

# PhosAgro Reports 2012 IFRS Profit up 9% y-o-y to RUB 24.5 billion

**Moscow - PhosAgro** ("PhosAgro" or "the Company") (Moscow Exchange, LSE: PHOR), a leading global vertically integrated phosphate-based fertiliser producer, today announces the publication of its audited consolidated IFRS financial results for the year ended 31 December 2012. PhosAgro generated net income for the year of RUB 24.5 billion (USD 788 million), compared to RUB 22.5 billion (USD 765 million) in 2011. Basic and diluted earnings per share came to RUB 166 (USD 5.34) for 2012 compared to RUB 161 (USD 5.48) in 2011.

## 2012 Financial and Operational Highlights:

Result	2012		2011		Change (RUB vs. RUB), %
	RUB	USD	RUB	USD	
Revenue	105,303 m	3,387 m	100,518m	3,420m	5%
EBITDA*	34,695 m	1,116 m	35,371m	1,204m	(2%)
EBITDA margin	33%	33%	35%	35%	
Net Profit	24,510 m	788 m	22,476m	765m	9%
Earnings per share	166	5.34	161	5.48	3%
<b>Sales volumes</b>	kmt		kmt		
Phosphate-based fertilisers (MAP/DAP/NPK/NPS**)	4,242.9		4,061.7		4%
Nitrogen fertilisers	1,094.9		889.4		23%
Apatit mine and beneficiation plant	4,583.1		4,149.3		10%
Other products	257.3		347.0		(26%)

RUB/USD Rates: average 2012: 31.0930; average 2011: 29.3874

As of 31 December 2012: 30.3727; as of 31 December 2011: 32.1961

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

\*\* A compound of nitrogen, phosphate and sulphur.

## Strategic highlights

- *Production and sales flexibility:*

- Total fertilizer production and sales in FY 2012 grew 8.6% a record 5.4 million tonnes and 7.8% to an all-time high of 5.3 million tonnes, respectively;

- Production facilities operated at full capacity throughout 2012;
- PhosAgro has achieved a 93% increase in fertilizer production over the past 10 years (2002-2012).

- *Organic growth through capacity expansion and greater operational efficiency:*

- Flexible production and sales models enabled PhosAgro to adapt to changes in global demand patterns;
- Launch of brand new 500 kt p.a. urea plant on 2H 2012 has doubled PhosAgro's urea production capacity. As result, nitrogen fertilizers production and sales grew 21.8% and 23.1% y-o-y, respectively, in 2012.

- *Consolidation of ownership in production facilities:*

- 17 July 2012: Completed PhosAgro-Cherepovets merger, combining subsidiaries Ammophos and Cherepovetsky Azot into a single entity;
- 4 September 2012: PhosAgro won the privatisation tender for the Russian Federation's 20% stake in Apatit and increased its stake in Apatit's share capital from 57.57% to 77.57% after settlement in October 2012;
- 17 October 2012: PhosAgro acquired 24% of Nordic Rus Holding, which owns more than 7% of Apatit's share capital;
- 8 November 2012: PhosAgro announced the launch of a mandatory tender offer for the acquisition of Apatit shares held by minority shareholders;
- December 2012: Consolidated technical phosphate plant Metachem through increase of PhosAgro's stake to 74.76%.

PhosAgro today reports its 2012 net profit of RUB 24.5 billion (USD 788 million), an increase of 9% from RUB 22.5 billion (USD 765 million) in 2011. Revenue for the period was up 5% y-o-y at RUB 105.3 billion (USD 3,387 million) compared to RUB 100.5 billion (USD 3,420 million) for 2011.

PhosAgro's 2012 EBITDA was RUB 34.7 billion (USD 1,116 million), down 2% from RUB 35.4 billion (USD 1,204 million) a year earlier. EBITDA margin remained relatively stable at 33%, compared to 35% for 2011. Operating profit for 2012 was RUB 28.2 billion (USD 906 million), a 4% decrease from 2011.

Cash flows from operating activities amounted to RUB 25.5 billion (USD 819 million) in 2012, compared to RUB 32.4 billion (USD 1,102 million) in 2011. The company's capital expenditure in cash terms during the year ended 31 December 2012 was RUB 13.4 billion (USD 430 million), compared to RUB 12.9 billion (USD 439 million) in 2011.

