

PhosAgro Reports 2013 IFRS Net Profit of RUB 8.6 bln

Moscow - PhosAgro ("PhosAgro" or "the Company") (Moscow Exchange, LSE: PHOR), a leading global vertically integrated phosphate-based fertilizer producer, today announces its audited consolidated IFRS financial statements for 2013. PhosAgro earned a net profit for the year of RUB 8.6 billion (USD 269 million), compared to RUB 24.5 billion (USD 788 million) in 2012. Basic and diluted earnings per share came to RUB 60 (USD 1.88) for 2013 compared to RUB 166 (USD 5.34) in 2012.

2013 Financial and Operational Highlights:

Result	2013		2012		year-on-year change (RUB vs. RUB), %
	RUB	USD	RUB	USD	
	million		million		
Revenue	104,566	3,283	105,303	3,387	(1%)
EBITDA*	23,934	752	34,917	1,123	(31%)
EBITDA margin	23%	23%	33%	33%	(10 p.p.)
Net Profit	8,576	269	24,510	788	(65%)
Earnings per share	60	1.88	166	5.34	(64%)
Sales volumes	Kmt		Kmt		
Phosphate-based fertilizers	4,672.1		4,242.9		10%
Nitrogen-based fertilizers	1,262.2		1,094.9		15%
Apatit mine and beneficiation plant	3,912.0		4,583.1		(15%)
Other products	313.0		257.3		22%

RUB/USD rates: average 2013: 31.8480; average 2012: 31.0930

As of 31 December 2013: 32.7292; as of 31 December 2012: 30.3727

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

Other 2013 Highlights

Production, sales and logistics flexibility:

- During 2013 PhosAgro's revenue and sales volumes benefited from the Company's strategy of

enhancing production flexibility, with total fertilizer production and sales volumes showing significant year-on-year growth of 9% and 11%, respectively. Revenue for the same period decreased by 1% year-on-year as result of:

- a 17% decline in average DAP prices (FOB Tampa) and an 18% decline in average urea prices (FOB Baltic);
- a 4% year-on-year increase in revenue following the consolidation of Metachem in December 2012, which brought sales of technical phosphates (STTP) and potassium sulphate (SOP) amounting to RUB 4,551 million (USD 143 million) in 2013.

· In June 2013 PhosAgro signed a contract with an international consortium led by Mitsubishi Heavy Industries Ltd for construction of a new, energy efficient ammonia plant with a capacity of 2,200 tonnes/day (760 ths tons/year) at PhosAgro-Cherepovets.

Consolidation of ownership in production facilities:

· During 2013, PhosAgro successfully consolidated 100% ownership in Apatit by way of a compulsory share purchase offer and a subsequent squeeze out, which was completed in September;

· In June 2013, PhosAgro acquired 25.24% of Metachem, bringing its ownership in the subsidiary to 100%;

· In August 2013, PhosAgro acquired 100% of PhosInt Trading Limited, which owns 100% PhosAgro Asia Pte Ltd. PhosAgro Asia is PhosAgro's first trading operation in Asia, and is focused on international sales of mineral fertilizers in the region.

PhosAgro reports its 2013 net profit of RUB 8.6 billion (USD 269 million), a decrease of 65% year-on-year from RUB 24.5 billion (USD 788 million) in 2012. Revenue for the period decreased by 1% year-on-year to RUB 104.6 billion (USD 3,283 million), compared to RUB 105.3 billion (USD 3,387 million) for 2012.

Operating profit for 2013 was RUB 16.1 billion (USD 507 million), a 43% decrease from RUB 28.4 billion (USD 913 million) in 2012. EBITDA margin decreased year-on-year to 23%, compared to 33% for 2012.

Cash flows from operating activities amounted to RUB 17.9 billion (USD 563 million) in 2013, compared to RUB 25.5 billion (USD 819 million) in 2012. The Company's capital expenditure (capex) in cash terms during 2013 was RUB 17.8 billion (USD 559 million), compared to RUB 13.4 billion (USD 430 million) in 2012.

Net debt at 31 December 2013 stood at RUB 43.8 billion (USD 1,339 million), up from RUB 26.8 billion (USD 883 million) at 31 December 2012. Net debt increased due to a significant cash outflow for the Apatit minority shareholder buyout, which was funded through PhosAgro's successful long-term USD 500 million debut Eurobond issue. Unfavourable market conditions also contributed to the growth in net debt. As a result, the Company's net debt to EBITDA ratio increased to 1.8 as of 31 December 2013. Excluding the effect of the Apatit buyout (under normal course of business), net debt/EBITDA stood at 1.4 as of 31 December 2013.

