PhosAgro 2Q18 EBITDA Grows 53% YoY to RUB 18.7 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 (2Q) and six months (1H) ended 30 June 2018.

Revenue grew by 27% year-on-year in 2Q 2018 to RUB 56.6 billion (USD 916 million). EBITDA for the second quarter amounted to RUB 18.7 billion (USD 302 million), with PhosAgro's EBITDA margin expanding to 33% in 2Q 2018 from 27% in 2Q 2017. Net income (adjusted for non-cash FX items) for 2Q 2018 jumped by 91% year-on-year to RUB 11.6 billion (USD 188 million), bringing 1H 2018 adjusted net income to RUB 18 billion (USD 303 million).

2Q 2018 financial and operational highlights

RUB million or %	**2Q 2018**	**2Q 2017**	***Chng, %YoY***	**1H 2018**	**1H 2017**	***Chng, %YoY***
Revenue	56,626	44,723	*27%*	111,248	89,121	*25%*
EBITDA*	18,674	12,212	*53%*	32,967	24,887	*32%*
EBITDA margin	33%	27%	*6 pp*	30%	28%	*2 pp*
Net income	2,955	1,469	*101%*	9,833	13,732	*-28%*
Net income adj**	11,627	6,081	*91%*	17,970	11,719	*53%*
	30.06.2018	**31.12.2017**				
Net debt	122,910	119,985				
ND/LTM EBITDA	2.07x	2.34x				
Sales, 000' mt	**2Q 2018**	**2Q 2017**	***Chng, %YoY***	**1H 2018**	**1H 2017**	***Chng, %YoY***
Phosphate-based	1,646	1,637	*1%*	3,399	3,170	*7%*
Nitrogen-based	600	435	*38%*	1,267	896	*41%*
Phosphate rock	733	657	*12%*	1,424	1,344	*6%*

RUB/USD rates: average 2Q 2018: 61.8; average 2Q 2017: 57.2; as of 30 June 2018: 62.8; as of 31 December 2017: 57.6
** EBITDA is calculated as operating profit adjusted for depreciation and amortisation.
** Net Income adjusted calculated as Net Income minus Foreign exchange gain (net)

PhosAgro CEO Andrey Guryev said: "We have been able to significantly strengthen our financial performance by delivering on PhosAgro's carefully-chosen long-term development strategy, which includes a focus on organic production growth and vertical integration, constant control over operating costs, and completion of large-scale investment projects on time and on budget at a time when the first signs of price recovery have begun to emerge. With a 50% increase in EBITDA, doubling of net income and a reduction in our leverage, we continue to strictly adhere to our dividend policy (the size of the dividend recommended by the Board of Directors nearly doubled year-on-year) while maintaining investments at the level required to further advance our development.
"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. In addition to nearly double-digit growth in production output, this has allowed us to maintain our industry leadership in terms of cash cost of production, and to weather a period of consistently low prices and trade restrictions—both embargoes and duties—with minimal impact on our financial stability. In an extremely volatile macroeconomic situation, the predictability and stability of fiscal policy remains a fundamental factor in making investment decisions, especially taking into account the long period required to earn a return on investments and our status as a public company with a significant share of foreign minority shareholders.

"In terms of the medium-term outlook, we believe that the positive trend in prices is sustainable, as is PhosAgro's return to mid-cycle profitability levels, enabling 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."

2Q 2018 market conditions

- The average price of DAP (FOB Tampa) in 2Q 2018 was USD 410 per tonne, which implies a year-on-year increase of USD 54, or 15%, per tonne.
- The key drivers of the recovery in phosphate prices were: 1) idling of Plant City by Mosaic, resulting in a deficit on the North American market and higher import volumes; 2) robust import demand in India due to loss-making domestic production of DAP 3) slower than expected ramp up of new units in Saudi Arabia and Morocco.
- The average price of urea (FOB Baltic) in 2Q 2018 was USD 223 per tonne vs. USD 191 per tonne in 2Q 2017. The price increase was driven by further cuts in urea exports from China, growing cash costs for nitrogen producers in Europe (due to higher gas prices) and expectations of lower export from Iran once sanctions are fully back in force.

