

# PhosAgro reports 3Q17 EBITDA of RUB 13.6 billion

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 nine months ended 30 September 2017.

Revenue in 3Q 2017 increased by 2% year-on-year to RUB 46.5 billion (USD 787 million), bringing 9M 2017 revenue to RUB 135.6 billion (USD 2.3 billion). EBITDA for 3Q 2017 was RUB 13.6 billion (USD 231 million), with an EBITDA margin of 29%. EBITDA for 9M 2017 was RUB 38.5 billion (USD 661 million). Net income (adjusted for non-cash FX items) in 3Q 2017 decreased by 46% year-on-year to RUB 5.8 billion (USD 98 million), bringing adjusted net income for 9M 2017 to RUB 17.5 billion (USD 300 million).

## 3Q and 9M 2017 financial and operational highlights

<i>RUB million or %</i>	3Q 2017	3Q 2016	<i>Chng, %YoY</i>	9M 2017	9M 2016	<i>Chng, %YoY</i>
Revenue	46,452	45,558	2%	135,573	147,607	-8%
EBITDA*	13,624	17,368	-22%	38,511	58,923	-35%
EBITDA margin	29%	38%	-9 pp	28%	40%	-12 pp
Net income	7,343	12,401	-41%	21,075	48,515	-57%
Net income adj*	5,771	10,658	-46%	17,490	35,493	-51%
	<b>30-09-2017</b>	<b>31-12-2016</b>				
Net debt	109,055	105,115				
ND/LTM EBITDA	2.1x	1.5x				
<i>Sales, 000' mt</i>	3Q 2017	3Q 2016	<i>Chng, %YoY</i>	9M 2017	9M 2016	<i>Chng, %YoY</i>
Phosphate-based	1,716	1,558	10%	4,890	4,411	11%
Nitrogen-based	309	280	11%	1,205	1,067	13%
Phosphate rock	654	614	7%	1,998	1,840	9%

RUB/USD rates: average 3Q 2017: 59.0; average 3Q 2016: 64.6; as of 30 September 2017: 58.0; as of 31 December 2016: 60.7

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

\* - adjusted for non-cash FX items

PhosAgro CEO Andrey Guryev said: "I believe that, despite the challenging macro environment for PhosAgro's key products and FX headwinds, in the third quarter the company passed through the

bottom in terms of profitability and managed to increase EBITDA compared to the second quarter by more than 10%, mainly due to a constant focus on cash costs combined with the first revenue contributions from our new production units. The quarter-on-quarter recovery in EBITDA, coupled with a year-on-year decrease in capex due to completion of key investment projects, enabled us to generate RUB 2.3 billion (USD 39 million) of free cash flow in the quarter, meaning that the Board was able to recommend dividends of RUB 7 per GDR, representing a dividend payout to nearly 100% of free cash flow.

“In terms of operations, we managed to increase both upstream phosphate rock and downstream fertilizer production by almost 20% year-on-year in the third quarter. Together with results already achieved in the first half of the year, we have a high degree of confidence that upstream phosphate rock and downstream fertilizer production volumes for the full year may reach 9.5 million tonnes and 8.3 million tonnes, respectively. As for the new production units, the ammonia and urea lines have been running in test mode since July and August, respectively, and have produced almost 140 and 70 thousand tonnes of product in the third quarter.

“Once these major investment projects are completed, the Company plans to focus its capital expenditure on selected small- or mid-sized projects that support either organic growth in phosphate production thanks to modernisation, or further vertical integration (construction of new sulphuric acid and ammonium sulphate plants). We currently expect overall fertilizer production to reach 9.2 million tonnes by 2020.