Commenting on the 2013 results, PhosAgro Management Board Chairman and CEO Andrey A. Guryev said:

“This has been a challenging year for the fertiliser industry. However, I am pleased that we have delivered a solid financial performance and have completed several strategic initiatives focused on developing sustainable, low cost production by maximising the value inherent in our high quality phosphate resource.

“In 2013 we managed to increase fertilizer production and sales by 9% and 11%, respectively. Our sales remained relatively stable when FOB Tampa DAP prices dropped 23% from USD 488 per tonne at the beginning of the year to USD 378 at year-end, and bottomed out at just USD 343 per tonne in the middle of November after declining following the breakup of BPC (the minimum price seen since the 2009 financial crisis). This brought most of our industry to below break-even levels in 4Q 2013. I am pleased, therefore, that we have managed to generate a 23% EBITDA margin in such challenging times, and to maintain almost 100% production capacity utilisation.

“Despite challenging market conditions, we have achieved several strategic goals with respect to consolidation of our production subsidiaries during the period: we completed the Apatit minority squeeze out and now own 100% of this unique mining asset. We also made progress on further organic growth with the launch of construction of a new modern ammonia plant. This plant will help to sustain our low cost advantage in the future, and establish a base for the development of further downstream fertiliser capacity aimed at delivering any type of phosphate-based fertilizer to farmers in either concentrated or complex triple (NPK) and even quadruple (NPKS) nutrient form.”

2013 Market Conditions

- In the first half of 2013, further subsidy cuts in India due to the continued economic downturn, accompanied by a cold spring in the US and Europe, prevented any seasonal price recovery;
- Weak demand from India, the world’s largest DAP market, combined with continued declines in the rupee vs. the US dollar, put downward pressure on DAP/MAP prices;
- According to the IFA, India imported 3.7 mln tonnes of DAP in 2013, compared to 5.9 mln tonnes in 2012, a decline of 37%;
- Uralkali’s new sales strategy, following its exit from BPC, had a negative impact on all three nutrients and caused stagnation on global fertilizer markets, which resulted in significant decreases in prices for all fertilizers: between 30 July 2013 and the end of the year, DAP prices (FOB Tampa) decreased from USD 455 to USD 375;
- The average DAP price per tonne for 2013 fell 17% to USD 442 (FOB Tampa), compared to USD 535 (FOB Tampa) in 2012;
- Weakness in the global phosphate-based fertilizer market has led producers to curtail production. According to Argus FMB and Fertecon in Q4 2013, OCP decreased its capacity utilisation to 50%-60%, while in Chinese capacity utilisation was at 50%-70% according to CFMW;
- China’s total phosphate-based fertilizer exports for 2013 decreased by 6% (400 ths tonnes) year-on-

year and amounted to 5.8 mln tonnes, compared to 6.2 mln tonnes in 2012;

· Despite the decline in feedstock prices, during 2013 DAP spot prices remained below cash cost levels for marginal producers of concentrated phosphate fertilizers, and in 4Q spot prices were below the average cash cost for the industry.

Phosphate-based products segment

Result	2013 RUB mln	2012 RUB mln	year-on-year change, %
Revenue	91,065	91,233	-
Cost of goods sold	(59,588)	(54,824)	9%
Gross profit	31,477	36,409	(14%)

Phosphate-based products segment revenue remained at the same level and totalled RUB 91,065 million (USD 2,859 million) in 2013. PhosAgro increased production of phosphate-based fertilizers and MCP by 6.5% year-on-year in 2013, while sales volumes were up 10.1% year-on-year. Production and sales volumes for phosphate rock and nepheline concentrate decreased in 2013 compared to 2012 by 2.9% and 14.6%, respectively.

Despite the significant decrease in sales prices, revenue for the phosphate-based products segment was stable in 2013 due to the addition of export sales of STTP (sodium tripolyphosphate) and SOP (potassium sulphate) of RUB 3,465 million (USD 109 million) and 884 (USD 28 million), respectively, following the consolidation of Metachem at the end of 2012. Production flexibility also helped PhosAgro maintain stable revenue by increasing NPS export sales volumes by 62% year-on-year. As a result, revenue from NPS export sales increased by 33% year-on-year, from RUB 3,445 million (USD 111 million) in 2012 to RUB 4,587 million (USD 144 million) in 2013. Revenue from NPK export sales decreased by 13% year-on-year, from RUB 15,617 million (USD 502 million) in 2012 to RUB 13,657 million (USD 429 million) in 2013. This was mainly the result of a 14% decline in revenue per tonne from export sales of NPK. Revenue from DAP/MAP sales decreased by 9% year-on-year from RUB 34,182 million (USD 1,009 million) in 2012 to 31,264 million (USD 982 million) in 2013. This decrease was due to lower market prices (MAP/DAP price decreased by 15% in average) outweighing a 5.5% increase in DAP/MAP sales volumes. Revenue from domestic sales of phosphate rock decreased by 28% year-on-year to RUB 7,950 million (USD 250 million) in 2013 due to higher internal use following the consolidation of Metachem and higher phosphate-based fertilizer production volumes, as well as to lower sales to a significant Russian customer; these volumes were redirected to export markets, which led to an 6% year-on-year increase in export sales of the product to RUB 8,937 million (USD 280 million) for the period.

