

PhosAgro 9M 2016 Net Profit up 54% to RUB 48.5 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 interim consolidated IFRS financial results for the nine months ended 30 September 2016.

PhosAgro's revenue for the period grew by 4% year-on-year to RUB 147.6 billion (USD 2,159 million). EBITDA for 9M 2016 was RUB 58.9 billion (USD 862 million), with an EBITDA margin of 40%.

9M 2016 financial and operational highlights:

Result	9M 2016		9M 2015		year-on-year change (RUB vs. RUB), %
	RUB	USD	RUB	USD	
	million		million		
Revenue	147,607	2,159	142,300	2,401	4%
EBITDA*	58,923	862	62,805	1,060	(6%)
EBITDA margin	40%		44%		(4 p.p.)
Net profit	48,515	710	31,551	532	54%
	RUB	USD	RUB	USD	
Earnings per share	375	5	244	4	54%
Sales volumes	Kmt		Kmt		
Phosphate-based products	4,487.4		4,160.7		8%
Nitrogen-based fertilizers	1,066.7		1,013.0		5%
Apatit mine and beneficiation plant	2,579.6		2,053.0		26%
Other products	75.6		78.3		(3%)

RUB/USD rates: average 9M 2016: 68.3667; average 9M 2015: 59.2777

as of 30 September 2016: 63.1581; as of 31 December 2015: 72.8827

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

Dividend recommendation:

- At its meeting on 15 November 2016, PhosAgro's Board of Directors recommended that shareholders approve a dividend of RUB 5,051 million, which represents RUB 39 per share (RUB 13 per Global Depositary Receipt). Shareholders will vote on the dividend recommendation at an Extraordinary General Meeting of Shareholders scheduled for 16 January 2017.

Highlights

Production and sales:

- During 9M 2016, fertilizer production and sales volumes grew by 8% and 7.7%, respectively,

year-on-year thanks to the ongoing debottlenecking activities. Revenue for the period grew by 4% year-on-year, as higher volumes and further RUB depreciation were offset by lower global fertilizer prices.

Strategic developments:

- In August-September 2016, PhosAgro opened two additional trading companies in Western Europe (Hamburg, Germany; and Biarritz, France). This aims to strengthen the Company's position in its priority European market and enable PhosAgro to better understand the needs of local customers, help it to react faster to market demand, facilitate promotion of the PhosAgro brand and ensure that the Company offers local customers the right nutrient solutions. PhosAgro's sales to the EU market in 9M 2016 increased by over 20% year-on-year. EBITDA for 9M 2016 decreased by 6% year-on-year to RUB 58.9 billion (USD 862 million) from RUB 62.8 billion (USD 1,060 million) in 9M 2015. The EBITDA margin for the period declined 4 p.p. to 40%, compared to 44% a year earlier. PhosAgro's operating profit in the reporting period was RUB 51.3 billion (USD 750 million), a 9% decrease from RUB 56.2 billion (USD 948 million) in 9M 2015.

Net profit for 9M 2016 grew 54% year-on-year to RUB 48.5 billion (USD 710 million), compared to RUB 31.6 billion (USD 532 million) in 9M 2015. Basic and diluted earnings per share increased by 54% to RUB 375 (USD 5) for 9M 2016 from RUB 244 (USD 4) in 9M 2015. The higher average USD exchange rate during 9M 2016 in comparison with 9M 2015 (average USD foreign exchange rates for 9M 2016 and 9M 2015 were RUB 68.37 and RUB 59.28, 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 September 2016 (RUB 63.16 per USD) compared to 31 December 2015 (RUB 72.88 per USD) resulted in a foreign exchange gain of RUB 13,022 million (USD 190 million) in 9M 2016; in 9M 2015 the foreign exchange loss was RUB 12,533 million (USD 211 million).

Cash flow from operating activities decreased by 3% year-on-year in 9M 2016, to RUB 49.5 billion (USD 724 million), compared to RUB 50.9 billion (USD 858 million) in 9M 2015, due to lower operating cash flow and higher income tax payments, which was partially offset by more favourable dynamics in working capital.

