

# PhosAgro 9M 2015 EBITDA up 144% to RUB 62.8 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 condensed consolidated interim IFRS financial results for the nine months ended 30 September 2015. PhosAgro's revenue for the period increased by 64% year-on-year to RUB 142.3 billion (USD 2,401 million), while EBITDA grew by 144% year-on-year to RUB 62.8 billion (USD 1,060 million).

9M 2015 financial and operational highlights:

Result	9M 2015		9M 2014		year-on-year change (RUB vs. RUB), %
	RUB	USD	RUB	USD	
	million		million		
Revenue	142,300	2,401	86,758	2,452	64%
EBITDA*	62,805	1,060	25,750	728	144%
EBITDA margin	44%		30%		14 p.p.
Net profit	31,551	532	6,273	177	403%
	RUB	USD	RUB	USD	
Earnings per share	244	4	46	1	430%
<b>Sales volumes</b>	<b>Kmt</b>		<b>Kmt</b>		
Phosphate-based products	4,161		3,614		15%
Nitrogen-based fertilizers	1,013		1,080		(6%)
Apatit mine and beneficiation plant	2,053		2,557		(20%)
Other products	78		174		(55%)

RUB/USD rates: average 9M 2015: 59.2777; average 9M 2014: 35.3878

as of 30 September 2015: 66.2367; as of 31 December 2014: 56.2584

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

## Highlights

Interim dividend recommendation:

- At its meeting on 16 November 2015, 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 an Extraordinary General Meeting of Shareholders scheduled for 15 January 2016.

## Production, sales and logistics flexibility:

- As a result of the debottlenecking activity, the Company managed to raise production and sales during 9M 2015 by 10% and 11%, respectively, year-on-year. Revenue in 9M 2015 grew 64% year-

on-year, supported by respective 71% and 63% increases in DAP/MAP and NPK average realised export prices denominated in roubles.

Strategic developments:

- On 1 July 2015 PhosAgro finalised its restructuring process, merging Agro-Cherepovets, PhosAgro AG and Nordic Rus Holding into PhosAgro-Cherepovets. This was aimed at further enhancing cost efficiency and simplifying the corporate structure.
- In June 2015 the Company officially launched Smart Bulk Terminal in Ust-Luga, which will help to achieve sustainable savings on fertilizer exports. This new terminal has a capacity of 1.5 million tonnes of fertilizer per year, and PhosAgro aims to ship up to 50% of its export volumes through Smart Bulk Terminal already in 2015.
- The Main Shaft #2 at the Kirovskiy underground mine was successfully commissioned in August 2015. This will enable PhosAgro to replace mining capacities due to be shut down, and to increase the annual capacity of the Kirovskiy mine from 13 to 16.5 million tonnes of apatite-nepheline ore.

Rouble depreciation supported year-on-year revenue growth of 64% in 9M 2015, to RUB 142.3 billion (USD 2,401 million), compared to RUB 86.8 billion (USD 2,452 million) for 9M 2014. Operating profit for the period was RUB 56.2 billion (USD 948 million), up 185% from RUB 19.7 billion (USD 558 million) in 9M 2014. PhosAgro's EBITDA was RUB 62.8 billion (USD 1,060 million) in 9M 2015, 144% higher year-on-year. The EBITDA margin increased to 44% for 9M 2015, compared to 30% in 9M 2014.

Net profit for 9M 2015 amounted to RUB 31.6 billion (USD 532 million), compared to a net profit of RUB 6.3 billion (USD 177 million) in 9M 2014. Basic and diluted earnings per share came to RUB 244 (USD 4) for 9M 2015, compared to earnings of RUB 46 (USD 1) in 9M 2014.

The Company significantly improved its financial position compared to year-end 2014, when the dramatic rouble depreciation resulted in a net loss from the revaluation of USD- and EUR-denominated loans and operations with derivatives. The significantly higher USD exchange rate during 9M 2015 in comparison with 9M 2014 (average USD foreign exchange rates for 9M 2015 and 9M 2014 were RUB 59.28 and RUB 35.39, respectively) had a net positive impact on PhosAgro's results in the reporting period. At the same time, the significant depreciation of the rouble as of 30 September 2015 (RUB 66.24 per USD) compared to 31 December 2014 (RUB 56.26 per USD) resulted in a foreign exchange loss of RUB 12,533 million (USD 211 million) in 9M 2015; in 9M 2014 the foreign exchange loss was RUB 9,471 million (USD 268 million).

