage over our international peers - this is our growing domestic market, which has one of the highest potentials of any market for future growth. Our domestic sales have grown almost 50% on phosphate-based products and over 30% on nitrogen. I see more potential as well on the back of the Russian Government's import substitution programme and ongoing support to local farmers.

"We have continued focusing on other priority markets as well. Phosphate-based fertilizer sales to Europe, the CIS and Latin America represented almost 74% of our export sales and we will continue our marketing efforts in these strategically important regions.

"In terms of product mix, most of our volume growth was from complex fertilizers, particularly NPS, as opposed to DAP/MAP. This is fully in line with the trend that we see globally: farmers are ready to pay higher prices per nutrient in complex fertilizers, which represent a better solution for various types of soils. Our production flexibility allows us to meet this changing demand: we offer 30 different grades of phosphate-based fertilizers and can expand our portfolio further in response to demand from farmers. This is one of the benefits of our exceptionally pure phosphate rock and our flexible production lines, which obviously contributes to our margins.

"We generated very solid free cash flow in the challenging environment that prevailed during the first half of 2016, and we continue to give back to our shareholders. The Board of Directors has suggested a dividend of 33 per share.

"Looking ahead to the rest of the year, I believe the market is in the process of bottoming out. We might see production curtailments, especially in phosphates, relatively soon and in turn that should drive prices higher. I am comfortable with respect to our ability to generate cash even in the current pricing environment, which is why we continue to finalize all of our investment projects. I look forward to 2017, when we will start production at our new plants, which will not only bring additional volumes but more efficient and lower-cost production and, as such, even better returns to our shareholders."

6M 2016 market conditions:

- The average price of DAP was USD 361 per tonne FOB Tampa in 6M 2016, down 24% versus 6M 2015 (USD 476 per tonne) due to relatively low seasonal demand in India, weak market conditions in the main commodity markets and higher supply of fertilizers following the launch of new capacities in Morocco;
- DAP/NPK import volumes to India in 6M 2016 were about 1.9 million tonnes, against 3.2 million tonnes in 6M 2015. However, local consumption and production has increased. There are no reliable statistics on complex fertilizer imports to India, as such, it is difficult to estimate net change on P2O5 basis, more likely for the full year it remains unchanged given increased local consumption and good monsoon developments. Tighter regulation on maximum retail prices for DAP/NPK as well should help local demand;
- Liberalisation of agricultural export rules in Argentina and high prices for the main crops in Brazil triggered higher demand for phosphate-based fertilizers in the region. Import of MAP/DAP to Argentina in 6M 2016 amounted to 0.5 million tonnes, up by 74% compared to 6M 2015. Import of phosphate-based fertilizers to Brazil (DAP/MAP/NP/NPK/TSP) grew by 23% year-on-year and amounted to 2.9 million tonnes;
- Export of phosphate-based fertilizers from China continues to lag behind last year's record levels, demonstrating 26% to 57% year-on-year reductions in various grades. DAP exports in 6M 2016 decreased by 26% year-on-year and amounted to 2.1 million tonnes, MAP exports fell by 41% year-on-year to 0.83 million tonnes;
- The average price of urea in 6M 2016 was USD 195 per tonne FOB Baltic, down by 30% from the 6M 2015 average (USD 280 per tonne), driven by oversupply on the global market as a result of launching of new capacities in the US and Western Africa, as well as a significant increase in capacity utilisation in North Africa (Egypt, as a result of stabilisation of the natural gas supply).

Main feedstock price dynamics:

- In 6M 2016 the average price of ammonia was USD 275 per tonne FOB Yuzhny, which implies a 32% year-on-year decline from USD 402 per tonne FOB Yuzhny for 6M 2015. The decline in ammonia prices was triggered by lower natural gas prices coupled with an excess supply of commercial ammonia on the market (due to the launch of new ammonia units in US);
- The average price for sulphur in 6M 2016 was USD 73 per tonne FOB Black Sea, vs. USD 120 per tonne in 6M 2015, primarily due to the weak pricing environment in the fertiliser and metals industries, which are the main consumers of sulphur;
- The average price for phosphate rock in 6M 2016 was USD 111 per tonne, FOB Morocco (32% P2O5 content), a year-on-year decline of or USD 14 per tonne. The price for phosphoric acid touched USD 600-605 per tonne CFR India for shipments in 3Q and 4Q 2016, vs. USD 715 per tonne CFR India in 1Q 2016 and USD 805 per tonne in 2Q 2015.

Phosphate-Based Products Segment

Result	6M 2016 RUB mln	6M 2015 RUB mln	year-on-year change, %
Revenue	90,529	81,874	11%
Cost of goods sold	(39,983)	(35,240)	13%
Gross profit	50,546	46,634	8%

Phosphate-based products segment revenue grew by 11% year-on-year and totalled RUB 90,529 million (USD 1,289 million) in 6M 2016. PhosAgro increased production and sales volumes of

phosphate-based fertilizers and MCP by 8% and 7%, respectively, year-on-year in 6M 2016. Sales volumes for phosphate rock and nepheline concentrate in 6M 2016 increased by 19% 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 the export market and phosphate rock to both markets.

