

PhosAgro 3Q18 EBITDA Surges 72% YoY to RUB 23.4 bn

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 months (3Q) and nine months (9M) ended 30 September 2018.

Revenue in 3Q 2018 rose by 35% year-on-year to RUB 62.8 billion (USD 958 million), while EBITDA grew by 72% year-on-year to RUB 23.4 billion (USD 357 million). PhosAgro's third-quarter EBITDA margin increased to 37% in 2018 from 29% in 2017. PhosAgro's 3Q 2018 net income (adjusted for non-cash FX items) more than doubled year-on-year to RUB 12.9 billion (USD 197 million), bringing 9M 2018 adjusted net income to RUB 30.8 billion (USD 502 million), which is 76% higher year-on-year.

3Q 2018 financial and operational highlights

<i>RUB million or %</i>	3Q 2018	3Q 2017	Chng, % YoY	9M 2018	9M 2017	Chng, % YoY
Revenue	62,778	46,452	35%	174,026	135,573	28%
EBITDA*	23,385	13,624	72%	56,352	38,511	46%
EBITDA margin	37%	29%	8pp	32%	28%	4pp
Net income	7,798	7,343	6%	17,631	21,075	-16%
Adjusted net income**	12,879	5,771	123%	30,849	17,490	76%
	30.09.2018	31.12.2017				
Net debt	120,827	119,985				
ND/LTM EBITDA	1.7x	2.3x				
<i>Sales, 000' mt</i>	3Q 2018	3Q 2017	Chng, % YoY	9M 2018	9M 2017	Chng, % YoY
Phosphate-based	1,744	1,716	2%	5,143	4,886	5%
Nitrogen-based	458	309	48%	1,725	1,205	43%
Phosphate rock	695	654	6%	2,119	1,998	6%

RUB/USD rates: average 3Q 2018: 65.5; average 3Q 2017: 59.0; as of 30 September 2018: 65.6; as of 31 December 2017: 57.6

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

** Adjusted Net Income calculated as Net Income adjusted for Foreign exchange loss

PhosAgro CEO Andrey Guryev said: "While 2018 has seen market turbulence throughout the year and significant uncertainties and risks still exist, PhosAgro is finishing the year in good shape with robust and sustainable growth in EBITDA, record-high quarterly Free Cash Flow generation, recovery in margins above the mid-cycle levels and a decrease in leverage. These factors clearly indicate that the successful implementation of our long-term strategy, which focuses on organic production growth, vertical integration and purity of the product produced, has enabled PhosAgro to fully monetise its cost leadership in the upward macro environment.

“Since our IPO in 2011, PhosAgro has always sought to be consistent and predictable with its capital allocation policy in order to maximise both production growth rates and returns for shareholders while minimising risks to credit quality. As part of our long-term strategy, PhosAgro has spent up to 50-60% of EBITDA on investments into its Russian assets over the past five years. Today we can see a material positive impact on our earnings from these large-scale investments, and the Company can take a slightly modified approach to its dividend policy by paying out up to 75% of free cash flow as dividends, which represents a double-digit annualised dividend yield (based on 3Q numbers). On top of the attractive dividend yield, this cash flow distribution leaves room for the comfortable repayment of RUB-denominated debt in December 2018 and to reduce further PhosAgro’s leverage by the year-end.

“In terms of the short-term outlook, while we see some signs of the seasonal price correction that is regularly seen in November-January, this is likely to be limited given the rising cash costs in the industry. For PhosAgro, we believe that the profitability metrics we achieved in 3Q 2018 are sustainable, with further potential upside from projects that are currently under construction. This will enable us to balance the volume of new investments to ensure stable high growth rates while offering existing and new shareholders profitability on par with our top peers in Russia and abroad.”

3Q 2018 market conditions

In 3Q 2018, DAP (FOB Tampa) prices averaged USD 434 per tonne, up by 22% (USD 94) year-on-year. The key drivers of the recovery in phosphate prices were:

- Idling of Plant City by Mosaic, resulting in a deficit on the North American market and higher import volumes;
- Slower than expected ramp up of new units in Saudi Arabia and Morocco;
- Healthy import demand in India due to loss-making domestic production of DAP, which was partially offset by the ongoing Rupee depreciation;
- Solid growth of DAP imports to Pakistan in August 2018 by 27% year-on-year to 1.3 mln tonnes, according to NFDC;
- Seasonal recovery of fertilizer demand in Brazil, driven by favourable market conditions for soybeans.

