

# PhosAgro Q1 2014 EBITDA up 13% to RUB 8.6 bln

**Moscow - PhosAgro** ("PhosAgro" or "the Company") (Moscow Exchange, LSE: PHOR), a leading global vertically integrated phosphate-based fertilizer producer, today announces its reviewed condensed consolidated IFRS financial results for the three months ended 31 March 2014. PhosAgro earned a net profit for the period of RUB 1.9 billion (USD 55 million), compared to RUB 3.3 billion (USD 108 million) in Q1 2013. Basic and diluted earnings per share came to RUB 14 (USD 0.40) for Q1 2014 compared to RUB 23 (USD 0.76) in Q1 2013.

## Q1 2014 Financial and Operational Highlights:

Result	Q1 2014		Q1 2013		year-on-year change (RUB vs. RUB), %
	RUB million	USD	RUB million	USD	
Revenue	29,416	841	28,902	950	2%
EBITDA*	8,587	246	7,578	249	13%
EBITDA margin	29%	29%	26%	26%	3 p.p.
Net Profit	1,909	55	3,291	108	(42%)
Earnings per share	14	0.40	23	0.76	(39%)
<b>Sales volumes</b>	Kmt		Kmt		
Phosphate-based products	1,252.2		1,327.0		(5.6%)
Nitrogen-based fertilizers	426.7		336.7		27%
Apatit mine and beneficiation plant	873.0		1,018		(14%)
Other products	57.6		47.3		22%

RUB/USD rates: average Q1 2014: 34.9591; average Q1 2013: 30.4142

As of 31 March 2014: 35.6871; as of 31 December 2013: 32.7292

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

## Other Q1 2014 Highlights

### *Production, sales and logistics flexibility:*

· During the first quarter of 2014, PhosAgro's revenue and sales volumes benefited from the Company's strategy of enhancing production flexibility, with total fertilizer production and sales volumes growing year-on-year by 5% and 1%, respectively. Revenue for the same period increased by 2% year-on-year as result of more than 3% year-on-year increase in average export DAP/MAP

realised prices, partially offset by decrease in NPK realised prices;

*Strategic development:*

- In January 2014, the Group signed a USD 440.6 million loan agreement with the Japan Bank for International Cooperation (JBIC) and a group of banks consisting of Bank of Tokyo-Mitsubishi (BTMU), Citibank Japan and Mizuho Bank. The proceeds from the loan are being used to fund construction of the new 760 thousand tonnes/year ammonia plant at PhosAgro-Cherepovets.

*Consolidation of ownership in production facilities and business development:*

- In February 2014, the Group launched a voluntary tender offer to acquire ordinary shares of OJSC PhosAgro-Cherepovets. The offer price, which was determined in accordance with Russian law, is RUB 44.0 per ordinary share with a nominal value of RUB 1.10. The offer period expired on 6 May 2014.
- In February 2014, PhosAgro launched a new subsidiary, LLC Smart Bulk Terminal. The Company will organize the construction and subsequent operation of the new terminal at the port of Ust-Luga, where it will handle fertilizers produced and sold by PhosAgro. PhosAgro owns 70% of LLC Smart Bulk Terminal.

PhosAgro's Q1 2014 net profit was RUB 1.9 billion (USD 55 million), a decrease of 42% year-on-year from RUB 3.3 billion (USD 108 million) in Q1 2013. The decline in net profit was due to the more than 9% devaluation of the Russian Rouble during the first three months of the year, from RUB/USD 32.73 as of 31 December 2013 to RUB/USD 35.69 as of 31 March 2014. This caused significant increase in unrealised exchange losses in Q1 2014 of RUB 2.7 billion compared to Q1 2013. Revenue for the period increased by 2% year-on-year to RUB 29.4 billion (USD 841 million), compared to RUB 28.9 billion (USD 950 million) for Q1 2013.

Operating profit for Q1 2014 was RUB 6.6 billion (USD 189 million), a 16% increase from RUB 5.7 billion (USD 187 million) in Q1 2013. EBITDA was RUB 8.6 billion (USD 246 million) in Q1 2014, up 13% year-on-year. EBITDA margin increased year-on-year to 29%, compared to 26% for Q1 2013.