- MAP/DAP fertilizers: revenue from DAP/MAP sales was down by 8% year-on-year, from RUB 37,595 million (USD 655 million) in 6M 2015 to RUB 34,706 million (USD 494 million) in 6M 2016, reflecting the overall 1% year-on-year growth in sales volumes and a 9% year-on-year decrease in DAP/MAP average revenue per tonne denominated in RUB.
- NPK fertilizers: revenue from NPK sales was up by 5% year-on-year, from RUB 18,683 million (USD 326 million) in 6M 2015 to RUB 19,613 million (USD 279 million) in 6M 2016, reflecting the overall 5% year-on-year increase in NPK average revenue per tonne denominated in RUB with almost unchanged sales volumes.
- Phosphate rock: revenue from phosphate rock sales rose by 56% year-on-year to RUB 14,146 million (USD 201 million) in 6M 2016. Revenue per tonne in RUB terms increased by 25% year-on-year. Sales volumes increased by 24% year-on-year as a result of increased supplies to both export and domestic markets.

The phosphate-based products segment's gross profit for 6M 2016 increased by 8% year-on-year to RUB 50,546 million (USD 719 million), resulting in a gross profit margin of 56%, compared to a 57% margin in 6M 2015.

Nitrogen Segment

Result	6M 2016 RUB mln	6M 2015 RUB mln	year-on-year change, %
Revenue	11,207	11,164	-
Cost of goods sold	(5,631)	(5,566)	1%
Gross profit	5,576	5,598	-

Nitrogen segment revenue changed insignificantly from RUB 11,164 million (USD 195 million) in 6M 2015 to RUB 11,207 million (USD 160 million) in 6M 2016. PhosAgro increased production and sales volumes of nitrogen-based fertilizers by 10% year-on-year in 6M 2016.

Export revenue from urea was slightly down, from RUB 7,342 million (USD 128 million) in 6M 2015 to RUB 7,316 million (USD 104 million) in 6M 2016. An increase in sales volumes by 13% year-on-year was balanced by a decrease in revenue per tonne of 12% year-on-year. Total revenue from ammonium nitrate (AN) decreased by 3% year-on-year, from RUB 3,548 million (USD 62 million) in 6M 2015, to RUB 3,433 million (USD 49 million) in 6M 2016, due to a 2% year-on-year decrease in sales volumes and a 2% year-on-year decrease in revenue per tonne.

Nitrogen segment gross profit for 6M 2016 was almost unchanged: RUB 5,576 million (USD 79 million) in 6M 2016 vs RUB 5,598 (USD 98 million) in 6M 2015. The gross margin for 6M 2016 was the same as in 6M 2015, at 50%. The 10% year-on-year increase in sales volumes was balanced by the 9% year-on-year decrease in average revenue per tonne denominated in roubles.

Cost of Sales

Item	2016 6M			2015 6M			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	12,282	175	27%	9,590	167	23%	2,692	28%
Salaries and social contributions	5,687	81	12%	4,812	84	12%	875	18%
Depreciation	4,412	63	10%	3,894	68	10%	518	13%
Natural gas	4,104	58	9%	3,567	62	9%	537	15%
Sulphur and sulphuric acid	3,847	55	8%	4,438	77	11%	(591)	(13%)
Potash	3,664	52	8%	3,443	60	8%	221	6%
Ammonia	3,456	49	8%	4,408	77	11%	(952)	(22%)
Chemical fertilisers and other products for resale	2,800	40	6%	2,228	39	5%	572	26%
Electricity	2,159	31	5%	1,903	33	5%	256	13%
Ammonium sulphate	1,329	19	3%	1,314	23	3%	15	1%
Fuel	1,134	16	2%	1,303	23	3%	(169)	(13%)
Heating energy	386	5	1%	380	7	1%	6	2%
Other items	9	-	-	5	-	-	4	80%
Change in stock of WIP and finished goods	626	9	1%	(305)	(6)	(1%)	931	-
Total	45,895	653	100%	40,980	714	100%	4,915	12%

PhosAgro's cost of sales increased by 12% year-on-year in 6M 2016, to RUB 45,895 million (USD 653 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 2,692 million (USD 38 million), or 28%, year-on-year in the cost of materials and services primarily due to a 26% increase in apatite-nepheline ore mining, 9% growth in fertilizer production volumes, and 3% year-on-year inflation.
- A year-on-year increase in personnel costs of RUB 875 million (USD 12 million), or 18%, primarily due to payroll indexation and PhosAgro 15 year anniversary bonuses.
- A decrease in expenditure on sulphur and sulphuric acid of RUB 591 million (USD 8 million), or 13%, year-on-year from RUB 4,438 million (USD 77 million) in 6M 2015 to RUB 3,847 million (USD 55 million) in 6M 2016. This was driven by a 21% 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 NPK .
- A year-on-year decrease in expenditure on purchased ammonia of RUB 952 million (USD 14 million), or 22%, from RUB 4,408 million (USD 77 million) in 6M 2015 to RUB 3,456 million (USD 49 million) in 6M 2016. This was mainly due to a 22% decline in RUB-denominated prices.
- A year-on-year increase in expenditure on potash of 6%, from RUB 3,443 million (USD 60 million) in 6M 2015, to RUB 3,664 million (USD 52 million) in 6M 2016. This was mainly due to 6% growth in potash purchase volumes as a result of an increase in the share of NPK with

higher potash content in PhosAgro's overall NPK production mix.