Financial performance

In 2Q 2018 revenue increased by 27% year-on-year to RUB 56.6 billion (USD 916 million) on the back of doubling in revenues from DAP and urea sales, which was partially offset by a 19% year-on-year drop in MAP revenue (overall company's MAP sales declined by 35% year-on-year due to lower demand in Brazil). The weighted average revenue per tonne (in RUB) for DAP/MAP, NPK and Urea increased by 25%, 20% and 23% year-on-year, respectively.

Comparing export and domestic markets, the Company managed to increase export revenue by 38% year-on-year due to an increase in overall volumes (up by 13% year-on-year) and an increase in RUB-denominated prices (up by 23% year-on-year), while domestic revenue remained almost flat, growing by 5% year-on-year.

A detailed revenue breakdown by key products is presented below:

Revenue by key products

RUB million	**2Q 2018**	**2Q 2017**	***Chng, % YoY***	**1H 2018**	**1H 2017**	***Chng, % YoY***
DAP/MAP	18,884	15,883	*19%*	37,514	31,035	*21%*
NPK(S)	14,651	11,534	*27%*	27,764	21,216	*31%*
PhosRock	5,491	5,045	*9%*	10,354	10,795	*-4%*
Nitrogen-based	9,082	5,342	*70%*	18,637	11,476	*62%*

Revenue by key products

In 2Q 2018 gross profit increased by 37% year-on-year to RUB 26.8 billion (USD 433 million), with gross profit margin expanding to 47% from 44% in 2Q 2017. Gross profit and margin performance for the phosphate and nitrogen segments were as follows:

- The phosphate segment saw a 24% year-on-year increase in gross profit to RUB 22.0 billion (USD 356 million), with a gross margin of 48%, compared to 47% in 2Q 2017.
- Gross profit for the nitrogen segment almost tripled year-on-year to RUB 4.7 billion (USD 76 million). Gross margin for the segment jumped by 22 p.p. year-on-year to 52%.

EBITDA in 2Q 2018 amounted to RUB 18.7 billion (USD 302 million), up by 53% year-on-year, while EBITDA margin expanded to 33% from 27% in 2Q 2017. Net profit adjusted for non-cash FX items amounted to RUB 11.6 billion (USD 188 million) in 2Q 2018, up by 91% year-on-year.

The RUB depreciated by 8% year-on-year against the USD during the quarter (the average RUB/USD exchange rates for 2Q 2018 and 2Q 2017 were RUB 61.8 and RUB 57.2 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 June 2018 (RUB 62.8 per USD) compared to 31 March 2018 (RUB 57.3 per USD) resulted in an FX loss of RUB 8.7 billion (vs. a RUB 4.6 billion loss in 2Q 2017).

Net operating cash flow in 2Q 2018 increased by 74% year-on-year to RUB 16.1 billion (USD 260 million) primarily driven by the growth in profitability. Free cash flow in the second quarter was positive at RUB 8.4 billion (USD 136 million).

Capital expenditure in 2Q 2018 was RUB 7.6 billion (USD 124 million), up by 29% year-on-year primarily due to the low base effect (in 2017 some capex payments were postponed until the second half). 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 June 2018, net debt totalled RUB 122.9 billion (USD 1.96 billion), representing a decrease in the net debt/LTM EBITDA ratio to 2.07x thanks to positive dynamics in EBITDA performance.