“Looking at seaborne markets, the recent rally in the main feedstock prices (ammonia and especially sulphur) has led to significant inflation in the industry’s cash costs. This, together with previously announced production cuts, has led to a more balanced supply-demand situation and provides extra support to prices. However, the growing price of feedstocks draws more attention to the scale of vertical integration. For non-integrated players, the recent increase in spot fertilizer prices was fully offset by feedstock inflation, meaning that sector profitability has remained near historic lows. In this context, PhosAgro’s fundamental advantages such as near-100% vertical integration into ammonia with the ramp-up of the new ammonia unit, geographic proximity to sulphur producers, and lower sulphur consumption per tonne of  $P_2O_5$  due to the quality of the phosphate rock we produce, should help to extend margins throughout the upcycle in the phosphate markets that has now started.”

### **3Q 2017 market conditions**

- The average price of DAP (FOB Tampa) in 3Q 2017 was USD 340 per tonne, virtually flat year-on-year.
- Phosphate prices were under pressure primarily as a result of high inventories and low import demand in India due to the delayed decision on the new tax system since 1 July 2017, as well as the start-up of Ma’aden’s new Wa’ad Al Shamal project in Saudi Arabia.
- On the positive side, prices were supported by stable demand in Brazil. MAP imports increased by 58% year-on-year to 1.4 million tonnes in 3Q 2017. Strong volumes in the first half of the year brought total MAP imports for 9M 2017 to 2.7 million tonnes, up by 57% year-on-year. Brazil’s cumulative import of phosphates (MAP/DAP/NP/NPK/TSP) in 3Q 2017 (in  $P_2O_5$  content) grew by 80% year-on-year.
- Exports of phosphates (DAP/MAP/NP/TSP) from China in 3Q 2017 increased by 20% year-on-year to 3.7 million tonnes, due to a strong increase in sales of MAP and NPs.
- The average price of urea (FOB Baltic) in 3Q 2017 was USD 205 per tonne vs. USD 181 per tonne in 3Q 2016. The price increase was supported by seasonal demand in South Asia and Brazil, coupled with a substantial decrease in exports from China.

## Financial performance

Revenue in the third quarter increased by 2% year-on-year to RUB 46.5 billion (USD 787 million). Year-on-year growth of 10% in total sales of fertilizers and MCP was offset by 9% year-on-year appreciation in the average RUB/USD exchange rate and a 17% year-on-year decrease in the average realised price for phosphate rock (in USD terms). On the positive side, revenue growth was supported by 2% and 19% year-on-year increases 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

<b>RUB million</b>	<b>3Q 2017</b>	<b>3Q 2016</b>	<b>Chng, % YoY</b>	<b>9M 2017</b>	<b>9M 2016</b>	<b>Chng, % YoY</b>
DAP/MAP	16,198	15,696	3%	47,233	50,401	-6%
NPK(S)	14,084	13,841	2%	36,190	39,150	-8%
PhosRock	5,006	6,131	-18%	15,801	20,277	-22%
Nitrogen-based	3,984	3,320	20%	15,404	14,488	6%

Gross profit declined by 15% year-on-year to RUB 19.3 billion (USD 327 million), while the gross margin decreased by 8 p.p. year-on-year to 42%. Gross profit and margin performance for the phosphate-based and nitrogen-based segments were as follows:

- The phosphate-based segment saw an 18% year-on-year decrease in gross profit to RUB 17.4 billion (USD 295 million), with a gross margin of 41%, compared to 50% in 3Q 2016.
- Gross profit for the nitrogen-based segment increased by 76% year-on-year to RUB 1.9 billion (USD 32 million). Gross margin for the segment increased by 13 p.p. year-on-year to 45%.

EBITDA decreased by 22% year-on-year in 3Q 2017, to RUB 13.6 billion (USD 231 million), while the EBITDA margin declined by 9 p.p. to 29%, compared to 38% in 3Q 2016. Net profit (adjusted for non-cash FX items) dropped by 46% year-on-year to RUB 5.8 billion (USD 98 million) in 3Q 2017.

The RUB appreciated by almost 9% year-on-year during the quarter (the average RUB/USD foreign exchange rates for 3Q 2017 and 3Q 2016 were RUB 59.0 and RUB 64.6, 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. The appreciation of the RUB as of 30 September 2017 (RUB 58.0 per USD) compared to 30 June 2017 (RUB 59.1 per USD) resulted in an FX gain of RUB 1.6 billion (RUB 1.7 billion gain in Q3 2016).