Cash flows from operating activities increased by 60% and amounted to RUB 6.5 billion (USD 186 million) in Q1 2014, compared to RUB 4.1 billion (USD 134 million) in Q1 2013. The Company's capital expenditure (capex) in cash terms during Q1 2014 was RUB 3.81 billion (USD 109 million), compared to RUB 2.97 billion (USD 98 million) in Q1 2013.

Net debt at 31 March 2014 stood at RUB 45.4 billion (USD 1,272 million), up from RUB 43.8 billion (USD 1,339 million) at 31 December 2013. While net debt decreased in USD terms, it increased in RUB terms during Q1 2014 because of the RUB depreciation, and the fact that most of the Company's debt is denominated in USD. The Company's net debt to annualised EBITDA ratio decreased to 1.3 as of 31 March 2014 from 1.8 as of 31 December 2013.

Commenting on the Q1 2014 results, PhosAgro Management Board Chairman and CEO Andrey

Guryev said:

“I am pleased to report very strong results for Q1 2014, which represent our significantly improved operating environment, not just compared to Q4 2013, the worst quarter for the phosphate fertilizer industry since 2009, but also to Q1 2013, when average FOB Tampa DAP prices were actually 5% higher, at USD 487 per tonne vs USD 460 per tonne in Q1 2014. We have managed to increase operating cash flows by 60% compared to last year, which clearly demonstrates the benefits our vertically integrated flexible production, and shows that our cost-cutting initiatives have been successful.

“In Q1 2014 we managed to further increase fertilizer production and sales by 5% and 1%, respectively, and we generated a 29% EBITDA margin.

“We continued with our consolidation programme with the launch of a voluntary tender offer to acquire ordinary shares of PhosAgro-Cherepovets. I am pleased to report that more than 10% of minority shareholders have accepted this offer, which puts us on track to fully consolidate PhosAgro-Cherepovets by the end of this year. This will be a significant achievement, bringing us to 100% ownership of all our production subsidiaries, thus increasing returns for PhosAgro shareholders.”

### **Q1 2014 Market Conditions**

- Early demand from Latin America and Europe following very weak volumes in Q4 2013 led to a sharp recovery in DAP/MAP prices in January 2014, followed by further seasonal recovery up to USD 500 (FOB Tampa) in February-March 2014; urea prices peaked at USD 360 (FOB Baltics) at the end of January;
- Agricultural prices were strong: prices for soybeans and wheat increased over 15% from the beginning of the year, corn is up over 20%;
- After a very weak year with respect to phosphate consumption, and ahead of elections in May, the Indian Government made its subsidy announcement early, in March. The decision was to leave DAP subsidy and MRP (maximum retail price) at last year's levels of Rs 12,350 and Rs 22,500, respectively;
- The rupee has strengthened to around Rs/USD 61 in Q1 2014, compared to the weakest level of around Rs/USD 69 in June-July 2013;
- Phosphoric acid prices for Indian DAP producers have increased by 15% from USD 615 at the end of 2013 to USD 681 in Q1 2014, thus increasing the cost of local production.

### **Phosphate-based products segment**

<b>Result</b>	<b>Q1 2014</b>	<b>Q1 2013</b>	<b>year-on-year change, %</b>
	<b>RUB mln</b>	<b>RUB mln</b>	
Revenue	24,687	25,182	(2%)
Cost of goods sold	(14,697)	(16,608)	(12%)

Gross profit	9,990	8,574	17%
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Phosphate-based products segment revenue decreased by 2% and totalled RUB 24,687 million (USD 706 million) in Q1 2014. PhosAgro increased production of phosphate-based fertilizers and MCP by 4.3% year-on-year in Q1 2014, while sales volumes decreased by 5.4% year-on-year. Production and sales volumes for phosphate rock and nepheline concentrate decreased in Q1 2014 compared to Q1 2013 by 2.5% and 14.2%, respectively.