Net debt at 31 December 2012 increased to RUB 26.8 billion (USD 883 million) from RUB 15.2 billion (USD 472 million) on 31 December 2011, resulting in a net debt to EBITDA ratio of 0.77x.

Commenting on the 2012 IFRS results PhosAgro CEO Maxim Volkov said: "In 2012 we increased

revenue by 5% y-o-y, while delivering growth in production and sales of phosphate-based fertilisers of 6% and 4%, respectively. By operating at full capacity and increasing the efficiency of our production units we were able to maintain a very solid EBITDA margin of 33%, which is only a slight decrease in a year when DAP/MAP pricing was under pressure globally: the average price of DAP in 2012 was USD 539 FOB Tampa, down 14% y-o-y from an average of USD 624 for 2011.

“We have also delivered on a number of key strategic priorities, including consolidation of our key subsidiaries and significant capacity increases.

“At the same time we continued to pay over 49% of our net profits attributable to PhosAgro shareholders in dividends, and will continue to work towards increasing shareholder value through further expansion projects while maintaining a good level of dividend payments.”

## 2012 market conditions

- India, the largest consumer of phosphate fertilizers globally, resumed 2012 imports only in Q2. Overall imports of phosphate-based fertilizers reported for 2012 declined around 30% primarily as a result of a significant decrease - over 75% - in NP imports from China;
- Drought in the US led to a reduction in grain supplies and growing soft commodities prices, which approached historic highs at the end of summer 2012, while local sales of DAP/MAP grew 10% y-o-y;
- Exports of phosphate-based fertilizers from China decreased over 40% as a result of the export tariff policy imposed by the Chinese government (82% export duty on NP/TSP introduced from January 2012);
- Phosphate consumption in fast-growing developing markets such as Latin America, Eastern Europe, Central Asia and Africa increased 3.0%-4.7% y-o-y in 2011/2012, with Brazil up 8.8% y-o-y and Ukraine up 15.9% y-o-y;
- 2012 corn and wheat harvests were below initial expectations;
- Tight cereals supply pushed agricultural prices to record levels in 2H 2012;
- Despite high crop prices, macroeconomic uncertainty weighed on the minds of fertilizer buyers. This resulted in cautious purchasing of fertilizers, changed buying patterns to immediately before the application season starts, and thus preventing price increases.

## Phosphate segment

Result	2012 RUB million	2011 RUB million	Change, %
Revenue	91,233	88,982	3%
Cost of goods sold	(55,276)	(50,631)	9%
Gross profit	35,957	38,351	(6%)

Phosphate segment revenue increased by 3% y-o-y and totalled RUB 91,233 million (USD 2,934

million) in 2012. The Company increased production of phosphate-based fertilisers and MCP by 6% y-o-y, while sales volumes were up 4% y-o-y. Production and sales volumes for phosphate rock and nepheline concentrate increased in 2012 compared to 2011 by 3% and 10%, respectively.

Revenue from NPK fertiliser export sales increased 39% in 2012 to RUB 15,617 million (USD 502 million) from RUB 11,254 million (USD 383 million) as a result of a 48% increase in NPK export sales volumes. Revenue from NPS export sales increased over 3 times, mainly due to an identical rise in export volumes. The record levels of NPK production and sales contributed to a 24% decline in export sales revenue for DAP/MAP to RUB 29,969 million (USD 964 million) in 2012 from RUB 39,594 million (USD 1,347 million) for 2011. Domestic MAP revenues increased 24% to RUB 3,887 million (USD 125 million) from RUB 3,138 million (USD 107 million) as a result of an 8% increase in revenue per tonne and a 15% increase in sales volumes. Revenue from phosphate rock increased 34% y-o-y in 2012, reaching RUB 19,452 million (USD 626 million) on higher revenue per tonne (domestic: up 19% y-o-y; export: up 8% y-o-y) and higher sales volumes (domestic: up 6% y-o-y; export: up 37% y-o-y).