Cash flow from operating activities decreased by 50% year-on-year, to RUB 10.2 billion (USD 173 million), compared to RUB 20.0 billion (USD 309 million) in 3Q 2016, predominantly due to lower profitability and less favourable changes in working capital due to an increase in inventories and a decrease in accounts payable. Year-to-date operating cash flow stood at RUB 26.5 billion (USD 454 million)

Gross debt (including finance lease liabilities) as of 30 September 2017 decreased marginally, by 4% quarter-on-quarter, to RUB 115 billion (USD 2 billion) primarily due to slight RUB appreciation in the third quarter. Net debt as of 30 September 2017 stood at RUB 109 billion (USD 1.9 billion). Most of the Company's debt is denominated in USD and thus is naturally hedged by primarily USD-denominated sales. The net debt to LTM EBITDA ratio increased marginally to 2.1x as of 30 September 2017, up from 2.0x as of 30 June 2017.

## Cost of Sales

<i>RUB million</i>	3Q 2017	3Q 2016	<i>Chng, % YoY</i>	9M 2017	9M2016	<i>Chng, % YoY</i>
Materials and services	9,045	7,851	15%	23,816	20,759	15%
D&A	3,673	2,265	62%	9,546	6,699	42%
Potash	2,708	1,781	52%	6,636	5,445	22%
Salaries	2,694	2,536	6%	8,152	8,300	-2%
Natural gas	2,473	1,831	35%	6,556	5,935	10%
Sulphur and sulphuric acid	1,672	1,182	41%	4,480	5,029	-11%
Electricity	1,387	1,091	27%	4,046	3,250	24%
Ammonia	1,347	1,103	22%	5,766	4,559	26%
Fertilisers for resale	1,241	833	49%	3,920	3,633	8%
Fuel	666	510	31%	2,207	1,644	34%
Ammonium sulphate	278	459	-39%	1,353	1,788	-24%
Heating energy	67	76	-12%	472	462	2%
Other items	6	1	n/m	8	10	-20%
Change in stock of WIP	-112	1,448	n/m	-228	2,074	n/m
<b>Total</b>	<b>27,145</b>	<b>22,967</b>	<b>18%</b>	<b>76,730</b>	<b>69,587</b>	<b>10%</b>

Cost of sales grew by 18% year-on-year in 3Q 2017 to RUB 27.1 billion (USD 460 million). The key factors behind the growth were:

- Spending on materials and services grew by 15% year-on-year to RUB 9.0 billion (USD 153 million) driven by a 17% year-on-year increase in phosphate rock processing, 19% growth in overall fertilizer production and 3.4% year-on-year CPI inflation.
- D&A was up significantly by 62% year-on-year to RUB 3.7 billion (USD 62 million) due to the commissioning of assets (Main Shaft #2 at Kirovsk mine, newly built assets including those related to the new ammonia unit) and capitalized repairs depreciation.
- A year-on-year increase in expenditure on potash of 52% to RUB 2.7 billion (USD 46 million) due to 33% growth in purchased volumes (thanks to the greater share of NPKs with high potash content) and a 14% increase in RUB-denominated prices.
- Spending on natural gas increased by 35% year-on-year to RUB 2.5 billion (USD 42 million) mainly due to a 32% year-on-year increase in ammonia production where natural gas is the main feedstock.
- Expenditures on sulphur and sulphuric acid were up by 41% year-on-year to RUB 1.7 billion (USD 28 million). The key reasons were a 19% increase in purchased volumes due to growth in production of phosphate-based fertilizers and an 18% increase in RUB-denominated prices.
- Electricity costs increased by 27% year-on-year to RUB 1.4 billion (USD 24 million) on the back of 12% growth in purchasing from third-parties (resulting from extra purchases due to the rump up of the new ammonia and urea units) and a 13% increase in the average electricity price.
- A 22% year-on-year increase in spending on purchased ammonia to RUB 1.3 billion (USD 23 million) was mainly due to a 19% increase in purchase volumes. The growth in purchased

volumes was driven by almost 16% and 32% year-on-year increases in phosphate- and nitrogen-based fertilizer production, respectively.