In 3Q 2018 Urea (FOB Baltic) averaged USD 260 per tonne vs. USD 205 per tonne in 3Q 2017. This price increase was driven by:

- Further cuts in urea exports from China due to environmental reforms, and from Iran due to recent US sanctions;
- Early start of seasonal demand from India and Brazil driven by low urea inventory levels.

Financial performance

In 3Q 2018, headline revenue increased by 35% year-on-year to RUB 62.8 billion (USD 958 million) on solid sales in the nitrogen segment (up by 48% year-on-year to 458 kt) and meaningful increases in average prices per tonne in both the phosphate (up by 18% year-on-year to USD 390 per tonne) and nitrogen (up by 30% year-on-year to USD 283 per tonne) segments.

The Company increased export revenue by 45% year-on-year to RUB 36.8 billion (USD 561 million),

backed by robust demand for phosphate-based and nitrogen-based products in North and Latin America. Revenue from domestic sales grew by 23% year-on-year to RUB 26 billion (USD 397 million).

A detailed revenue breakdown by key products is presented below:

Revenue by key products

<i>RUB million</i>	3Q 2018	3Q 2017	Chng, % YoY	9M 2018	9M 2017	Chng, % YoY
DAP/MAP	20,946	16,198	29%	58,461	47,232	24%
NPK(S)	18,029	13,712	31%	45,793	34,928	31%
PhosRock	5,435	5,006	9%	15,789	15,801	0%
Nitrogen-based products	8,492	3,984	113%	26,681	15,404	73%

In 3Q 2018, gross profit was RUB 30.2 billion (USD 461 million), with gross profit margin expanding to 48% from 42% in 3Q 2017. Gross profit and margin performance for the phosphate and nitrogen segments were as follows:

- The phosphate segment saw a 45% year-on-year increase in gross profit to RUB 25.0 billion (USD 382 million), with a gross margin of 49%, compared to 43% in 3Q 2017.
- Gross profit for the nitrogen segment increased by 2.6 times year-on-year to RUB 5.0 billion (USD 76.5 million). Gross margin for the segment jumped by 12 p.p. year-on-year to 57%.

EBITDA in 3Q 2018 amounted to RUB 23.4 billion (USD 357 million), up by 72% year-on-year, while EBITDA margin nearly reached a three-year high at 37%. Net profit adjusted for non-cash FX items amounted to RUB 12.9 billion (USD 197 million) in 3Q 2018, more than doubling year-on-year.

The RUB depreciated by 11% year-on-year against the USD during the quarter (the average RUB/USD exchange rates for 3Q 2018 and 3Q 2017 were RUB 65.5 and RUB 59.0 respectively), which had a net positive impact, as prices for most of the Company's products are denominated in USD, while costs are primarily RUB-based. The depreciation of the RUB as of 30 September 2018 (RUB 65.6 per USD) compared to 30 June 2018 (RUB 62.8 per USD) resulted in an FX loss of RUB 5.1 billion (vs. a RUB 1.6 billion gain in 3Q 2017).

Net operating cash flow in 3Q 2018 increased by 125% year-on-year to RUB 22.9 billion (USD 350 million) primarily driven by profitability growth coupled with working capital release. The growth in net operating cash flow resulted in free cash flow (net operating cash flow minus cash flows used in investing activities) for the quarter of RUB 12.4 billion (USD 189 million) which represents a quarterly record since the Company became publicly-listed.

Capital expenditure in 3Q 2018 totalled around RUB 10.0 billion (USD 152 million). The main capex spending was on scheduled maintenance and development of the upstream business, as well as on construction of new sulphuric and nitric acid plants.

As of the end of September 2018, net debt totalled RUB 120.8 billion (USD 1.8 billion), bringing the net debt/LTM EBITDA ratio to a two-year low of 1.7x, thanks to positive dynamics in EBITDA performance and repayments of some short-term commitments.

