

PhosAgro reports EBITDA of RUB 12.2 billion for 2Q17 and RUB 24.9 billion for 1H17

Moscow - PhosAgro ("PhosAgro" or "the Company") (Moscow Exchange, LSE: PHOR), one of the world's leading vertically integrated phosphate-based fertilizer producers, today announces its interim condensed consolidated IFRS financial results for the three and six months ended 30 June 2017.

Revenue in 2Q 2017 decreased by 3% year-on-year to RUB 44.7 billion (USD 783 mln), resulting in RUB 89.1 billion (USD 1.54 billion) revenue for the first half of the year. EBITDA for 2Q 2017 was RUB 12.2 billion (USD 214 mln), with an EBITDA margin of 27%. EBITDA for 1H 2017 was RUB 24.9 billion (USD 429 mln). Net income (adjusted for non-cash FX items) for 2Q 2017 decreased by 33% year-on-year to RUB 6.1 billion (USD 106 mln), bringing adjusted net income for 1H 2017 to RUB 11.7 billion (USD 202 mln).

2Q and 1H 2017 financial and operational highlights

RUB mln or %	2Q 2017	2Q 2016	Chng, %YoY	1H 2017	1H 2016	Chng, %YoY
Revenue	44,723	45,976	-3%	89,121	102,049	-13%
EBITDA*	12,212	16,306	-25%	24,887	41,555	-40%
EBITDA margin	27%	35%	-8 pp	28%	41%	-13 pp
Net income	1,469	13,483	-89%	13,732	36,114	-62%
Net income adj*	6,081	9,071	-33%	11,719	24,835	-53%
	30-06-2017 31-12-2016					
Net debt	109,964	105,115				
ND/LTM EBITDA	2.0x	1.5x				
Sales, 000' mt	2Q 2017	2Q 2016	Chng, %YoY	1H 2017	1H 2016	Chng, %YoY
Phosphate-based	1,638	1,447	13%	3,174	2,853	11%
Nitrogen-based	435	357	22%	896	787	14%
Phosphate rock	657	594	11%	1,344	1,226	10%

RUB/USD rates: average 2Q 2017: 57.15; average 2Q 2016: 65.89; as of 30 June 2017: 59.09; as of 31 December 2016: 60.66

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

* - adjusted for non-cash FX items

Commenting on the results, PhosAgro CEO Andrey Guryev said:

"I am very pleased that PhosAgro has maintained EBITDA almost unchanged quarter-on-quarter, despite further appreciation of the ruble and some weakening in phosphate and nitrogen prices in the second quarter. This is primarily thanks to our fundamental advantages, including production and sales flexibility and organic growth through debottlenecking and modernisation.

“Our continued focus on cost control (cost of goods sold net of D&A per tonne of production was down 5% year-on-year) and decrease in capex as we are completing key projects enabled us to generate RUB 3.6 billion (USD 63 mln) of free cash flow in the quarter, meaning that the Board was able to recommend dividends of RUB 8 per GDR.

“In terms of operations, we further increased downstream phosphate-based fertilizer production by almost 20% year-on-year in 2Q, on the back of continued modernisation and debottlenecking. Phosphate rock production grew by more than 18% year-on-year, and we are well on track to deliver on the goals of our strategy to 2020. Looking at our sales mix, we achieved a 20% year-on-year increase in sales to the priority Russian market, while more than doubling volumes to Latin America and recording an 18% year-on-year increase in sales of phosphates to Europe.

“During the quarter we saw additional pressure on phosphate prices from higher exports of phosphates from China and the MENA region (in particular as a result of the commissioning of a new unit in Morocco in March), which coincided with a delay to the start of the high season in India.

“Looking ahead to the remainder of 2017, as application season comes to an end in Russia, and Europe and the US are approaching low season, which together with the ramp up of new capacities in MENA region might put additional pressure on the prices. However, we may see a further rise in phosphate prices this year with the onset of the winter season in Brazil and India and subsequently the spring season in Europe and the US.

“In closing, I want to reiterate that our two key investment projects – the construction of new ammonia and urea units – are both on schedule and due to be fully operational in autumn.”

2Q 2017 market conditions

- The average price of DAP (FOB Tampa) in 2Q 2017 was USD 356 per tonne, which represents a slight 1% year-on-year increase.
- Key factors putting pressure on phosphate prices were 1) a delay to the start of the high season in India due to lack of certainty around the new tax system, resulting in a 30% year-on-year decrease in DAP imports to India in 2Q 2017, and 2) the launch of new export-oriented capacities in Morocco and the expected ramp-up of a new project in Saudi Arabia
- On the positive side, prices were supported by stable demand in Brazil. MAP imports were 0.7 million tonnes in 2Q (flat year-on-year). Strong volumes at the beginning of the year led to 1.5 million tonnes of MAP being imported in 1H 2017 (+56% year-on-year). The cumulative import of phosphates (MAP/DAP/NP/NPK/TSP) in 2Q 2017 (in P2O5 content) grew by 25% year-on-year.
- Exports of phosphates (DAP/MAP/NP/TSP) from China in 2Q 2017 increased by 20% year-on-year to 2.8 million tonnes thanks to the strong increase in sales of MAP and NPs.
- The average urea price (FOB Baltic) in 2Q 2017 was USD 191 per tonne vs. USD 196 per tonne in 2Q 2016 and USD 237 per tonne in 1Q 2017. Historically, the second quarter represents mid-season for the urea market, with low activity in key import markets.