Administrative expenses increased by 32% year-on-year to RUB 3.7 billion (USD 63 million) in 3Q 2017, primarily due to a 74% increase in personnel costs to RUB 2.1 billion (USD 37 million). The key items leading to this increase were changes to the bonus accrual schedule, which is now done on a monthly basis instead of the half-year approach used in 2016, indexation of top management salaries, and selective one-off bonuses related to project activities.

In 3Q 2017 Selling expenses increased by 19% year-on-year to RUB 5.0 billion (USD 85 million). The main factors behind the growth were: 1) freight, port and stevedoring expenses grew by 16% year-on-year to RUB 2.0 billion (USD 34 million) primarily due to a 10% year-on-year increase in export sales of rock and fertilizers; 2) materials and services more than doubled to RUB 0.7 billion (USD 12 million) due to higher import duties paid as the company increasing export sales to European markets, as well as higher transportation and storage expenses due to expanding retail business in Russia.

Cash spent on capex in 3Q 2017 amounted to RUB 8.4 billion (USD 142 million), a decrease of 25% year-on-year. Capital expenditure was primarily focused on completing the construction of new ammonia and urea units, modernisation of Benefeciation Plant #3 and extra underground drilling at Apatit. Capex for 9M 2017 reached RUB 23.3 billion (USD 400 million)

## **Outlook**

### *Market outlook*

- Substantial growth in feedstock prices (ammonia and sulphur) over the last two months has inflated cash costs for major producers worldwide, and especially for Chinese phosphate manufacturers. The increase in sulphur prices was due to low inventories and high season domestic demand in China. The ammonia price increase was driven by lower volumes available for spot sales after the start-up of Ma'aden's phosphate complex.
- Mosaic announced the idling one of its downstream facilities. Plant City, with a total capacity 950 thousand tonnes in P<sub>2</sub>O<sub>5</sub> is expected to be idled from 1 January 2018 for one year, which may help to balance the market in the short-term and support DAP/MAP prices.
- Inflation in the main feedstocks should support prices at recently achieved levels (USD 380 per tonne MAP FOB Baltics and USD 370 per tonne DAP FOB Tampa), despite the beginning of low season, with a higher upside risk as the spring season approaches.

## **Conference call and webcast**

PhosAgro will hold a conference call and webcast today at 14:00 London time (17:00 Moscow; 09:00 New York).

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

### **Webcast links:**

*English:*

<http://event.onlineseminarsolutions.com/r.htm?e=1551055&s=1&k=1685C4D98C85463DFCC7ECD3FF6085E0>

*Russian:*

<http://event.onlineseminarsolutions.com/r.htm?e=1551058&s=1&k=EF0664F231FBFA7566CFEB84>

[92F8A1B7](#)

**Participant dial-in numbers:**

Russian Federation +7 495 221 6523  
Russian Federation 8 10 8002 041 4011  
United Kingdom +44 203 043 2440  
United Kingdom 0808 238 1774  
United States 1 877 887 4163

**Conference ID numbers:**

English call: 57785958#  
Russian call: 74132117#

**For further information please contact:**

PhosAgro

Alexander Seleznev, Head of Investor Relations Department  
+7 495 232 9689 ext 2187  
[ir@phosagro.ru](mailto:ir@phosagro.ru)

Timur Belov, Press Officer  
Anastacia Basos, Deputy Press Secretary  
+7 495 232 9689

EM  
Sam VanDerlip  
[vanderlip@em-comms.com](mailto:vanderlip@em-comms.com)  
+44 7554 993 032  
+7 499 918 3134

**Notes to Editors**

**PhosAgro** ([www.phosagro.ru](http://www.phosagro.ru)) is one of the world's leading vertically integrated phosphate-based fertilizer producers in terms of production volumes of phosphate-based fertilizers and high-grade phosphate rock with a P<sub>2</sub>O<sub>5</sub> content of not less than 37% (according to IFA, Fertecon and CRU).