The phosphate segment's gross profit for 2013 decreased by 14% year-on-year to RUB 31,477 million (USD 988 million), resulting in a gross profit margin of 35%, compared to 40% in 2012. This was primarily the result of a decrease in prices for the Company's main phosphate-based products.

PhosAgro is largely self-sufficient in key raw materials for phosphate fertilizer production, and fully self-sufficient in phosphate rock. However, higher production volumes and changes in the production mix in 2013 meant the Company had to increase external purchases of other inputs, which led to an increase in cost of sales (a more detailed discussion is provided in the CoGS analysis

below).

Revenue per tonne for the principal phosphate-based fertilizers and feed phosphate

Product	2013 RUB	2012 RUB	year-on-year change, %
Domestic:			
MAP	15,383	18,704	(17.8%)
DAP	14,246	17,676	(19.4%)
NPK	13,979	14,569	(4.0%)
MCP	19,988	19,273	3.7%
NPS	11,336	12,259	(7.5%)
Export:			
MAP	14,935	16,916	(11.7%)
DAP	14,370	16,646	(13.7%)
NPK	11,938	13,949	(14.4%)
MCP	17,587	17,205	2.2%
NPS	9,561	11,628	(17.8%)

Nitrogen segment

Result	2013 RUB	2012 RUB	year-on-year change, %
Revenue	12,810	13,048	(2%)
Inter-segment transfers	99	2,146	(95%)
Cost of goods sold	(10,036)	(7,632)	31%
Gross profit	2,873	7,562	(62%)

Nitrogen segment revenue was RUB 12,810 million (USD 402 million) in 2013, a decrease of RUB 238 million year-on-year from RUB 13,048 million (USD 420 million) in 2012. Production and sales volumes of nitrogen-based fertilizers increased by 19% and 15% year-on-year, respectively, in 2013.

Urea sales volumes increased by 22% year-on-year following the launch of the new urea plant at PhosAgro-Cherepovets in the second half of 2012. Export revenue from urea increased by 8% year-on-year from RUB 8,323 million (USD 268 million) in 2012 to RUB 8,988 million (USD 282 million) in 2013 as a result of higher export sales volumes (up 21%) and an 11% decrease in export revenue per tonne. Ammonium nitrate (AN) sales volumes decreased by 6%, which was the major factor behind the 8% decrease in revenue from AN sales from RUB 2,837 million (USD 91 million) in 2012 to RUB 2,620 million (USD 82 million) in 2013, which was partially compensated by a 9% increase in domestic prices.

Inter-segment revenues decreased by 95% year-on-year in 2013, to RUB 99 million (USD 3 million). This was a result of the merger of Ammophos and Cherepovetsky Azot, which represented the phosphate-based and nitrogen-based segments, respectively, prior to their merger into PhosAgro-Cherepovets.

As a result of higher expenses for purchased ammonia (a more detailed discussion is provided in the CoGS analysis below), nitrogen segment gross profit decreased by 62% year-on-year to RUB 2,873 million (USD 90 million) in 2013, with a gross profit margin of 22%, compared to 58% in 2012.

Revenue per tonne for the principal nitrogen-based fertilizers

Product	2013 RUB mln	2012 RUB mln	year-on-year change, %
Domestic:			
Ammonium nitrate	9,354	8,601	8.8%
Urea	12,618	12,455	1.3%
Export:			
Ammonium nitrate	9,591	10,437	(8.1%)
Urea	10,410	11,691	(11.0%)
NP	9,121	8,818	3.4%

Cost of sales

PhosAgro's cost of sales increased by 14% year-on-year in 2013 to RUB 68,139 million (USD 2,140 million), in line with the growth in fertilizer sales volumes of 11% and price inflation. This increase in cost of sales was primarily due to the following changes from 2012 to 2013:

- A RUB 3,244 million (USD 102 million), or 18%, increase in the cost of materials and services. The consolidation of Metachem into PhosAgro led to an increase in materials and services expenses of 7%, or RUB 1,348 million (USD 42 million). The growth in fertilizer sales volumes by 11% led to higher consumption of related materials and services. During the reporting year there was also a significant increase in expenses for third parties services, which was the result of personnel optimisations and outsourcing of certain functions previously performed by PhosAgro, such as transportation and maintenance.