Financial performance

Revenue in the second quarter decreased by 3% year-on-year to RUB 44.7 billion (USD 783 mln). Year-on-year growth of 15% in total sales of fertilizers and MCP was offset by the more than 13% year-on-year appreciation in the average RUB/USD exchange rate and a 16% year-on-year decrease in the average realized price for phosphate rock (in USD terms). On the positive side, revenue growth was supported by a 3% and 5% year-on-year increase in the average price per tonne (USD

denominated) for phosphate and nitrogen-based fertilizers, respectively. A more detailed revenue breakdown by key products is presented below.

Revenue breakdown by key products

RUB mln	2Q 2017	2Q 2016	Chng, % YoY	1H 2017	1H 2016	Chng, % YoY
DAP/MAP	15,883	14,842	7%	31,034	34,706	-11%
NPK(S)	11,534	11,730	-2%	21,216	24,523	-13%
PhosRock	5,045	6,288	-20%	10,795	14,146	-24%
Nitrogen-based	5,300	4,767	11%	11,420	11,168	2%

Gross profit declined by 17% year-on-year to RUB 19.6 billion (USD 342 mln), while the gross margin decreased by 7 p.p. year-on-year to 44%. Gross profit and margin performance for the phosphate-based and nitrogen-based segments were as follows:

- The phosphate-based segment saw an 16% year-on-year decrease in gross profit to RUB 17.9 billion (USD 314 mln), with a gross margin of 46%, compared to 52% in 2Q 2016.
- Gross profit for the nitrogen-based segment decreased by 28% year-on-year to RUB 1.6 billion (USD 28 mln). Gross margin for the segment fell by 17 p.p. year-on-year to 30%.

EBITDA decreased by 25% year-on-year to RUB 12.2 billion (USD 214 mln), while the EBITDA margin declined by 8 p.p. to 27%, compared to 35% the previous year. Net profit (adjusted for non-cash FX items) dropped by 33% year-on-year to RUB 6.1 billion (USD 106 mln).

The ruble appreciated by more than 13% year-on-year during the quarter (the average RUB/USD foreign exchange rates for 2Q 2017 and 2Q 2016 were RUB 57.15 and RUB 65.89, respectively), which had a net negative impact, as prices for most of the Company's products are denominated in USD, while costs are primarily RUB-based. In addition, the depreciation of the ruble as of 30 June 2017 (RUB 59.09 per USD) compared to 31 March 2017 (RUB 56.38 per USD) resulted in an FX loss of RUB 4.6 billion (RUB 4.4 billion gain in Q2 2016).

Cash flow from operating activities decreased by 16% year-on-year, to RUB 9.3 billion (USD 162 mln), compared to RUB 11.0 billion (USD 168 mln) in 2Q 2016, predominantly due to lower profitability and less favourable changes in working capital due increase in inventories and account receivables. Year-to-date operating cash flow stood at RUB 16.3 billion (USD 280 mln)

Gross debt (including finance lease liabilities) as of 30 June 2017 increased marginally, by 4% quarter-on-quarter, to RUB 119 billion (USD 2 billion) primarily due to ruble depreciation in June. Net debt as of 30 June 2017 stood at RUB 110 billion (USD 1.9 billion). Most of the Company's debt is denominated in US dollars and thus is naturally hedged by primarily USD-denominated sales. The net debt to LTM EBITDA ratio increased to 2.0x as of 30 June 2017, up from 1.75x as of 31 March 2017.

Cost of Sales

RUB mln	2Q 2017	2Q 2016	Chng, % YoY	1H 2017	1H 2016	Chng, % YoY
Materials and services	7,970	6,552	22%	14,771	12,614	17%

Salaries	2,715	3,082	-12%	5,458	5,764	-5%
Ammonia	2,157	1,415	52%	4,419	3,456	28%
Natural gas	1,993	1,996	0%	4,083	4,104	-1%
D&A	3,072	2,169	42%	5,873	4,434	32%
Fertilisers for resale	996	1,201	-17%	2,679	2,800	-4%
Potash	2,360	1,848	28%	3,928	3,664	7%
Fuel	746	508	47%	1,541	1,134	36%
Sulphur and sulphuric acid	1,577	1,457	8%	2,808	3,847	-27%
Electricity	1,332	1,057	26%	2,659	2,159	23%
Ammonium sulphate	275	515	-47%	1,075	1,329	-19%
Heating energy	160	121	32%	405	386	5%
Other items	1	7	-86%	2	9	-78%
Change in stock of WIP	-186	407	n/m	-116	626	n/m
Total	25,168	22,335	13%	49,585	46,326	7%