The Company is the largest phosphate-based fertilizer producer in Europe, the largest producer of high-grade phosphate rock (with a P<sub>2</sub>O<sub>5</sub> content of not less than 37%) worldwide and one of the top three MAP/DAP producers in the world, according to IFA. PhosAgro is also one of the leading producers of feed phosphates (MCP) in Europe, and the only producer in Russia, according to CRU and the RAFP. PhosAgro is Russia's only producer of nepheline concentrate, according to the RAFP.

PhosAgro's main products include phosphate rock, over 35 grades of fertilizers, feed phosphates, ammonia, and sodium tripolyphosphate, which are used by customers in 100 countries spanning all of the world's inhabited continents. The Company's priority markets outside of Russia and the CIS are Latin America, Europe and Asia.

PhosAgro's shares are traded on the Moscow Exchange, and global depositary receipts ("GDRs") for shares trade on the London Stock Exchange (under the ticker PHOR). Since 1 June 2016, the

Company's GDRs have been included in the MSCI Russia and MSCI Emerging Markets indexes.

### PJSC "PhosAgro"

Consolidated Interim Condensed Statements of Profit or Loss and Other Comprehensive Income for the nine months ended 30 September 2017 (unaudited)

	Nine months ended 30 September		Three months ended 30 September	
	2017	2016	2017	2016
	RUB million	RUB million	RUB million	RUB million
Revenues	135,573	147,607	46,452	45,558
Cost of sales	(76,730)	(69,587)	(27,145)	(22,967)
<b>Gross profit</b>	<b>58,843</b>	<b>78,020</b>	<b>19,307</b>	<b>22,591</b>
Administrative expenses	(10,917)	(9,403)	(3,706)	(2,803)
Selling expenses	(16,533)	(14,095)	(4,991)	(4,200)
Taxes, other than income tax	(1,869)	(1,574)	(639)	(502)
Other expenses, net	(1,660)	(1,680)	(423)	(326)
<b>Operating profit</b>	<b>27,864</b>	<b>51,268</b>	<b>9,548</b>	<b>14,760</b>
Finance income	415	732	154	298
Finance costs	(4,246)	(3,634)	(2,022)	(1,116)
Foreign exchange gain	3,585	13,022	1,572	1,743
Share of profit of associates	251	67	100	2
<b>Profit before tax</b>	<b>27,869</b>	<b>61,455</b>	<b>9,352</b>	<b>15,687</b>
Income tax expense	(6,794)	(12,940)	(2,009)	(3,286)
<b>Profit for the period</b>	<b>21,075</b>	<b>48,515</b>	<b>7,343</b>	<b>12,401</b>
Attributable to:				
Non-controlling interests ^	(3)	-	(1)	(5)
Shareholders of the Parent	21,078	48,515	7,344	12,406
<b>Other comprehensive income</b>				
<b>Items that will never be reclassified to profit or loss</b>				
Actuarial gain and losses, net of tax	-	(21)	-	(3)
<b>Items that may be reclassified subsequently to profit or loss</b>				
Foreign currency translation difference	(600)	(2,086)	(171)	(326)
<b>Other comprehensive loss for the period</b>	<b>(600)</b>	<b>(2,107)</b>	<b>(171)</b>	<b>(329)</b>
<b>Total comprehensive income for the period</b>	<b>20,475</b>	<b>46,408</b>	<b>7,172</b>	<b>12,072</b>
Attributable to:				
Non-controlling interests ^	(3)	-	(1)	(5)
Shareholders of the Parent	20,478	46,408	7,173	12,077
Basic and diluted earnings per share (in RUB)	163	375	57	96

### PJSC "PhosAgro"

Consolidated Interim Condensed Statement of Financial Position as at 30 September 2017 (unaudited)