- Higher production of NPS/NPK, which have a high nitrogen content, led to an increase in purchases of ammonium sulphate of RUB 493 million (USD 15 million).

- A RUB 1,767 million (USD 55 million), or 61%, increase in ammonia expenses, mainly due to higher production volumes of nitrogen-based fertilizers and changes in the product mix, which led to a 56% increase in PhosAgro's third party ammonia purchases. This was also due to a slight increase of 5% in the purchased ammonia price, to RUB 13,486 per tonne in 2013 from RUB 12,835 in 2012.

· An increase in expenditure on natural gas of RUB 567 million (USD 18 million), or 10%, to RUB 6,300 million (USD 198 million) in 2013. Natural gas is required primarily for the production of ammonia. The price per cubic metre of natural gas rose by 8%, while natural gas consumption increased by 2% year-on-year. The price increase was due to a 15% tariff increase in the second half of 2013. The smaller rise in volume of gas purchased, by just 2%, was due to the start of the new 32 Mwt gas turbine electricity plant at Cherepovets. .

· An increase in expenditure on electricity of RUB 223 million (USD 7 million), or 7%, from RUB 3,255 million (USD 105 million) in 2012 to RUB 3,478 million (USD 109 million) in 2013. This was primarily driven by a 10% tariff hike in July 2013, and partially compensated for by decreased consumption following the start of the new 32 Mwt gas turbine electricity plant.

· Personnel costs increased 4% year-on-year, primarily due to the consolidation of Metachem. Increases due to the indexation of salaries were compensated by reduced payroll costs resulting from PhosAgro's restructuring and staff optimisation programme.

· The increase in cost of sales was partially offset by a year-on-year decrease in expenditure on potash of 11%, or RUB 484 million (USD 15 million), to RUB 4,114 million (USD 129 million) in 2013. This was mainly due to an 8% decrease in potash purchase volumes and a 3% decrease in potash purchase prices. Potash consumption declined due to the higher share of NPK grades with low potash content in the overall production mix.

· A decrease in expenditure on fuel of RUB 418 million (USD 13 million), or 9%, from RUB 4,579 million (USD 147 million) in 2012 to RUB 4,161 million (USD 131 million) in 2013. This was mainly due to a 6% decrease in consumption of fuel following the decrease in phosphate rock and nepheline concentrate production, as well as lower volumes of phosphate ore extracted in open-pits where diesel is primarily consumed, and to a 3% decrease in fuel purchase prices.

· A decrease in expenditure on sulphur and sulphuric acid of RUB 169 million (USD 5 million), or 5%, from RUB 3,597 million (USD 116 million) in 2012 to RUB 3,428 million (USD 108 million) in 2013. This was driven by a decrease in purchase prices by 11% as result of cheaper sulphuric acid supply from domestic metallurgical producers. The decrease in purchase prices was partly offset by a 6% increase in purchase volumes following the consolidation of Metachem, and due to higher production volumes of phosphate-based fertilizers.

Item	2013			2012			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	21,663	680	32%	18,419	593	31%	3,244	18%
Salaries and social contributions	12,022	378	18%	11,602	373	19%	420	4%
Ammonia	4,671	147	7%	2,904	93	5%	1,767	61%
Potash	4,114	129	6%	4,598	148	8%	(484)	(11%)
Ammonium sulphate	1,157	36	2%	664	21	1%	493	74%
Natural gas	6,300	198	9%	5,733	184	9%	567	10%

Depreciation	7,147	224	10%	5,933	191	10%	1,214	20%
Fuel	4,161	131	6%	4,579	147	8%	(418)	(9%)
Sulphur and sulphuric acid	3,428	108	5%	3,597	116	6%	(169)	(5%)
Electricity	3,478	109	5%	3,255	105	5%	223	7%
Other items	53	2	-	87	3	-	(34)	(39%)
Change in stock of WIP and finished goods	(55)	(2)	-	(1,405)	(45)	(2%)	1,350	96%
Total	68,139	2,140	100%	59,966	1,929	100%	8,173	14%

Administrative expenses rose by 21% year-on-year to RUB 8,380 million (USD 263 million) in 2013 primarily as a result of inflation, the consolidation of Metachem and increased medical insurance coverage. In 2013, following the implementation of a new KPI-based motivation programme, all senior- and mid-level management bonuses for 2013 were accrued in the 2013 financial period.