Cost of sales grew by 13% year-on-year in 2Q 2017 to RUB 25.2 billion (USD 440 mln). The key factors behind the growth were:

- Spending on materials and services grew by 22% year-on-year to RUB 8.0 billion (USD 140 mln) driven by an 18% year-on-year increase in phosphate rock processing, 16% growth in overall fertilizer production and 4.2% year-on-year CPI inflation.
- Spending on salaries decreased by 12% year-on-year to RUB 2.7 billion (USD 48 mln), as 2Q 2016 was affected by one-off factors such as bonuses linked to the 15th anniversary of PhosAgro.
- A 52% year-on-year increase in spending on purchased ammonia to RUB 2.2 billion (USD 38 mln) was due to a 43% increase in purchase volumes and 6% increase in RUB-denominated prices. The growth in purchased volumes was driven by an almost 20% year-on-year increase in phosphate-based fertilizer production, while processing of own ammonia was flat year-on-year.
- D&A was up significantly by 42% year-on-year to RUB 3.1 billion (USD 54 mln) due to the commissioning of assets (Main Shaft #2 at Kirovsk mine and modernization of Beneficiation Plant #3).
- A year-on-year increase in expenditure on potash of 28% to RUB 2.4 billion (USD 41 mln) due to 53% growth in purchased volumes (thanks to the greater share of NPKs with high potash content) that was partially offset by a 16% decrease in RUB-denominated prices.
- Expenditures on sulphur and sulphuric acid were up 8% year-on-year to RUB 1.6 billion (USD 28 mln). The key reason was a 20% increase in purchased volumes due to growth in production of phosphate-based fertilizers that was offset by a 10% decrease in RUB-denominated prices.
- Electricity costs increased by 26% year-on-year to RUB 1.3 billion (USD 23 mln) on the back of 12% growth in purchasing from third-parties (resulting from a 10% increase in extraction of apatite-nepheline ore from underground mining, where electricity is primarily consumed) and a 13% increase in the average electricity price.

Administrative expenses decreased by 8% year-on-year to RUB 3.4 billion (USD 60 mln) in 2Q 2017, primarily due to a 17% decrease in personnel costs to RUB 2.0 billion (USD 34 mln). The decrease was mainly due to changes to the bonus accrual schedule. Since 1 January 2017, the company has

been accruing bonuses on a monthly basis, compared to semi-annually in prior periods.

In 2Q 2017 Selling expenses increased by 29% year-on-year to RUB 6.0 billion (USD 106 mln). A 31% year-on-year rise in Russian Railways infrastructure tariff and operators' fees to RUB 2.4 billion (USD 42 mln) was triggered by 5% increase in the average rail tariff as well as a 20% year-on-year increase in domestic sales (where the main basis is CPT). Freight, port and stevedoring expenses grew by 25% year-on-year to RUB 2.8 billion (USD 49 million) primarily due to a 15% year-on-year increase in export sales of rock and fertilizers.

Cash spent on capex in 2Q 2017 amounted to RUB 5.9 billion (USD 104 mln), a decrease of 38% year-on-year. Capital expenditure is primarily focused on completing the construction of the new 760 ths tonnes/year ammonia plant and the new 500 ths tonnes/year urea plant at PhosAgro-Cherepovets. Capex for 1H 2017 reached RUB 14.9 billion (USD 257 mln)

Outlook

Market outlook

- According to the IFA, phosphate consumption to 2021 is forecast to increase at a CAGR of 1.6%. Africa (+4.1%), South Asia (+3.1%) and Latin America (+2.8%) are expected to be the fastest-growing regions.
- Favourable weather conditions and final certainty on the new tax system should support DAP consumption in India in 2H 2017. According to Fertecon and CRU, overall DAP imports in 2017 to India are expected at 4.5-5.3 million tonnes.
- Closer to 4Q 2017, we expect to see the beginning of the pre-winter season for DAP/MAP in Europe and US as well as the kick-off of buying activity in Africa (Ethiopia).
- In August 2017, Ma'aden put into trial mode its new phosphate complex in Saudi Arabia with cumulative capacity of 3 million tonnes (DAP/MAP/NP/NPK). The launch of commercial production (expected in September 2017) may put additional pressure on prices closer to the end of the year.

Company

- All major development projects are on track. The ammonia unit is already running in trial mode and is expected to be fully operational at the end of 3Q or beginning of 4Q. The ramp-up of the granulated urea unit is also expected at the end of 3Q or beginning of 4Q.