30 September 2017	31 December 2016
RUB million	RUB million

#### Assets

Property, plant and equipment	165,943	154,713
Advances issued for property, plant and equipment	3,581	4,684
Intangible assets	1,763	1,165
Investments in associates	859	816
Deferred tax assets	5,361	5,110
Other non-current assets	1,990	2,226
<b>Non-current assets</b>	<b>179,497</b>	<b>168,714</b>
Other current investments	2,018	3,282
Inventories	24,273	19,934
Trade and other receivables	25,247	30,013
Cash and cash equivalents	6,128	7,261
<b>Current assets</b>	<b>57,666</b>	<b>60,490</b>
<b>Total assets</b>	<b>237,163</b>	<b>229,204</b>
<b>Equity</b>		
Share capital	372	372
Share premium	7,494	7,494
Retained earnings	84,355	74,932
Other reserves	4,886	5,486
Equity attributable to shareholders of the Parent	97,107	88,284
Equity attributable to non-controlling interests	129	137
<b>Total equity</b>	<b>97,236</b>	<b>88,421</b>
<b>Liabilities</b>		
Loans and borrowings	79,240	96,409
Finance lease liabilities	1,132	1,830
Defined benefit obligations	844	767
Deferred tax liabilities	6,095	4,600
<b>Non-current liabilities</b>	<b>87,311</b>	<b>103,606</b>
Loans and borrowings	33,429	12,457
Finance lease liabilities	1,382	1,680
Trade and other payables	17,805	23,040
<b>Current liabilities</b>	<b>52,616</b>	<b>37,177</b>
<b>Total equity and liabilities</b>	<b>237,163</b>	<b>229,204</b>

## PJSC "PhosAgro"

Consolidated Interim Condensed Statement of Cash Flows  
for the nine months ended 30 September 2017 (unaudited)

	Nine months ended 30 September	
	2017 RUB million	2016 RUB million
<b>Cash flows from operating activities</b>		
Profit before tax	27,869	61,455
<i>Adjustments for:</i>		
Depreciation and amortisation	10,647	7,655
Loss on disposal of property, plant and equipment and intangible assets	764	259
Finance income	(415)	(732)
Finance costs	4,246	3,634
Share of profit of associates	(251)	(67)
Foreign exchange gain	(3,589)	(14,202)
Operating profit before changes in working capital and provisions	39,271	58,002



(Increase)/decrease in inventories	(4,336)	1,273
Decrease in trade and other receivables	5,618	7,472
Decrease in trade and other payables	(4,159)	(2,004)
Cash flows from operations before income taxes and interest paid	36,394	64,743
Income tax paid	(6,743)	(11,222)
Finance costs paid	(3,184)	(4,026)
<b>Cash flows from operating activities</b>	<b>26,467</b>	<b>49,495</b>
<b><i>Cash flows from investing activities</i></b>		
Acquisition of property, plant and equipment and intangible assets	(23,294)	(29,536)
Repayment of loans issued, net	414	174
Proceeds from disposal of property, plant and equipment	193	285
Finance income received	228	349
Disposal of investments, net	381	446
<b>Cash flows used in investing activities</b>	<b>(22,078)</b>	<b>(28,282)</b>
<b><i>Cash flows from financing activities</i></b>		
Proceeds from borrowings	76,254	27,668
Repayment of borrowings	(69,215)	(26,080)
Acquisition of non-controlling interests	-	(218)
Dividends paid to shareholders of the Parent	(11,655)	(23,699)
Dividends paid to non-controlling interests	(5)	(8)
Finance leases paid	(1,012)	(1,588)
Proceeds from settlement of derivatives	-	174
Other payments	-	(290)
<b>Cash flows used in financing activities</b>	<b>(5,633)</b>	<b>(24,041)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,244)</b>	<b>(2,828)</b>
Cash and cash equivalents at 1 January	7,261	29,347
Effect of exchange rates fluctuations	111	(3,325)
<b>Cash and cash equivalents at 30 September</b>	<b>6,128</b>	<b>23,194</b>