Cash flow from operating activities increased by 137% year-on-year in 9M 2015, to RUB 50.9 billion (USD 858 million), compared to RUB 21.5 billion (USD 606 million) in 9M 2014, driven by improved operating performance and favourable effects of the rouble depreciation.

Gross debt at 30 September 2015 amounted to RUB 123.2 billion (USD 1,861 million), compared to RUB 123.8 billion (USD 2,201 million) at 31 December 2014. Net debt at 30 September 2015 stood at RUB 97.8 billion (USD 1,476 million), up from RUB 93.1 billion (USD 1,656 million) at 31 December 2014. Most of the Company's debt is denominated in USD as a natural hedge against primarily USD-denominated sales. The Company's net debt to EBITDA ratio decreased to 1.17 as of 30 September 2015, from 2.48 as of 31 December 2014.

**Commenting on 9M 2015 results, PhosAgro CEO Andrey Guryev said:**

"I am pleased to report another set of strong financial results, with our Q3 EBITDA margin reaching

43.4%. PhosAgro's excellent cash flow generation capacity enables us to continue investing in our extensive development programme while at the same time making sustainable increases to dividend payments and keeping debt at a comfortable level.

"We are delivering on our strategic goals: we increased production of phosphate-based products by over 12% year-on-year; we have commissioned Main Shaft No 2 at our biggest Kirovskiy mine, which will help to decrease our mining costs going forward; we have launched the Smart Bulk Terminal in Ust-Luga, which has enabled us to achieve sustainable savings on port handling fees.

"This has helped us to continue to deliver excellent results, even as changes in the global economy have affected the fertilizer market: declining grain prices and significant currency devaluation in major agricultural regions outside the US, have led to significant increases in USD-denominated fertilizer costs in farmers' budgets. In Brazil specifically, deteriorating economic conditions combined with currency depreciation have resulted in a significant increase in borrowing rates, which we believe is the main reason for weaker MAP demand this year. Our domestic market faced similar challenges in the beginning of this year, but the Russian Government introduced a support programme for farmers in March that helped to significantly improve the market, and we expect to see similar if not higher domestic sales volumes for 2015 compared to 2014 levels.

"On the positive side, the same currency devaluations have resulted in some cases in dramatic (in Russia and Brazil for example) or substantial (in Europe) decreases in local farmers' costs vs USD-denominated cereals. Taken together with a strong grain harvest for the 2015/16 agricultural year in most regions, farmers are reporting exceptionally strong margins, which should support fertilizer application levels next year. And I would point out that farmers and farmer cooperatives in Russia, Brazil and Europe, our target markets, are our final customers.

"On the supply side, the introduction of VAT on fertilizer sales in China may significantly change the spot market going forward, while the Chinese Government's focus on efficiency and decreasing pollution may result in closures of inefficient and contaminating production capacities. At the same time, the world's population still growing: with the recent change in Chinese policy regarding second children, the country's population growth rates could increase by another 3 to 3.5 million people per year, meaning food consumption will continue to grow and these basic market fundamentals will remain supportive going forward."

## **9M 2015 Market Conditions**

- The average DAP price in Q3 2015 was USD 465 per tonne FOB Tampa, versus USD 498 per tonne FOB Tampa in Q3 2014. The average DAP price for 9M 2015 amounted to USD 472 per tonne FOB Tampa (vs. USD 476 per tonne FOB Tampa in January-September 2014);
- Low inventories as well as favourable weather conditions have contributed to a significant increase in import demand for DAP and NPK in India. Total DAP imports to India for 9M 2015 amounted to 5.1 million tonnes, which is 2.5 times more than in 9M 2014. NPK imports also increased by 2.5 times year-on-year and amounted to 0.6 million tonnes. Bulk imports continued in October, and the annual volume of DAP imports to India is expected to reach around 5.8-6.0 million tonnes;
- Brazil's imports of phosphate-based fertilizers (MAP/DAP/TSP/NPS/NPK) in 9M 2015 decreased by 27% year-on-year and amounted to 1.5 million tonnes of P<sub>2</sub>O<sub>5</sub>. During 9M 2015, MAP imports decreased by 29% year-on-year and amounted to 1.7 million tonnes. This decrease was due to economic challenges resulting in a sharp depreciation of the BRL against the USD, and a significant increase in interest rates in Brazil;
- As a result of a dramatic increase of export supply from China and the low season in key

markets (Europe and Latin America), urea prices gradually declined. The average urea price in Q3 2015 amounted to USD 265 per tonne FOB Baltic (16% below the average price in Q3 2014 of USD 314 per tonne FOB Baltic). The average urea price in 9M 2015 was USD 275 per tonne FOB Baltic, which is 12% below the average price for urea price in 9M 2014.