PhosAgro is largely self-sufficient in key raw materials for phosphate fertiliser production, and therefore is not subject to price inflation for phosphate rock. Expenditure on potash, a key raw material for NPK fertilisers, increased 52% y-o-y in 2012, reaching RUB 4,598 million (USD 148 million), due to a 21% y-o-y increase in volumes of potash purchased and a 26% increase in cost per tonne to RUB 8,202 (USD 264) from RUB 6,505 (USD 221). This was partially compensated by a 26% y-o-y decline in expenditures on sulphur and sulphuric acid, used primarily in the production of phosphate-based fertilisers, to RUB 3,597 million (USD 116 million) in 2012 from RUB 4,838 million (USD 165 million) in 2011. Sulphur purchase prices declined by 25% y-o-y to RUB 2,442 (USD 79) per tonne for 2012 from RUB 3,271 (USD 111) per tonne in 2011, while volumes purchased decreased slightly (less than 1% y-o-y) in 2012. These factors, combined with a 4% increase in sales volumes of phosphate-based fertilisers, contributed to a 9% increase in cost of goods sold to RUB 55,276 million (USD 1,778 million) from RUB 50,631 million (USD 1,723 million).

The phosphate segment's gross profit for 2012 decreased 6% to RUB 35,957 million (USD 1,156 million) from RUB 38,351 million (USD 1,305 million), resulting in a 2012 gross profit margin of 39%, compared to 43% in 2011.

*Principal phosphate-based fertilisers, feed phosphate and phosphate rock: revenue per tonne*

<b>Product</b>	<b>2012 RUB</b>	<b>2011 RUB</b>	<b>change, %</b>	<b>4Q 2012 RUB</b>	<b>4Q 2011 RUB</b>	<b>change, %</b>
Domestic:						
MAP	18,704	17,387	8%	17,912	17,672	1%
DAP	17,676	17,444	1%	17,385	18,903	(8%)
NPK	14,569	15,944	(9%)	14,222	16,337	(13%)
MCP	19,273	18,581	4%	19,061	18,678	2%
NPS	12,259	11,209	9%	12,742	12,500	2%
Phosphate rock	4,199	3,536	19%	4,351	3,445	26%

Export:						
MAP	16,916	17,032	(1%)	16,976	19,539	(13%)
DAP	16,646	17,150	(3%)	16,557	18,881	(12%)
NPK	13,949	14,917	(6%)	13,035	16,856	(23%)
MCP	17,205	17,780	(3%)	17,752	19,777	(10%)
NPS	11,628	12,593	(8%)	10,649	14,034	(24%)
Phosphate rock	9,138	8,475	8%	8,819	9,442	(7%)

## Nitrogen segment

Result	2012 RUB million	2011 RUB million	y-o-y change, %
Revenue	13,048	10,727	22%
Inter-segment revenues	3,175	3,629	(13%)
Cost of goods sold	(7,632)	(7,495)	2%
Gross profit	8,591	6,861	25%

Revenue in the nitrogen segment was RUB 13,048 million (USD 420 million) in 2012, an increase of 22% from RUB 10,727 million (USD 365 million) in 2011. Sales volumes of nitrogen fertilisers increased 23% y-o-y in 2012, primarily as a result of the ramp up and launch of the new urea production unit at PhosAgro-Cherepovets during the second half of 2012.

Urea revenue increased 68% y-o-y to RUB 8,394 million (USD 270 million) in 2012 from RUB 5,004 million (USD 170 million) a year earlier as result of a 62% y-o-y increase in sales volumes and a 3% y-o-y increase in export prices. This was partially offset by a 26% y-o-y decrease in revenue from ammonium nitrate (AN) sales to RUB 2,837 million (USD 91 million) from RUB 3,822 million (USD 130 million).

As a result, nitrogen segment gross profit increased by 25% y-o-y to RUB 8,591 million (USD 276 million) in 2012, with a gross profit margin of 53%.