- A year-on-year increase in expenditure on natural gas of RUB 537 million, or 15%, to RUB 4,104 million (USD 58 million) in 6M 2016. This was mainly due to a 12% increase in ammonia production volumes as well as natural gas tariff indexation in the second half of 2015.
- A year-on-year increase in expenditure on electricity of RUB 256 million, or 13%, to RUB 2,159 million (USD 31 million) in 6M 2016. This was due to growth in RUB-denominated electricity purchase prices by 9% year-on-year and an increase in purchase volumes by 4% year-on-year.
- A decrease in expenditure on fuel by 13%, from RUB 1,303 million (USD 23 million) in 6M 2015 to RUB 1,134 million (USD 16 million) in 6M 2016. This was mainly driven by a 20% decline in overall fuel purchase prices denominated in RUB, balanced by a 9% increase in volumes of fuel consumed. The increase in consumption volumes was mainly due to a 7% year-on-year increase in volumes of purchased heating oil as well as higher mining activities at Apatit. Heating oil is primarily used for drying of phosphate rock and nepheline concentrate, for both of which production volumes grew by 7% year-on-year.

Administrative expenses rose by 27% year-on-year to RUB 6,600 million (USD 94 million) in 6M 2016, primarily due to an increase in personnel costs of RUB 1,240 million (USD 18 million), or 44%, year-on-year. The increase was mainly due to the indexation of salaries, PhosAgro 15 year anniversary bonuses and reallocation of operational management to Cherepovets.

Selling expenses rose by 16% year-on-year, from RUB 9,156 million (USD 160 million) in 6M 2015 to RUB 10,620 million (USD 151 million) in 6M 2016. This was primarily due to the following changes:

- Russian Railways infrastructure tariff and operators' fees increased by 35% from RUB 2,922 million (USD 51 million) in 6M 2015 to RUB 3,949 million (USD 56 million) in 6M 2016. This was mainly due to an increase in railway tariffs in 6M 2016 by 9% as well as a 29% increase in shipments to the domestic market, where the basic delivery term is CPT.
- Growth of 52% in materials and services from RUB 1,091 million (USD 19 million) in 6M 2015, to RUB 1,662 million (USD 24 million) in 6M 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 7%, from RUB 4,825 million (USD 84 million) in 6M 2015 to RUB 4,499 million (USD 64) in 6M 2016.

PhosAgro's foreign exchange gain in 6M 2016 was RUB 11,279 million (USD 161 million), versus a foreign exchange gain of RUB 11 million (USD 0.19 million) in 6M 2015. This was primarily the result of the devaluation of USD-denominated debt due to the rouble's 12% appreciation against the US dollar during 6M 2016 (from RUB 72.8827 at 31/12/2015 to RUB 64.2575 at 30/06/2016), in comparison with a 1% rouble depreciation against the US dollar during 6M 2015 (from RUB 56.2584 as of 31/12/2014 to RUB 55.5240 as of 30/06/2015).

Cash spent on capex in 6M 2016 amounted to RUB 18,302 million (USD 260 million), an increase of 20% in comparison with RUB 15,214 million (USD 265 million) in 6M 2015. PhosAgro's capital expenditure, which consists of additions to property, plant and equipment, amounted to RUB 19,724 million (USD 281 million) for 6M 2016, compared to RUB 13,805 million (USD 241 million) in 6M 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

- According to IFA, phosphate-based fertilizer consumption in 2016 is forecast to grow by 0.8 million tonnes, or 2%, to 41.6 million tonnes of P₂O₅. Looking ahead to 2020, the growth in phosphate-based fertilizers consumption is expected to average 2.1% per year, reaching 45.3 million tonnes of P₂O₅. The highest consumption growth rates are forecast in Latin America (4.2% per year), Africa (3.9% per year), Southern Asia (3.6% per year).
- Favourable weather conditions and seasonal demand in India should support imports through the second half of October. Annual DAP imports to India is projected to be at 5.0-5.5 million tonnes (based on CRU data, Argus-FMB).
- The highest levels of activity in Brazil and Argentina in terms of MAP purchases ahead of October soybean planting should take place in August and September; this is expected to have a stabilising effect on the market.
- In autumn 2016, seasonal demand is expected to return in Europe, USA and Africa.
- Going into the low season environment late October - November, we might see additional downside pricing risk coming from the launch of a new integrated complex with a capacity of 1.0 million tonnes of DAP/MAP/NPS/NPK per year in Morocco unless we see production curtailments globally.

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.
- PhosAgro France was registered in August 2016. 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.