

PhosAgro 6M 2014 Net Profit up 70% to RUB 8.1 bln

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 reviewed condensed consolidated IFRS financial results for the six months ended 30 June 2014. PhosAgro earned a net profit for the period of RUB 8.1 billion (USD 231 million), compared to RUB 4.8 billion (USD 154 million) in 6M 2013. Basic and diluted earnings per share came to RUB 60 (USD 1.72) for 6M 2014, compared to RUB 33 (USD 1.06) in 6M 2013.

6M 2014 Financial and Operational Highlights:

Result	6M 2014		6M 2013		year-on-year change (RUB vs. RUB), %
	RUB	USD	RUB	USD	
	million		million		
Revenue	56,702	1,621	53,715	1,732	6%
EBITDA*	16,219	464	13,849	446	17%
EBITDA margin	29%		26%		3 p.p.
Net profit	8,097	231	4,770	154	70%
Earnings per share	60	1.72	33	1.06	82%
Sales volumes	Kmt		Kmt		
Phosphate-based products	2,394.0		2,364.6		1%
Nitrogen-based fertilizers	749.2		659.6		14%
Apatit mine and beneficiation plant	1,746.4		1,957.2		(11%)
Other products	114.1		90.3		26%

RUB/USD rates: average 6M 2014: 34.9796; average 6M 2013: 31.0169

As of 30 June 2014: 33.6306; as of 31 December 2013: 32.7292

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

Other 6M 2014 Highlights

Production, sales and logistics flexibility:

- During the first six months of 2014, PhosAgro's revenue and sales volumes benefited from the Company's strategy of enhancing production flexibility combined with strong global demand: total fertilizer production and sales volumes grew year-on-year by 3% and 4%, respectively. Revenue in 6M 2014 was 6% higher year-on-year, supported by year-on-year increases of over 6% and 2% in average realised prices for export DAP/MAP and NPK, respectively.

Strategic developments:

- 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 a new 760 thousand tonnes/year ammonia plant at PhosAgro-Cherepovets.

Consolidation of ownership in production facilities and business development:

- 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 that will handle fertilizers produced and sold by PhosAgro. PhosAgro owns 70% of LLC Smart Bulk Terminal.
- During the first six months of 2014, the holders of 10.39% of all issued shares in OJSC PhosAgro-Cherepovets accepted PhosAgro's voluntary tender offer. PhosAgro completed the acquisition of these shares in 2Q 2014.

PhosAgro's 6M 2014 net profit was RUB 8.1 billion (USD 231 million), an increase of 70% year-on-year from RUB 4.8 billion (USD 154 million) in 6M 2013. The growth in net profit was primarily due to favourable market conditions and higher prices, in rouble terms, for the main fertilizers PhosAgro produces. Revenue for the period increased by 6% year-on-year to RUB 56.7 billion (USD 1,621 million), compared to RUB 53.7 billion (USD 1,732 million) for 6M 2013. Cost savings in cost of sales and a smaller foreign exchange loss (a more detailed discussion is provided in the analysis below) also contributed to PhosAgro's strong net profit result for 6M 2014.

Operating profit for 6M 2014 was RUB 12.2 billion (USD 349 million), up 21% from RUB 10.0 billion (USD 324 million) in 6M 2013. EBITDA was RUB 16.2 billion (USD 464 million) in 6M 2014, 17% higher year-on-year. EBITDA margin increased to 29% for 6M 2014, compared to 26% in 6M 2013.

Cash flows from operating activities decreased by 7% year-on-year and amounted to RUB 13.4 billion (USD 383 million) in 6M 2014, compared to RUB 14.4 billion (USD 464 million) in 6M 2013. The Company's capital expenditure (capex) in cash terms during 6M 2014 was RUB 7.1 billion (USD 203 million), consistent with RUB 7.1 billion (USD 230 million) in 6M 2013.

Net debt at 30 June 2014 stood at RUB 45.6 billion (USD 1,357 million), up from RUB 43.8 billion (USD 1,339 million) at 31 December 2013. Most of the Company's debt is denominated in USD as a natural hedge against primarily USD-denominated sales. The depreciation of the Russian rouble against the US dollar was the primary reason for the increase of PhosAgro's net debt in RUB terms. The Company's net debt to annualised EBITDA ratio decreased to 1.4 as of 30 June 2014, from 1.8 as of 31 December 2013.

Commenting on the 6M 2014 results, PhosAgro Management Board Chairman and CEO Andrey Guryev said:

"PhosAgro's earnings in the first half of 2014 grew very strongly on the back of a significantly

improved operating environment combined with our successful cost cutting initiatives. Healthy global demand for phosphate fertilizers has pushed prices up to USD 500 per tonne FOB Tampa, substantially higher than the crisis levels seen in 2H 2013, when prices bottomed around USD 350 per tonne FOB Tampa in November. While average DAP prices in the first half of 2014 remained below those recorded in 6M 2013, at USD 465 per tonne FOB Tampa vs USD 486 per tonne in 6M 2013, PhosAgro's financial results improved materially, with a gross profit margin increasing to 41% and a solid 29% EBITDA margin. These results are due to our favourable cost position and excellent production capabilities, as we were able to meet higher global demand by increasing production and sales of our fertilizers.

"In addition to delivering excellent financial results, I am pleased to report that we made significant progress on consolidating our ownership of PhosAgro-Cherepovets with the buyout of more than 10% of minority shareholders' shares in 2Q 2014, and we remain on track to achieve full 100% ownership of all our production subsidiaries by the end of this year."