Cost of Sales

RUB million	**2Q 2018**	**2Q 2017**	***Chng, % YoY***	**1H 2018**	**1H 2017**	***Chng, % YoY***
Materials and services	9,110	7,739	*18%*	17,915	14,736	*22%*
D&A	4,882	3,072	*59%*	9,636	5,873	*64%*
Natural gas	3,221	1,967	*64%*	6,718	3,904	*72%*
Salaries	3,174	2,703	*17%*	6,375	5,576	*14%*
Sulphur and sulph. acid	2,296	1,594	*44%*	5,174	2,772	*87%*
Potash	2,284	2,295	*0%*	4,556	3,739	*22%*
Fertilisers for resale	1,169	1,031	*13%*	3,031	2,678	*13%*

Electricity	1,441	1,307	*10%*	2,868	2,725	*5%*
Ammonium sulphate	500	285	*75%*	1,599	1,020	*57%*
Ammonia	715	2,196	*-67%*	1,806	4,364	*-59%*
Fuel	889	805	*10%*	1,888	1,756	*8%*
Heating energy	163	150	*9%*	332	418	*-21%*
Total	**29,844**	**25,144**	***19%***	**61,898**	**49,561**	***25%***

Cost of sales grew by 19% year-on-year in 2Q 2018 to RUB 29.8 billion (USD 483 million). The key factors behind the growth were:

- Materials and services grew by 18% year-on-year to RUB 9.1 billion (USD 147 million) mainly driven by an 8.5% year-on-year increase in PPI and 9.2% growth in overall fertilizer production;
- Depreciation rose by 59% year-on-year to RUB 4.9 billion (USD 79 million) as a result of the commissioning of new ammonia and urea facilities in 3Q 2017 and modernisation of ANOF-3;
- Costs for natural gas were up by 64% year-on-year to RUB 3.2 billion (USD 52 million) on the back of 60% year-on-year growth in ammonia production, where gas is the main feedstock;
- Salaries and social contributions increased by 17% year-on-year to RUB 3.2 billion (USD 51 million), due to an increase in headcount and growth in average salary;
- Sulphur and sulphuric acid costs increased by 44% year-on-year to RUB 2.3 billion (USD 37 million) on the back of a 52% year-on-year increase in the average realised sulphur price (sulphur equivalent);
- Electricity costs rose by 10% year-on-year to RUB 1.4 billion (USD 23 million) on the back of a 13% growth in purchase prices, which was partially offset by lower consumption;
- Ammonium sulphate costs were up by 75% year-on-year to RUB 0.5 billion (USD 8 million) due to more than doubling NPS production volumes year-on-year;
- Costs for ammonia decreased by 67% year-on-year to RUB 0.7 billion (USD 12 million) thanks to the ramp up of PhosAgro’s new ammonia line and the ensuing substantial decrease in purchased volumes.

Administrative expenses for 2Q 2018 grew by 5% year-on-year to RUB 3.4 billion (USD 54 million) due to an increase in personnel costs to RUB 2.0 billion (USD 32 million).

In 2Q 2018, selling expenses increased by 36% year-on-year to RUB 8.7 billion (USD 140 million). The main factors behind this growth were: 1) freight, port and stevedoring expenses rose by 76% year-on-year to RUB 4.4 billion (USD 71 million) primarily due to a 27% year-on-year increase in export sales of fertilizers shipped by sea, as well as 18% growth in shipping rates and changes in incoterms (more CFR sales) combined with RUB devaluation; 2) spending on transportation grew by 8% year-on-year to RUB 2.6 billion (USD 43 million), driven by the 10% year-on-year growth in overall volumes.

Outlook

Market outlook

The demand outlook remains firm on the back of:

- Healthy imports of phosphates to India, which are expected to reach 5.5 million tonnes of DAP in 2018/19, despite the current weakness in the rupee;

- Seasonal growth in demand for DAP/MAP in Europe, US and Africa (Ethiopia);
- More activity from Brazil as a result of the favourable price environment for soybeans (growth in demand from China) and the lag in buying activity in 2018 (10-30% year-on-year decrease);
- The start of the high season in China in October-December, when local producers will turn their focus to the domestic market.
- At the same time, rising competition and the ramp-up of new capacities from Ma’aden 2 and the final, fourth unit at OCP are the main factors that could limit further upward movement in phosphate prices.
- According to IFA, global fertilizer consumption between 2018/19 and 2022/23 is due to rise with a CAGR of 2.0-2.5%. The growth in consumption of phosphates and potash (excluding China) is forecast to outperform growth in nitrogen fertilizer use.