The decrease in sales volumes was primarily due to the effect of a significant increase in CFR sales, which resulted in higher volumes of goods in transit, as well as the accumulation of stock in PhosAgro's distribution system ahead of the Russian planting season. These were the major reasons for the 2% year-on-year decrease in phosphate-based products segment revenue in Q1 2014. Domestic NPK sales volumes increased by 60% year-on-year, which partially compensated for weaker NPK prices during Q1 2014. As a result, revenue from domestic NPK sales increased by 42% year-on-year, from RUB 1,695 million (USD 56 million) in Q1 2013 to RUB 2,406 million (USD 69 million) in Q1 2014. Revenue from NPK export sales decreased by 9% year-on-year, from RUB 3,659 million (USD 120 million) in Q1 2013 to RUB 3,325 million (USD 95 million) in Q1 2014. This was mainly the result of a 10% decline NPK export sales volumes. Revenue from DAP/MAP sales decreased by 3% year-on-year from RUB 9,102 million (USD 299 million) in Q1 2013 to RUB 8,831 million (USD 253 million) in Q1 2014. This decrease was due to a 6% year-on-year decline in sales volumes outweighing a more than 3% increase in DAP/MAP average revenue per tonne. Total sales of phosphate rock decreased by 7% year-on-year to RUB 4,162 million (USD 119 million) in Q1 2014 due to higher internal use.

The phosphate segment's gross profit for Q1 2014 increased by 17% year-on-year to RUB 9,990 million (USD 286 million), resulting in a gross profit margin of 40%, compared to a 34% margin in Q1 2013, which was the result of increased sales combined with cost savings (a more detailed discussion is provided in the CoGS analysis below).

*Revenue per tonne for the principal phosphate-based products*

<b>Product</b>	<b>Q1 2014 RUB</b>	<b>Q1 2013 RUB</b>	<b>year-on-year change, %</b>
<b>Domestic:</b>			
MAP	15,457	15,684	(1.4%)
DAP	15,190	15,305	(0.8%)
NPK	12,549	14,121	(11.1%)
MCP	18,963	19,394	(2.2%)
NPS	10,592	11,543	(8.2%)
SOP	23,110	19,551	18.2%
STPP	30,396	30,798	(1.3%)
<b>Export:</b>			
MAP	15,713	15,037	4.5%
DAP	15,507	15,003	3.4%
NPK	11,965	11,872	0.8%

MCP	19,738	16,988	16.2%
NPS	9,666	10,655	(9.3%)
SOP	23,409	14,937	56.7%
STPP	34,449	28,401	21.3%

## Nitrogen segment

<b>Result</b>	<b>Q1 2014</b>	<b>Q1 2013</b>	<b>year-on-year change, %</b>
	<b>RUB mln</b>	<b>RUB mln</b>	
Revenue	4,570	3,658	25%
Inter-segment transfers	8	35	(77%)
Cost of goods sold	(2,750)	(2,239)	23%
Gross profit	1,828	1,454	26%

Nitrogen segment revenue increased by 25% year-on-year to RUB 4,570 million (USD 131 million) in Q1 2014 from RUB 3,658 million (USD 120 million) in Q1 2013. Production and sales volumes of nitrogen-based fertilizers increased by 8% and 27% year-on-year, respectively, in Q1 2014.

Export revenue from urea increased by 31% year-on-year from RUB 2,414 million (USD 79 million) in Q1 2013 to RUB 3,168 million (USD 91 million) in Q1 2014, in line with the 31% increase in sales volumes. Ammonium nitrate (AN) sales volumes increased by 20%, which was the major factor for the 14% increase in revenue from AN sales from RUB 1,168 million (USD 38 million) in Q1 2013 to RUB 1,335 million (USD 38 million) in Q1 2014, balanced by a 5% decrease in domestic revenue per tonne.

Nitrogen segment gross profit during Q1 2014 increased by 26% year-on-year to RUB 1,828 million (USD 52 million), in line with the segment's revenue growth, and resulting in a gross profit margin of 40%. A more detailed discussion on cost savings is provided in the CoGS analysis below.