Gross debt at 30 September 2016 decreased to RUB 118.3 billion (USD 1,873 million), compared to RUB 134.5 billion (USD 1,846 million) at 31 December 2015. Net debt at 30 September 2016 stood at RUB 95.1 billion (USD 1,506 million), down from RUB 105.2 billion (USD 1,443 million) at 31 December 2015, as a result of rouble appreciation vs USD as of 30 September 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 1.21 as of 30 September 2016, from 1.28 as of 31 December 2015.

Commenting on the 9M 2016 results, PhosAgro CEO Andrey Guryev said:

"I am delighted to report a 9M 2016 EBITDA margin of 40%, coupled with strong earnings per share, in what is a very challenging year for the global fertilizer market across all nutrient groups. Prices for all concentrated fertilizers have bottomed out at levels seen in 2009, during the financial crisis, while in urea specifically we saw prices going as low as 2005 levels. Even in these conditions, the Company generated over RUB 20 billion of free cash flow in a peak period of our capital expenditure programme, enabling the Board of Directors to recommend another dividend of RUB 39 per share (RUB 13 per GDR). This would bring total dividend payouts for this year to RUB 135 per share (RUB 45 per GDR). On an annualised basis, this indicates a 7% dividend yield. We continue to deliver successfully a mix of organic production growth and cost optimisation, providing high returns to shareholders. I think that this makes PhosAgro a rather unique case in our industry at the

moment.

“Our excellent financial results were supported by strong operating achievements, with 8% year-on-year production growth on the back of continuing modernisation and debottlenecking projects that cost significantly less than new brownfield or greenfield projects. In terms of product mix, most of our volume growth is coming from complex fertilizers, which is in line with global trends; an increasing share of farmers favour complex fertilizers, which provide a better solution for many crops and a variety of types of soil.

“In terms of the market environment, we saw another year of record yields across most agricultural markets, which has kept grain prices under pressure. In addition to favourable weather conditions in most agricultural regions, such yields were due to solid fertilizer consumption. India looks stable year-on-year, although P2O5 fertilizer imports has been partially offset by increased local production, as we see higher phosphoric acid imports. In Latin America (the #1 global soybean producer), we saw a significant increase in imports of phosphate-based fertilizers: for 9M 2016 Brazil and Argentina were up by 15% and 70% year-on-year, respectively. Brazil is an especially interesting case, with the import of complex NPK fertilizers up by over 80% year-on-year.

“Looking at our domestic market, supplies of phosphate-based fertilizer grew by an impressive 28% in January-September 2016, while overall nutrient demand is up by nearly 20% compared to 9M 2015. We are extremely pleased that our home market holds one of the best opportunities globally in terms of the potential of the agricultural sector, as Russian agricultural enterprises become more competitive thanks to the depreciation of the ruble and state support for the sector. Our sales to local farmers grew by 34% year-on-year in 9M 2016, while our share of the overall Russian fertilizer market is nearing 30%, with the second-largest supplier among Russian fertilizer producers lagging far behind.

“Alongside positive dynamics on the demand side, we saw dramatic changes on the supply side. Ambitious, large-scale development projects in the sector combined with a gradual shift in the behaviour of several large market players has put pressure on global prices. Additional production volumes were supported by continued declines in feedstock prices as ammonia and sulphur hit lows not seen in many years. However, the average cash cost in the industry, for both the phosphate and nitrogen nutrients we produce, is well above current prices. This suggests that the current low price environment should lead to a rationalisation in the industry, and gradual closure of non-efficient or less integrated and non-subsidised market players. In fact, we are already seeing signs of such rationalisation, with Chinese phosphate fertilizer exports in 9M 2016 down by 30% year-on-year, which was replaced by volumes from new production capacities of the major industry players. Last week, for the first time ever, we saw an unprecedented release from Chinese phosphate fertilizer producers announcing further substantial cuts in production, by 30% for the biggest producers, 20% by companies with 1 to 2 million tonnes of annual capacity, and 10% by smaller phosphate producers already operating at very low utilisation rates, around 60%.