### Phosphate-Based Products Segment

<b>Result</b>	<b>9M 2015 RUB mln</b>	<b>9M 2014 RUB mln</b>	<b>year-on-year change, %</b>
Revenue	125,800	74,233	69%
Cost of goods sold	(53,352)	(43,132)	24%
Gross profit	72,448	31,101	133%

Phosphate-based products segment revenue grew by 69% year-on-year and totalled RUB 125,800 million (USD 2,122 million) in 9M 2015. PhosAgro increased production of phosphate-based fertilizers and MCP by 12.5% year-on-year in 9M 2015, while sales volumes were up by 15.8% year-on-year. Sales volumes for phosphate rock and nepheline concentrate in 9M 2015 decreased by 20% year-on-year.

The growth in fertilizer sales volumes was primarily due to favourable market conditions and higher demand, which enabled the Company to substantially increase sales of DAP and NPK to Europe and India.

- MAP/DAP fertilizers: MAP export revenue increased by 34% year-on-year, with revenue per tonne up in RUB terms by 70%, while volumes decreased by 21%. DAP export revenue increased by 402% year-on-year, with revenue per tonne in RUB terms growing by 73%, and volumes up by 190%. Domestic MAP sales increased by 42% year-on-year, primarily due to the growth of revenue per tonne in RUB terms as result of the rouble devaluation. Revenue from DAP/MAP sales was up 91% year-on-year, from RUB 29,464 million (USD 833 million) in 9M 2014 to RUB 56,359 million (USD 951 million) in 9M 2015, reflecting the overall 13% year-on-year growth in sales volumes and 69% rise in DAP/MAP average revenue per tonne denominated in RUB.
- NPK fertilizers: revenue from NPK export sales increased by 122% year-on-year, from RUB 9,185 million (USD 260 million) in 9M 2014 to RUB 20,380 million (USD 344 million) in 9M 2015, as a result of 36% year-on-year growth in NPK export sales volumes combined with a 63% rise in revenue per tonne denominated in RUB. Revenue from domestic NPK sales grew by 35% year-on-year, from RUB 8,578 million (USD 242 million) in 9M 2014, to RUB 11,617 million (USD 196 million) in 9M 2015 primarily due to the growth of the revenue per tonne in RUB terms as result of rouble devaluation.
- Phosphate rock: revenue from phosphate rock sales rose by 19% year-on-year to RUB 12,906 million (USD 218 million) in 9M 2015. Revenue per tonne in roubles increased by 64%. Sales volumes decreased by 27% year-on-year due to higher internal consumption of phosphate rock by PhosAgro's own downstream production sites.

The phosphate-based products segment's gross profit for 9M 2015 increased by 133% year-on-year to RUB 72,448 million (USD 1,222 million), resulting in a gross profit margin of 58%, compared to a 42% margin in 9M 2014, which was the result of higher sales in rouble terms.

### Nitrogen Segment

<b>Result</b>	<b>9M 2015 RUB mln</b>	<b>9M 2014 RUB mln</b>	<b>year-on-year change, %</b>
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Revenue	15,953	12,018	33%
Inter-segment transfers	-	8	(100%)
Cost of goods sold	(8,595)	(6,044)	42%
Gross profit	7,358	5,982	23%

Nitrogen segment revenue increased by 33% year-on-year to RUB 15,953 million (USD 269 million) in 9M 2015, from RUB 12,018 million (USD 340 million) in 9M 2014. Production volumes of nitrogen-based fertilizers were the same as in 9M 2014, while sales volumes decreased by 6% year-on-year in 9M 2015.

Export revenue from urea was 36% higher year-on-year, up from RUB 8,271 million (USD 234 million) in 9M 2014 to RUB 11,222 million (USD 189 million) in 9M 2015, due to a 54% increase in revenue per tonne, balanced by a decrease in sales volumes of 12%. Total revenue from ammonium nitrate (AN) rose by 142% year-on-year, from RUB 1,799 million (USD 51 million) in 9M 2014, to RUB 4,353 million (USD 73 million) in 9M 2015, due to 35% growth in revenue per tonne and a 79% increase in sales volumes.