Cost of Sales

<i>RUB million</i>	3Q 2018	3Q 2017	Chng, % YoY	9M 2018	9M 2017	Chng, % YoY
Materials and services	10,353	8,569	21%	28,268	23,589	20%
D&A	5,354	3,673	46%	14,990	9,546	57%
Natural gas	2,685	2,520	7%	9,403	6,424	46%
Salaries and social contributions	3,165	2,674	18%	9,540	8,250	16%
Sulphur and sulph. acid	2,561	1,619	58%	7,735	4,391	76%
Potash	3,162	2,775	14%	7,718	6,514	18%
Chemical fertilisers and other products for resale	1,641	1,414	16%	4,672	4,092	14%
Electricity	1,327	1,387	-4%	4,195	4,112	2%
Ammonium sulphate	506	308	64%	2,105	1,328	59%
Ammonia	914	1,273	-28%	2,720	5,637	-52%
Fuel	876	738	19%	2,764	2,494	11%
Heating energy	70	66	6%	402	484	-17%
Total	32,614	27,016	21%	94,512	76,861	32%

Cost of sales rose by 21% year-on-year in 3Q 2018 to RUB 32.6 billion (USD 498 million). The key factors behind the changes are:

- Materials and services were up 21% year-on-year to RUB 10.4 billion (USD 159 million) mainly driven by a 15.4% year-on-year increase in PPI and 2.2% growth in overall fertilizer production;
- Depreciation rose by 46% year-on-year to RUB 5.4 billion (USD 82 million) due to the commissioning of new ammonia and urea facilities in 3Q 2017 and modernisation of ANOF-3;
- Costs for natural gas were up by 7% year-on-year to RUB 2.7 billion (USD 41 million) due to a 13% year-on-year growth in ammonia production, offset by better production efficiency.
- Salaries and social contributions increased by 18% year-on-year to RUB 3.2 billion (USD 48 million), due to an increase in headcount and growth in average salary;
- Sulphur and sulphuric acid costs increased by 58% year-on-year to RUB 2.6 billion (USD 40 million), mainly driven by a 77% year-on-year increase in the average purchase price for sulphur and sulphuric acid, which was partially offset by an 11% decrease in volumes;
- Ammonium sulphate costs were up by 64% to RUB 0.5 billion (USD 8 million) due to increased production of certain grades of NPK and NPS where ammonium sulphate is used as the feedstock.
- Costs for ammonia declined by 28% year-on-year to RUB 0.9 billion (USD 14 million) thanks to the ramp up of PhosAgro's new ammonia line and the ensuing substantial decrease in purchased volumes.

Administrative expenses for 3Q 2018 were up by 11% year-on-year to RUB 3.9 billion (USD 60 million), mainly due to a 9% growth in personnel costs to RUB 2.2 billion (USD 34 million).

In 3Q 2018, selling expenses increased by 36% year-on-year to RUB 7.4 billion (USD 113 million). The main factors behind this growth were: 1) freight, port and stevedoring expenses rose by 62% year-on-year to RUB 3.6 billion (USD 55 million) primarily due to 13% growth in shipping rates combined with the RUB devaluation (the majority of freight and stevedoring tariffs are denominated in USD), almost 30% year-on-year increase in export sales of fertilizers shipped by sea, as well as

focus on long haul CFR destinations; 2) spending on transportation grew by 7.4% year-on-year to RUB 2.5 billion (USD 38 million), driven by a 7% year-on-year growth in overall sales.

Outlook

Market outlook

In the short term, demand is expected to remain firm with limited risk of price corrections, based on the following:

Upward factors:

- The start of the high season in China in November-December, when local producers will turn their focus to the domestic market;
- Seasonal recovery of demand for DAP/NPK in Europe in 1Q 2019;
- Healthy seasonal imports of phosphates to India and Brazil in 1H 2019 due to low inventories and more restocking.

Downward factors:

- In 4Q 2018, PhosAgro expects a seasonal slowdown in core markets (USA, India, Brazil);
- Rising competition and the ramping-up of new capacities from Maaden 2 are still the main factors that could limit a further upward trend in phosphate prices.