“We are currently in low season, but looking at future price developments I think we are unlikely to see any further downside. In addition to significantly reduced utilisation rates in China, we already see feedstock prices going up, specifically ammonia, where prices recently fell below the cash costs of most producers that sell ammonia, and we saw a significant increase in Chinese production cash costs due to increased coal prices and as a result the curtailment of capacity in China. We are also witnessing the first signs of improvement in the urea market, which normally reacts faster than the DAP market .

“Looking to 2017, I am very hopeful that we will be closer to normal seasonal price dynamics, as we

are approaching the new season from a lower base, which is very supportive for global demand. I would be cautious about predicting any significant upside, however, as further capacity additions are scheduled for next year, although at the moment it appears this will be less than current curtailments in China. At PhosAgro, we will focus on completing our main investment projects on schedule. The new ammonia and urea units will not only add additional volumes, but will help to significantly reduce our cash costs even further, though we are already at one of the lowest levels in the industry on this measure. This contribution, in addition to reduced capital expenditure, should further improve our free cash flow, which I would expect to be reflected in returns to shareholders.”

9M 2016 market conditions:

- The average price of DAP (FOB Tampa) in 3Q 2016 was USD 339 per tonne, representing a 27% decrease year-on-year. For 9M 2016 the average DAP price (FOB Tampa) stood at USD 354 per tonne, down 25% year-on-year. The decrease in global DAP prices was triggered by weak market conditions in the main commodity markets, higher supply of fertilizers following the launch of new capacities in Morocco (2 million tonnes of DAP/MAP/NPS/NPK in 1Q 2016 and 3Q 2016), and tougher competition.
- A weak price environment for ammonia, sulphur and phosphoric acid triggered a spike in India's domestic DAP production, which lowered import volumes. Based on FAI numbers, DAP import into India for 9M 2016 stood at 3.8 million tonnes, which implies a 28% (or 1.5 million tonne) year-on-year reduction. On top of growing domestic production, import volumes were also limited by high inventories, which stood at 2.3 million tonnes at the end of September 2016.
- 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. Imports of MAP/DAP to Argentina in 9M 2016 amounted to 0.9 million tonnes, up by 71% compared to 9M 2015. Imports of phosphate-based fertilizers to Brazil (DAP/MAP/NP/NPK/TSP) grew by 15% year-on-year and amounted to 4.9 million tonnes.
- Export of phosphate-based fertilizers from China continues to decline from last year's record levels as a result of lower imports to India and weak global fertilizer prices. DAP exports in 9M 2016 decreased by 27% year-on-year, or 1.5 million tonnes, and amounted to 4.1 million tonnes. The overall export of phosphate-based fertilizers (DAP/MAP/NP/TSP) was down by 30% year-on-year to 2.96 million tonnes of P₂O₅ (based on CFMW numbers).
- From autumn 2016, low season for the main markets, combined with overcapacity, put additional pressure on urea prices. The average urea price (FOB Baltic) in 3Q 2016 stood at USD 181 per tonne vs. USD 265 per tonne in 3Q 2015. The average urea price (FOB Baltic) for 9M 2016 was USD 191 per tonne, down by 31% year-on-year.

Main feedstock prices:

- In 3Q 2016 the average price of ammonia (FOB Yuzhny) was USD 215 per tonne, which implies a 45% year-on-year decline from USD 388 per tonne in 3Q 2015. The decline in ammonia prices was triggered by overcapacity in commercial ammonia due to the launch of new ammonia units in the US and Saudi Arabia. The average ammonia price (FOB Yuzhny) for 9M 2016 stood at USD 255 per tonne vs. USD 398 per tonne in 9M 2015. At the beginning of November, the ammonia price decreased to USD 170 per tonne (FOB Yuzhny).
- The average price for sulphur (FOB Black Sea) in 3Q 2016 was USD 51 per tonne, or more than two times lower than in 3Q 2015 (USD 122 per tonne FOB Black Sea).
- The average price for phosphate rock (FOB Morocco with 32% P₂O₅ content) in 3Q 2016 was USD 105 per tonne, a year-on-year decline of USD 20 per tonne. The phosphoric acid price for India (CFR India) in 2H 2016 was agreed at USD 580-600 per tonne of P₂O₅ vs. USD 810 per tonne CFR India in 2H 2015.