Nitrogen segment gross profit for 9M 2015 increased by 23% year-on-year to RUB 7,358 million (USD 124 million), mainly as a result of significant revenue growth caused by the devaluation of the rouble against the US dollar. An 83% year-on-year increase in purchase volumes of ammonia as a result of higher fertilizer production balanced the rapid growth in gross profit, which meant that the gross margin for 9M 2015 was 46%, compared with 50% in 9M 2014.

## Cost of Sales

Item	9M 2015			9M 2014			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	15,000	253	24%	14,022	395	28%	978	7%
Salaries and social contributions	7,131	120	11%	7,264	205	15%	(133)	(2%)
Sulphur and sulphuric acid	6,482	109	10%	3,035	86	6%	3,447	114%
Ammonia	6,305	106	10%	2,209	62	5%	4,096	185%
Potash	5,953	100	10%	3,036	86	6%	2,917	96%
Depreciation	5,797	98	10%	5,377	152	11%	420	8%
Natural gas	5,358	90	9%	5,545	157	11%	(187)	(3%)
Chemical fertilisers and other products for resale	3,337	56	5%	2,394	68	5%	943	39%
Electricity	2,829	48	5%	2,674	76	5%	155	6%
Fuel	2,061	35	3%	2,126	60	4%	(65)	(3%)
Ammonium sulphate	1,515	26	2%	491	14	1%	1,024	209%
Heating energy	497	8	1%	919	26	2%	(422)	(46%)
Other items	23	1	0%	14	-	0%	9	64%

Change in stock of WIP and finished goods	149	3	0%	518	15	1%	(369)	(71%)
<b>Total</b>	<b>62,437</b>	<b>1,053</b>	<b>100%</b>	<b>49,624</b>	<b>1,402</b>	<b>100%</b>	<b>12,813</b>	<b>26%</b>

PhosAgro's cost of sales increased by 26% year-on-year in 9M 2015, to RUB 62,437 million (USD 1,053 million), while overall fertilizers sales volumes increased by 11% year-on-year. This cost of sales performance was primarily due to the following factors:

- An increase of RUB 978 million (USD 16 million), or 7%, year-on-year in the cost of materials and services due primarily to 10% growth in fertilizer production volumes.
- A year-on-year decrease in personnel costs of RUB 133 million (USD 2 million), or 2%, as a result of the headcount reduction programme.
- An increase in expenditure on sulphur and sulphuric acid of RUB 3,447 million (USD 58 million), or 114%, year-on-year from RUB 3,035 million (USD 86 million) in 9M 2014 to RUB 6,482 million (USD 109 million) in 9M 2015. This was driven by 7% increase in volumes consumed due to higher production of phosphate-based fertilizers, mainly MAP/DAP, and by 99% growth in RUB-denominated purchase prices.
- A year-on-year increase in expenditure on purchased ammonia of RUB 4,096 million (USD 69 million), or 185%, from RUB 2,209 million (USD 62 million) in 9M 2014 to RUB 6,305 million (USD 106 million) in 9M 2015. This was due to 83% higher purchase volumes and a 56% rise in RUB-denominated prices, year-on-year. Growth in ammonia purchase volumes was due to increased fertilizer production volumes.
- A year-on-year increase in expenditure on potash of 96%, or RUB 2,917 million (USD 49 million), to RUB 5,953 million (USD 100 million) in 9M 2015. This was mainly due to a 69% rise in RUB-denominated potash purchase prices and 16% growth in potash purchase volumes as a result of the start of PKS production in 9M 2015, as well as an 8% increase in NPK production.
- A year-on-year decrease in expenditure on natural gas of RUB 187 million, or 3%, to RUB 5,358 million (USD 90 million) in 9M 2015. This was due to a decline in consumption of gas by 6% balanced by a 3% increase in average purchase prices. Natural gas is required primarily for the production of ammonia. The decline in volume of gas consumed was due to PhosAgro's 9% year-on-year decline in ammonia production as a result of scheduled ammonia unit maintenance.
- A year-on-year decrease in expenditure on fuel of RUB 65 million (USD 1 million), or 3%, from RUB 2,126 million (USD 60 million) in 9M 2014 to RUB 2,061 million (USD 35 million) in 9M 2015, due to lower diesel and heating oil consumption as well as a 2% decrease in purchase prices. Lower diesel consumption is a result of reduced open-pit mining at Apatit. Lower heating oil consumption volumes resulted from the change in heating energy production and the replacement of heating oil with other resources, such as electricity and oil waste. The purchase price decreased due to using lower-priced brands of heating oil in 9M 2015.
- A year-on-year increase in expenditure on ammonium sulphate of RUB 1,024 million (USD 17 million), or 209%. RUB-denominated purchase prices rose by 101% year-on-year, while higher production of NPK with high nitrogen content led to growth in consumption of ammonium sulphate by 53% year-on-year.
- A year-on-year decrease in heating energy expenses by RUB 422 million (USD 7 million), or by 46%, from RUB 919 million (USD 26 million) in 9M 2014 to RUB 497 million (USD 8 million) in 9M 2015. Purchased volumes of heating energy declined by 37% together with a decrease in purchase prices of 15%. Purchase volumes fell due to the transition of Apatit from an energy supplier to an energy purchaser, which was the result of optimisation and outsourcing of these functions.