### Principal nitrogen fertilisers: revenue per tonne

Product	2012 RUB	2011 RUB	Change, %	4Q 2012 RUB	4Q 2011 RUB	Change, %
<b>Domestic:</b>						
Ammonium nitrate	8,601	7,550	14%	9,707	8,466	15%
Urea	12,455	13,021	(4%)	12,300	14,389	(15%)
<b>Export:</b>						
Ammonium nitrate	10,437	8,954	17%	10,641	9,552	11%

Urea	11,691	11,301	3%	11,669	14,717	(21%)
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## Cost of goods sold

PhosAgro's cost of goods sold rose by 7% y-o-y in 2012 to RUB 60,136 million (USD 1,935 million) from RUB 56,196 million (USD 1,913 million). This was in line with the Company's 8% increase in fertiliser sales volumes. The increase in cost of sales was primarily due to the following changes in 2012 compared to 2011:

- A 9% increase in materials and services costs due to higher fertiliser sales volumes and inflation (Russian PPI of 5% for 2012) to RUB 21,792 million (USD 701 million) from RUB 20,006 million (USD 681 million);
- A 52% increase in expenditure on potash due to substantially higher NPK sales (up 39% y-o-y in volumes) as well as a 26% increase in potash cost per tonne to RUB 8,202 (USD 264) in 2012 from RUB 6,505 (USD 221) in 2011;
- An 16% increase in expenditure on natural gas to RUB 5,733 million (USD 184 million) from RUB 4,951 million (USD 168 million). This was due to an 8% increase in consumption of natural gas related to an 8% y-o-y increase in ammonia production, and to the launch of a new 32 MW electricity generation unit at the Cherepovetsk nitrogen complex, as well as to an 8% y-o-y increase in the price of gas to RUB 3,248 (USD 104) per thousand cubic meters from RUB 3,015 (USD 103) in 2011.

Item	2012			2011			Change y-o-y	
	RUB million	USD million	% of cost of sales	RUB million	USD million	% of cost of sales	RUB mln	%
Materials and services	21,792	701	36%	20,006	681	36%	1,786	9%
Salaries and social contributions	11,963	385	20%	11,078	377	20%	885	8%
Potash	4,598	148	8%	3,026	103	5%	1,572	52%
Natural gas	5,733	184	9%	4,951	168	9%	782	16%
Depreciation	5,936	191	10%	5,486	187	10%	450	8%
Fuel	4,579	147	8%	4,207	143	7%	372	9%
Sulphur and sulphuric acid	3,597	116	6%	4,838	165	9%	(1,241)	(26%)
Electricity	3,255	105	5%	3,290	112	6%	(35)	(1%)
Other items	88	3	0%	51	2	0%	37	73%
Change in stock of WIP and finished goods	(1,405)	(45)	(2%)	(737)	(25)	(2%)	(668)	91%
<b>Total</b>	<b>60,136</b>	<b>1,935</b>	<b>100%</b>	<b>56,196</b>	<b>1,913</b>	<b>100%</b>	<b>3,940</b>	<b>7%</b>

## Other expenses

Administrative expenses rose by 10% y-o-y to RUB 6,646 million (USD 214 million) in 2012 from RUB 6,036 million (USD 197 million) in 2011. This was mainly due to an increase in salaries and social contributions of RUB 216 million (USD 7 million), or 6%, primarily as a result of increases in salaries in line with 2012 CPI of 6.6%, and continued pay-outs related to employee redundancy.

Selling expenses rose by 19% y-o-y to RUB 7,720 million (USD 248 million) in 2012 from RUB 6,492 million (USD 221 million) in 2011. The Russian Railways infrastructure tariff and operators' fees increased by 10% y-o-y to RUB 3,825 million (USD 123 million) from RUB 3,488 million (USD 119 million) as a result of a 6% increase in the Russian Railways tariff and increased transportation volumes. Port and stevedoring expenses rose by 47% to RUB 2,309 million (USD 74 million) from RUB 1,571 million (USD 53 million) y-o-y primarily due to a 9% increase in export sales volumes of PhosAgro's end products and a substantial increase of CFR deliveries as a result of the introduction of container sales from the beginning of 2012.

Rouble exchange rates have experienced significant volatility in 2011 and 2012. The average RUB/USD rate for 2012 was 31.0930, an increase of 6% from the average for 2011 of 29.3874. PhosAgro uses foreign currency-denominated loans as a natural hedge against export sales, which accounted for approximately 69% of revenue in 2012. While the weaker rouble increases export sales in rouble terms, the Company accounts for the foreign exchange rate gain or loss at the end of the period on foreign currency denominated loans. From 31 December 2011, the rouble appreciated against the USD from 32.1961 to 30.3727 as of 31 December 2012, resulting in an exchange rate gain of RUB 1,576 million, compared with a loss of RUB 2,836 million in 2011.