Phosphate-Based Products Segment

Result	9M 2016 RUB mln	9M 2015 RUB mln	year-on-year change, %
Revenue	132,583	125,800	5%
Cost of goods sold	(60,183)	(54,104)	11%
Gross profit	72,400	71,696	1%

Phosphate-based products segment revenue grew by 5% year-on-year and totalled RUB 132,583 million (USD 1,939 million) in 9M 2016. PhosAgro increased production and sales volumes of phosphate-based fertilizers and MCP by 9% and 8%, respectively, year-on-year in 9M 2016. Sales volumes for phosphate rock and nepheline concentrate in 9M 2016 increased by 26% 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 DAP, NPK and phosphate rock to both domestic and export markets.

- MAP/DAP fertilizers: revenue from DAP/MAP sales was down by 11% year-on-year, from RUB 56,359 million (USD 951 million) in 9M 2015 to RUB 50,401 million (USD 737 million) in 9M 2016, reflecting a 13% year-on-year decrease in DAP/MAP average revenue per tonne denominated in RUB and overall 2% year-on-year growth in sales volumes.
- NPK fertilizers: revenue from NPK sales was down by 3% year-on-year, from RUB 31,997 million (USD 540 million) in 9M 2015 to RUB 30,972 million (USD 453 million) in 9M 2016, reflecting the overall 2% year-on-year decrease in NPK average revenue per tonne denominated in RUB with 1% year-on-year decline in sales volumes.
- Phosphate rock: revenue from phosphate rock sales rose by 57% year-on-year to RUB 20,277 million (USD 297 million) in 9M 2016. Revenue per tonne in RUB terms increased by 17% year-on-year. Sales volumes increased by 34% year-on-year as a result of increased supplies to both export and domestic markets.

The phosphate-based products segment's gross profit for 9M 2016 rose by 1% to RUB 72,400 million (USD 1,059 million), resulting in a gross profit margin of 55%, compared to a 57% margin in 9M 2015.

Nitrogen Segment

Result	9M 2016 RUB mln	9M 2015 RUB mln	year-on-year change, %
Revenue	14,537	15,953	(9%)
Cost of goods sold	(7,902)	(8,595)	(8%)
Gross profit	6,635	7,358	(10%)

Nitrogen segment revenue decreased from RUB 15,953 million (USD 269 million) in 9M 2015 to RUB 14,537 million (USD 213 million) in 9M 2016. PhosAgro increased production and sales volumes of nitrogen-based fertilizers by 5% year-on-year in 9M 2016.

Export revenue from urea was down, from RUB 11,222 million (USD 189 million) in 9M 2015 to RUB 9,891 million (USD 145 million) in 9M 2016. An increase in sales volumes by 12% year-on-year was balanced by a decrease in revenue per tonne of 18% year-on-year. Total revenue from ammonium nitrate (AN) decreased by 9% year-on-year, from RUB 4,353 million (USD 73 million) in 9M 2015, to RUB 3,942 million (USD 58 million) in 9M 2016, due to a 8% year-on-year decrease in sales volumes

and a 2% year-on-year decrease in revenue per tonne.

Nitrogen segment gross profit for 9M 2016 decreased by 10% year-on-year to RUB 6,635 million (USD 97 million). The gross profit margin for 9M 2016 was the same as in 9M 2015, at 46%. This was due to a 13% decrease in average revenue per tonne for the Company's nitrogen-based fertilizers, which was partially offset by a 5% year-on-year increase in sales volumes.