Administrative expenses rose by 36% year-on-year to RUB 8,341 million (USD 141 million) in 9M 2015, primarily due to:

- An increase in professional services by 173%, or RUB 863 million (USD 15 million), year-on-year, related to strategic development projects.
- A year-on-year rise in personnel expenses by RUB 1,086 million (USD 18 million), or 31%, mainly due to the implementation of the new management KPI incentive system, which led to increased bonuses to key management that is tied to EBITDA growth and selective salary indexation.

Selling expenses rose by 54% year-on-year, from RUB 8,765 million (USD 248 million) in 9M 2014 to RUB 13,539 million (USD 228 million) in 9M 2015. This was primarily due to the following changes:

- A 112% increase in freight, port and stevedoring expenses from RUB 3,191 million (USD 90 million) in 9M 2014 to RUB 6,761 million (USD 114 million) in 9M 2015, mainly due to growth in CFR shipments, leading to higher freight costs and port charges, denominated in USD.
- Growth of 67% in materials and services from RUB 972 million (USD 27 million) in 9M 2014 to RUB 1,625 million (USD 27 million) in 9M 2015. This was mainly driven by an increase in multimode shipment volumes.

PhosAgro's foreign exchange loss increased year-on-year from RUB 9,471 million (USD 268 million) in 9M 2014 to RUB 12,533 million (USD 211 million) in 9M 2015. This was the result of the rouble's 18% devaluation against the US dollar during 9M 2015 (from RUB 56.2584 at 31/12/2014 to RUB 66.2367 at 30/09/2015), which was greater in absolute terms than the rouble depreciation during 9M 2014 (from RUB 32.7292 as of 31/12/2013 to RUB 39.3866 as of 30/09/2014).

The loss from operations with derivative financial instruments was RUB 305 million (USD 5 million) in 9M 2015, compared to RUB 879 million (USD 25 million) a year earlier.

Cash spent on capex in 9M 2015 amounted to RUB 30,491 million (USD 514 million), an increase of 154% in comparison with RUB 11,981 million (USD 339 million) in 9M 2014. PhosAgro's capital expenditure, which consists of additions to property, plant and equipment, amounted to RUB 28,703 million (USD 484 million) for 9M 2015, compared to RUB 12,132 million (USD 343 million) in 9M 2014. Capital expenditure focused on ore extraction capacity development in Apatit, construction of the new 760 ths tonnes/year ammonia plant at PhosAgro-Cherepovets, as well as construction of new storage facilities for liquid ammonia at Balakovo.

## **Outlook**

### *Market:*

- The record grain and soybean harvests forecast for the second year in a row contributed to relatively low prices for basic agricultural products. However, high yields of corn and soybean (particularly in the USA) deplete soil nutrients, requiring increased fertilizer application.
- Weaker local currencies in most agricultural markets outside the US, combined with lower fuel costs, support farmer economics and more than compensate for the decline in grain prices.
- Low fertilizers imports in Brazil in 2015 will contribute to a significant reduction in carryover stocks, spurring an early resumption of demand in the next year.
- The introduction of VAT on all fertilizer sales in China in September as well as higher seasonal internal demand will curb the DAP/MAP exports from China in the short term.
- The upcoming seasonal demand in Europe, the US, Central and South America will support a recovery in fertilizer prices in 1Q2016.

*Company:*

- RUB depreciation accelerated in autumn, and there is limited potential for significant strengthening before the end of the year, which should offset the low-season price environment.
- PhosAgro is in the process of launching new sales offices in Sao Paulo (Brazil), Zug (Switzerland) and Warsaw (Poland), which will strengthen the Company's position in the priority markets of Europe and Latin America. New sales offices will 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 the Company offers local customers the right solutions in terms of nutrient mix.
- As a result of the marketing efforts at new sales offices, the Company 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.