Selling expenses rose by 13% year-on-year, from RUB 7,437 million (USD 239 million) in 2012 to RUB 8,378 million (USD 263 million) in 2013. This was primarily due to higher sales volumes, as well as a 7% year-on-year increase in Russian Railways infrastructure tariff in 2013.

Restructuring costs relate to PhosAgro's restructuring and staff optimization programme, which commenced in 2012 and comprises mainly redundancy payments and related social contributions. In 2013 these payments amounted to RUB 1,513 million. The programme is on track to be finalised in June 2014, and a provision of RUB 472 million relating to the completion of the programme has been recognised as an accrual in the 2013 financial statements.

Cash spent on capex in 2013 amounted to RUB 17,795 million (USD 559 million), compared to RUB 13,370 million (USD 430 million) in 2012. PhosAgro's capital expenditure, which consists of additions to property, plant and equipment, amounted to RUB 17,662 million (USD 555 million) for 2013, compared to RUB 14,881 million (USD 479 million) in 2012. Capital expenditure focused on construction of the main ore shaft № 2 at the Kirovsky underground mine (expected to enable the mine to increase production to 14 mtpa in 2-3 years), as well as the construction of new storage facilities for liquid ammonia at Balakovo Mineral Fertilizers.

Total debt at 31 December 2013 amounted to RUB 52,756 million (USD 1,612 million), compared to RUB 36,469 million (USD 1,201 million) at 31 December 2012. Net debt at 31 December 2013 amounted to RUB 43,818 million (USD 1,339 million), compared to RUB 26,805 million (USD 883 million) at 31 December 2012.

Outlook

Market:

- Agricultural commodities market trends in 2014 are positive: prices for soybeans and wheat have increased by 15-17% year-to-date; corn is up more than 20%;
- Indian elections are upcoming and a subsidy decision was announced at the end of March, instead

of late April like last year: with a continuing market downturn, the country left the P₂O₅ subsidy at the same level as last year;

- Very low Indian stocks, combined with conservative expectations of exports to the country increasing by around 2 million tonnes to at least 5-5.5 million tonnes in 2014, will bring global fertilizer demand growth back in line with the normal annual rate of around 2%;
- India's currency has strengthened by 13% from the minimum levels in August 2013;
- Feedstock prices are increasing globally, driving cash costs of most significant players up: sulphur prices are up from 80% to more than 150% in some regions from minimum 4Q 2013 levels of USD 70-80 to USD 130-170 now; ammonia has increased 30% from USD 425-450 to USD 555-580 in 2Q 2014;
- The stabilisation of potash prices is reviving NPK market activity.

Company:

- Following the sharp recovery in concentrated phosphate fertilizer demand from late December, PhosAgro has focused on MAP/DAP production in 1Q 2014;
 - With global demand for complex fertilizers and NPS now also recovering, the Company intends to invest further into both increasing capacity and expanding the number of NPK grades it produces, commencing PKS production in 2Q 2014;
 - All major development projects are on track, including the new ammonia plant designed to increase cost efficiency and support further expansion of complex fertilizer capacity;
 - In February 2014 PhosAgro signed a USD 440.6 million loan facility with the Japan Bank of International cooperation (JBIC) and a group of Japanese banks to fund construction of the new ammonia plant at highly attractive rates with a tenure of over 10 years;
- Following the full consolidation of Apatit shares, PhosAgro is focusing on consolidating its ownership of PhosAgro-Cherepovets in 2014. In February 2014, PhosAgro launched a voluntary tender offer to acquire ordinary shares of OJSC PhosAgro-Cherepovets. The offer price, which was determined in accordance with Russian law, is RUB 44.0 per ordinary share with a nominal value of RUB 1.10. For the purposes of the voluntary buyout, PhosAgro obtained a bank guarantee in the amount of RUB 10,800 million. The offer period expires on 6 May 2014;
- In February 2014 PhosAgro launched a new subsidiary, LLC Smart Bulk Terminal, which will manage the construction and subsequent operation of a new bulk terminal at the Baltic port of Ust-Luga that will handle fertilizers produced and sold by PhosAgro;
- Management focus on cost optimisation will help to reduce the Company's material and personnel costs;
 - The Management Board is carefully monitoring the capital expenditure programme to comply with PhosAgro's financial policy with respect to capital spending and leverage.