Cost of Sales

Item	9M 2016			9M 2015			Change y-o-y	
	RUB mln	USD mln	% of cost of sales	RUB mln	USD mln	% of cost of sales	RUB mln	%
Materials and services	19,837	290	29%	15,752	266	25%	4,085	26%
Salaries and social contributions	8,192	120	12%	7,131	120	11%	1,061	15%
Depreciation	6,666	98	10%	5,797	98	9%	869	15%
Natural gas	5,935	87	9%	5,358	90	9%	577	11%
Sulphur and sulphuric acid	5,445	80	8%	5,953	100	9%	(508)	(9%)
Potash	5,029	74	7%	6,482	109	10%	(1,453)	(22%)
Ammonia	4,559	67	7%	6,305	106	10%	(1,746)	(28%)
Chemical fertilisers and other products for resale	3,633	53	5%	3,337	56	5%	296	9%
Electricity	3,250	48	5%	2,829	48	5%	421	15%
Ammonium sulphate	1,788	26	2%	1,515	26	3%	273	18%
Fuel	1,644	24	2%	2,061	35	3%	(417)	(20%)
Heating energy	462	7	1%	497	8	1%	(35)	(7%)
Other items	10	-	-	23	-	-	(13)	(57%)
Change in stock of WIP and finished goods	2,074	30	3%	149	3	-	1,925	1292%
Total	68,524	1,002	100%	63,189	1,066	100%	5,335	8%

PhosAgro's cost of sales increased by 8% year-on-year in 9M 2016, to RUB 68,524 million (USD 1,002 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 4,085 million (USD 60 million), or 26%, year-on-year in the cost of materials and services primarily due to increase in repair expenses, a 24% increase in apatite-nepheline ore mining, 8% growth in fertilizer production volumes, and 4% year-on-year inflation.
- A year-on-year increase in personnel costs of RUB 1,061 million (USD 16 million), or 15%, primarily due to payroll indexation and PhosAgro 15th-anniversary bonuses.
- A decrease in expenditure on sulphur and sulphuric acid of RUB 1,453 million (USD 21 million), or 22%, year-on-year from RUB 6,482 million (USD 109 million) in 9M 2015 to RUB 5,029 million (USD 74 million) in 9M 2016. This was driven by a 28% decline in sulphur and sulphuric acid purchase prices denominated in RUB, which was partially offset by a 8% 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 1,746 million (USD 26 million), or 28%, from RUB 6,305 million (USD 106 million) in 9M 2015 to RUB 4,559 million (USD 67 million) in 9M 2016. This was mainly due to a 24% decline in RUB-denominated prices.
- A year-on-year decrease in expenditure on potash of 9%, from RUB 5,953 million (USD 100 million) in 9M 2015, to RUB 5,445 million (USD 80 million) in 9M 2016. This was mainly due to a 10% decrease in RUB-denominated prices.
- A year-on-year increase in expenditure on natural gas of RUB 577 million (USD 8 million), or 11%, to RUB 5,935 million (USD 87 million) in 9M 2016. This was mainly due to an 11% increase in ammonia production volumes.
- A year-on-year increase in expenditure on electricity of RUB 421 million (USD 6 million), or 15%, to RUB 3,250 million (USD 48 million) in 9M 2016. This was due to a 7.5% indexation in tariffs since 1 July 2016 and a 10% year-on-year increase in phosphate rock production volumes (Apatit is the main consumer of electricity from third parties in the group).
- A year-on-year increase in expenditure on ammonium sulphate of RUB 273 million (USD 4 million), or 18%. This was due to 30% year-on-year growth in ammonium sulphate purchase volumes as a result of higher production volumes of NPS. Purchase prices decreased by 9% year-on-year in 9M 2016.
- A decrease in expenditure on fuel by 20%, from RUB 2,061 million (USD 35 million) in 9M 2015 to RUB 1,644 million (USD 24 million) in 9M 2016. This was driven by a 19% decline in overall fuel purchase prices denominated in RUB.
- A year-on-year decrease in heating energy expenses of RUB 35 million (USD 0.5 million), or by 7%, from RUB 497 million (USD 8 million) in 9M 2015 to RUB 462 million (USD 7 million) in 9M 2016. This was mainly due to a 5% decline in RUB-denominated prices.