### *Revenue per tonne for the principal nitrogen-based fertilizers*

<b>Product</b>	<b>Q1 2014</b>	<b>Q1 2013</b>	<b>year-on-year change, %</b>
	<b>RUB</b>	<b>RUB</b>	
<b>Domestic:</b>			
Ammonium nitrate	9,392	9,839	(4.5%)
Urea	11,846	12,527	(5.4%)
<b>Export:</b>			
Urea	11,308	11,270	0.3%
NP	-	11,419	-

## Cost of sales

Item	Q1 2014			Q1 2013			Change y-o-y	
	RUB mln	USD mln	% of cost	RUB mln	USD mln	% of cost	RUB mln	%
Materials and services	4,977	142	29%	4,310	142	23%	667	15%
Salaries and social contributions	2,634	75	15%	3,302	109	18%	(668)	(20%)
Natural gas	1,963	56	11%	1,578	52	8%	385	24%
Depreciation	1,779	51	10%	1,731	57	9%	48	3%
Potash	979	28	6%	1,267	42	7%	(288)	(23%)
Electricity	895	26	5%	903	30	5%	(8)	(1%)
Ammonia	823	24	5%	1,607	53	9%	(784)	(49%)
Fuel	818	23	5%	1,382	45	7%	(564)	(41%)
Sulphur and sulphuric acid	736	21	4%	891	29	5%	(155)	(17%)
Heating energy	497	14	3%	117	4	1%	380	325%
Ammonium sulphate	237	7	1%	379	12	2%	(142)	(37%)
Other items	10	-	-	9	-	-	1	11%
Change in stock of WIP and finished goods	1,095	32	6%	1,142	37	6%	(47)	(4%)
<b>Total</b>	<b>17,443</b>	<b>499</b>	<b>100%</b>	<b>18,618</b>	<b>612</b>	<b>100%</b>	<b>(1,175)</b>	<b>(6%)</b>

PhosAgro's cost of sales decreased by 6% year-on-year in Q1 2014 to RUB 17,443 million (USD 499 million). This decrease in cost of sales was primarily due to the following factors:

- A 20%, or RUB 668 million (USD 19 million), year-on-year decrease in personnel costs as a result of the staff optimisation programme.
- An increase of RUB 667 million (USD 19 million), or 15%, year-on-year in the cost of materials and services due to price inflation of 4.2 % (PPI Q1 2014 vs Q1 2013), and the outsourcing of certain functions.
- A year-on-year decrease in expenditure on ammonia of RUB 784 million (USD 22 million), or 49%, from RUB 1,607 million (USD 53 million) in Q1 2013 to RUB 823 million (USD 24 million) in Q1 2014. This was due to year-on-year decreases in purchase volumes by 21% and prices by 28%. The decrease in volumes was mainly due to the modernisation of ammonia production facilities in Cherepovets, which helped to increase production of ammonia by 32.6 ths tonnes, or by 12%.
- A year-on-year increase in expenditure on natural gas of RUB 385 million (USD 11 million), or 24%, to RUB 1,963 million (USD 56 million) in Q1 2014. Natural gas is required primarily for the production of ammonia. The price per cubic metre of natural gas rose by 15%, while natural gas consumption increased by 9% year-on-year. The price increase was due to a 15% tariff increase in the second half of 2013. The 9% growth in volumes of gas purchased was due to a 12% year-on-year increase in ammonia production as a result of higher production capacity following completion of modernisations in Q3 2013.
- A decrease in expenditure on potash by 23% year-on-year, or RUB 288 million (USD 8 million), to

RUB 979 million (USD 28 million) in Q1 2014. This was mainly due to a 38% decrease in potash purchase prices, which was partially balanced by a 15% increase in potash purchase volumes as a result of a 15% year-on-year increase in NPK production.

- A year-on-year decrease in expenditure on fuel of RUB 564 million (USD 16 million), or 41%, from RUB 1,382 million (USD 45 million) in Q1 2013 to RUB 818 million (USD 23 million) in Q1 2014, which was in line with a 47% decrease in fuel consumption as a result of decreased open-pit mining, as well as the replacement of heating oil purchases with direct purchases of heating energy.

- Heating energy expenses increased by RUB 380 million (USD 11 million) from RUB 117 million (USD 4 million) in Q1 2013 to RUB 497 million (USD 14 million) in Q1 2014, as a result of the replacement of heating oil, which is consumed in boilers generating heating energy at Apatit, by direct purchases of heating energy.