PhosAgro's capital expenditure, which consists of all additions to property, plant and equipment, amounted to RUB 14,881 million (USD 479 million) in 2012, compared to RUB 16,801 million (USD 572 million) in 2011. Capital expenditure focused on the construction of the main ore shaft № 2 at the Kirovsky underground mine (expected to enable the mine to increase production up to 14 mtpa after 2016) as well as the construction of the new 500 kt p.a. urea production line and a 32 MW electricity generation unit at PhosAgro's Cherepovets site, which were officially launched on 26 October 2012.

Total debt at 31 December 2012 amounted to RUB 36,469 million (USD 1,201 million), versus RUB 32,153 million (USD 999 million) at the end of 2011. The increase in total debt was due to new short-term debt facilities obtained during the period, denominated in USD, EUR and RUB.

## Outlook

### *Market:*

- Agricultural commodity prices remain at elevated levels;
- Favourable farm economics should result in a supply response in 2013 due to a greater need for fertilizer input;
- Improved affordability and a rise in agricultural output are expected to increase phosphate-

based fertiliser demand in 2013/14 season;

- The latest IFA forecast (December 2012) for the upcoming 2013/2014 season calls for 2.4% y-o-y growth in overall global fertilizer demand, whereas phosphate fertilizer demand is expected to increase 3.5%. Phosphate consumption is expected to increase at a higher pace in 2013/2014 in fast-growing markets: Africa +7.2%; Eastern Europe and Central Asia +4.7%; Latin America +4.5%;
- Fertilizer stockpiles in Brazil are at the same low level as in 2011, when Brazil import volumes set new records;
- Nutrient consumption imbalance in India has led to a decline in crop quality and output. The nutrient subsidy level is yet to be determined;
- Soft commodities stocks-to-use ratios remain at very low levels compared to historic averages, while at the same time corn and soybean prices have surpassed their previous historical peaks in 2008;
- Despite global economic concerns, farmers are not experiencing liquidity constraints, and therefore remain able to invest in increasing crop output;
- Phosphate fertiliser stocks remain at very low levels globally, with no significant capacity additions expected to come on stream in the near term.

#### *Company:*

- PhosAgro sees increasing global demand for complex fertilisers, and the Company intends to further invest into both increasing capacity as well as expanding the number of NPK and other complex fertiliser grades it produces;
- PhosAgro has completed the mandatory tender offer for the acquisition of Apatit shares from minority shareholders following its purchase of the Russian Government's 20% stake in Apatit in October 2012, resulting in PhosAgro and affiliated companies currently owning around 96% of Apatit. The Company will continue to focus on consolidation of up to 100% of Apatit shares, followed by the consolidation of PhosAgro-Cherepovets shares;
- The liberalisation of the phosphate rock market announced by Russia's FAS is expected to start having a positive effect for producers commencing from 2013;
- The Company is starting several significant expansion projects, including: a new 760 kt per annum ammonia plant, a new 450 kt per year flexible NPK production line at Balakovo Mineral Fertilizers and a 100 kt per year PKS production line at Metachem.

#### **Conference Call and Webcast**

On 24 April 2013 at 13:00 London time (16:00 Moscow; 08:00 New York) PhosAgro will host a conference call and webcast to present its audited consolidated IFRS financial results for the full year ended 31 December 2012 and its operating results for the three months ended 31 March 2013.

PhosAgro CEO Maxim Volkov will answer questions from conference call and webcast participants after a presentation of the results.

The call will be held in English, with simultaneous translation into Russian on a separate line.



**Participants will be required to tell the operator their preferred language when dialling in.**

**Webcast links:**

*English:* <http://www.media-server.com/m/p/mqkr3223/lan/en>

*Russian:* <http://www.media-server.com/m/p/mqkr3223/lan/ru>

**Conference call dial-ins:**

**+7 499 272 4337** Moscow

**+1 212 999 6659** New York

**+44 (0) 20 3003 2666** London

Toll Free:

**0808 109 0700** UK

**1 866 966 5335** USA

**8 10 8002 490 2004** Russia (Moscow only)

Conference call password: **PhosAgro**

A replay of the webcast and conference call in Russian and English, as well as a transcript in English, will be made available on PhosAgro's website shortly after the call.