Administrative expenses rose by 13% year-on-year to RUB 9,403 million (USD 138 million) in 9M 2016, primarily due to an increase in personnel costs of RUB 668 million (USD 10 million), or 14%, 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 12,787 million (USD 216 million) in 9M 2015 to RUB 15,158 million (USD 222 million) in 9M 2016. This was primarily due to the following changes:

- Russian Railways infrastructure tariff and operators' fees increased by 32% from RUB 4,544 million (USD 77 million) in 9M 2015 to RUB 6,010 million (USD 88 million) in 9M 2016. This was mainly due to an increase in railway tariffs by 9% since 1 January 2016, as well as growth in fertilizer sales (the main contributor was the domestic market, which saw a 34% increase in shipments and the basic delivery term is CPT).
- Growth of 37% in materials and services from RUB 1,625 million (USD 27 million) in 9M 2015, to RUB 2,223 million (USD 33 million) in 9M 2016. This was mainly driven by an increase in multimode shipment volumes to export markets.
- Growth in freight, port and stevedoring expenses by 3%, from RUB 6,009 million (USD 101 million) in 9M 2015 to RUB 6,172 million (USD 90 million) in 9M 2016 mainly due to an increase in export shipment volumes of 5%. 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 partly balanced by an increase in export shipment volumes.

PhosAgro's foreign exchange gain in 9M 2016 was RUB 13,022 million (USD 190 million), versus a foreign exchange loss of RUB 12,533 million (USD 211 million) in 9M 2015. This was primarily the result of the devaluation of USD-denominated debt due to the rouble's 13% appreciation against the

US dollar during 9M 2016 (from RUB 72.8827 at 31/12/2015 to RUB 63.1581 at 30/09/2016), in comparison with 18% rouble depreciation against the US dollar during 9M 2015 (from RUB 56.2584 as of 31/12/2014 to RUB 66.2367 as of 30/09/2015).

Cash spent on capital expenditure in 9M 2016 amounted to RUB 29,536 million (USD 432 million), a decrease of 3% in comparison with RUB 30,580 million (USD 516 million) in 9M 2015. PhosAgro's capital expenditure, which consists of additions to property, plant and equipment, amounted to RUB 31,279 million (USD 458 million) for 9M 2016, compared to RUB 28,703 million (USD 484 million) in 9M 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

- Expectations of a record harvest for grains and soybeans for the third year in a row have put pressure on soft commodities prices. However, high yields of corn and soybean (particularly in the USA) and wheat (in Canada and Russia) resulted in higher soil depletion. This, combined with increased affordability of fertilizers due to very low prices for all three major nutrients, should support demand for the upcoming spring season.
- In China, growth of coal prices of more than 30% over the last two months has pushed up the cash costs for ammonia and therefore fertilizer production, both in urea and DAP/MAP even further. As a result, very low utilisation rates in urea production in China are being reported. The urea price has already recovered from its minimum levels this year of around USD 190/tonne FOB China, up to USD 235/tonne at the moment, which has led to price increases across other regions as well.
- In the phosphate segment, at the beginning of November Chinese phosphate producers agreed on further significant production curtailments, from already low utilisation rates of just around 60% this autumn, by an additional 30% for the biggest producers, and additional 20% for producers with annual capacities between 1-2 million tonnes, and by 10% for smaller producers.
- On the back of these factors PhosAgro believes that the upcoming planting season in Europe, the USA, Central and South America holds much more upside pricing risk and should demonstrate more normalised seasonality in terms of price behaviour compared to 2016. At the same time, new capacity being added in North Africa and the Middle East may put additional pressure on prices in the second half of 2017.

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