- A decrease in expenditure on sulphur and sulphuric acid by RUB 155 million (USD 4 million), or 17%, year-on-year from RUB 891 million (USD 29 million) in Q1 2013 to RUB 736 million (USD 21 million) in Q1 2014. This was driven by a 22% decrease in purchase prices. The decrease in purchase prices was partly offset by a 5% increase in purchase volumes due to higher production volumes of phosphate-based fertilizers and feed phosphates.

- The decline in production of NPS/NPK, which have a high nitrogen content, led to a decrease in purchases of ammonium sulphate by RUB 142 million (USD 4 million), or 37%, year-on-year.

Administrative expenses rose by 8% year-on-year to RUB 1,973 million (USD 56 million) in Q1 2014 primarily as a result of the indexation of wages.

Selling expenses rose by 30% year-on-year, from RUB 2,106 million (USD 69 million) in Q1 2013 to RUB 2,730 million (USD 78 million) in Q1 2014. This was primarily due to the following changes from Q1 2013 to Q1 2014:

- A 15% increase in the Russian Railways infrastructure tariff and operators' fees from RUB 1,146 million (USD 38 million) to RUB 1,318 million (USD 38 million). An increase in container shipments, combined with a 29% increase in domestic fertiliser sales (largely shipped on a CPT basis) has led to higher use of rail freight transport

- A 46% increase in port and stevedoring expenses, due to significantly increased CFR sales vs. FOB in Q1 2014 compared to Q1 2013;

- The 82% increase in materials and services was also driven by the change in delivery terms for European customers to CPT, following the consolidation of Phosint Trading in Q4 2013.

Cash spent on capex in Q1 2014 amounted to RUB 3,810 million (USD 109 million), compared to RUB 2,974 million (USD 98 million) in Q1 2013. PhosAgro's capital expenditure, which consists of additions to property, plant and equipment, amounted to RUB 3,245 million (USD 93 million) for Q1 2014, compared to RUB 3,557 million (USD 117 million) in Q1 2013. Capital expenditure focused on construction of the main ore shaft № 2 at the Kirovsky underground mine, as well as the construction

of new storage facilities for liquid ammonia at Balakovo Mineral Fertilizers.

Total debt at 31 March 2014 amounted to RUB 62,162 million (USD 1,742 million), compared to RUB 52,756 million (USD 1,612 million) at 31 December 2013. Net debt at 31 March 2014 amounted to RUB 45,386 million (USD 1,272 million), compared to RUB 43,818 million (USD 1,339 million) at 31 December 2013.

## **Outlook**

### *Market:*

- Agricultural commodities market trends in 2014 are positive: prices for soybeans have increased by 16% year-to-date; corn and wheat - up more than 10%;
- Indian elections were held last week, with the opposition Bharatiya Jannate Party (BJP) coming out as all-around winner, and economic reforms as a primary focus on the political agenda;.
- The Indian Rupee is recovering further, now at 58.5 , increasing buying power of Indian farmers
- Feedstock prices are increasing globally, driving cash costs of most significant players up: sulphur prices in USA - China now are around USD 135-145 up 90% from minimum Q4 2013 levels of USD 70-80; ammonia has increased 25% from the beginning of the year USD 425-450 to USD 540-545; phosphoric acid in India has increased to USD 715 in Q2 17% up from the beginning of the year.

### *Company:*

- With global demand for complex fertilizers and NPS, the Company intends to invest further into both increasing capacity and expanding the number of NPK grades it produces, commencing PKS production in Q2 2014 and adding micro nutrients (such as B and Zn) fertiliser grades into its product portfolio;
- Following completion of the voluntary tender offer, in which over 10% of PhosAgro-Cherepovets shareholders participated, PhosAgro is on track to complete 100% consolidation of this subsidiary before the end of 2014
- PhosAgro continued its restructuring process in May with the merger of two production subsidiaries, OJSC Apatit and CJSC Balakovo Mineral Fertilizers, which will enhance further cost efficiency;
  - All major development projects are on track, including the new ammonia plant designed to increase cost efficiency and support further expansion of complex fertilizer capacity;
  - The Management Board is carefully monitoring the capital expenditure programme to comply with PhosAgro's financial policy with respect to capital spending and leverage.