6M 2014 Market Conditions

- Supply constraints in Morocco, the United States, Saudi Arabia and Russia decreased spot supplies of DAP/MAP by 600-700 ktonnes in 1Q 2014. Combined with early demand from Latin America and Europe following very weak volumes in 4Q 2013, this led to a sharp recovery in DAP/MAP prices in January 2014, followed by a further seasonal recovery up to USD 500 per tonne (FOB Tampa) in February-March 2014.
- Prices softened back to USD 450-460 per tonne FOB Tampa in April-May as a result of the increased supply of lower-quality phosphate-based fertilizers from China and softer-than-expected demand from India.
- The early changes to fertilizer subsidies expected from the new Indian Government have not been introduced yet for P and K nutrients. This, combined with late and weaker than normal monsoon rains, has suppressed Indian demand.
- Despite continued weakness in the Indian market and increased Chinese exports, strong demand for phosphates elsewhere in the world has pushed DAP prices back to USD 500 per tonne from the beginning of July.
- Phosphoric acid prices for Indian DAP producers have increased by 16% from USD 615 per tonne of P₂O₅ at the end of 2013 to USD 681 per tonne of P₂O₅ in 1Q 2014, and to USD 715 per tonne in 2Q, thus increasing the cost of domestic production.
- Urea prices have fallen from their January 2014 peak of USD 365 per tonne FOB Baltics to USD 300 by the end of 1Q, with a further slow-down to USD 280 per tonne in 2Q 2014 as result of significant export supply from China.

Phosphate-Based Products Segment

Result	6M 2014	6M 2013	year-on-year change, %
	RUB mln	RUB mln	
Revenue	48,267	46,120	5%
Cost of goods sold	(29,138)	(29,896)	(3%)
Gross profit	19,129	16,224	18%

Phosphate-based products segment revenue increased by 5% year-on-year and totalled RUB 48,267 million (USD 1,380 million) in 6M 2014. PhosAgro increased production of phosphate-based fertilizers and MCP by 3.2% year-on-year in 6M 2014, while sales volumes increased by 1.1% year-on-year. Production and sales volumes for phosphate rock and nepheline concentrate decreased in 6M 2014 compared to 6M 2013 by 1.2% and 10.8%, respectively.

The increase in sales volumes was primarily due to favourable market conditions and higher demand, which enabled the Company to increase substantially the sales of both concentrated fertilizers and NPKs to Latin America and Russia.

- MAP/DAP fertilizers: MAP exports increased by 52% year-on-year, with price increases in RUB terms of 5%. This was offset by a 45% decrease in DAP exports. Domestic MAP sales increased by 12% year-on-year. Revenue from DAP/MAP sales increased by 15% year-on-year, from RUB 16,004 million (USD 516 million) in 6M 2013 to RUB 18,424 million (USD 527 million) in 6M 2014, representing an overall 9% year-on-year increase in sales volumes and 6% increase in DAP/MAP average revenue per tonne.
- NPK fertilizers: Domestic NPK sales volumes increased by 49% year-on-year, which partially compensated for weaker domestic NPK prices during 6M 2014. As a result, revenue from domestic NPK sales increased by 37% year-on-year, from RUB 3,216 million (USD 104 million) in 6M 2013 to RUB 4,413 million (USD 126 million) in 6M 2014. Revenue from NPK export sales decreased by 9% year-on-year, from RUB 7,424 million (USD 239 million) in 6M 2013 to RUB 6,758 million (USD 193 million) in 6M 2014, as the result of an 11% year-on-year decline in NPK export sales volumes, which was partially compensated for by a 2% increase in revenue per tonne.
- Phosphate rock: Total sales of phosphate rock decreased by 11% year-on-year to RUB 7,629 million (USD 218 million) in 6M 2014 due to higher internal consumption.

The phosphate-based products segment's gross profit for 6M 2014 increased by 18% year-on-year to RUB 19,129 million (USD 547 million), resulting in a gross profit margin of 40%, compared to a 35% margin in 6M 2013, which was the result of higher 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

Product	6M 2014 RUB	6M 2013 RUB	year-on-year change, %
Domestic:			
MAP	16,072	15,596	3.1%
DAP	15,431	14,660	5.3%
NPK	12,891	14,020	(8.1%)
MCP	20,120	19,850	1.4%
NPS	10,603	11,475	(7.6%)
SOP	24,144	19,862	21.6%
STPP	31,132	30,235	3.0%
Export:			
MAP	16,194	15,417	5.0%

DAP	16,167	15,073	7.3%
NPK	12,326	12,054	2.3%
MCP	19,692	17,115	15.1%
NPS	10,922	10,499	4.0%
SOP	24,513	15,734	55.8%
STPP	34,037	28,758	18.4%

Nitrogen Segment

Result	6M 2014	6M 2013	year-on-year change, %
	RUB mln	RUB mln	
Revenue	8,093	7,155	13%
Inter-segment transfers	8	92	(91%)
Cost of goods sold	(5,004)	(5,000)	-
Gross profit	3,097	2,247	38%

Nitrogen segment revenue increased by 13% year-on-year to RUB 8,093 million (USD 231 million) in 6M 2014 from RUB 7,155 million (USD 231 million) in 6M 2013. Production and sales volumes of nitrogen-based fertilizers increased by 4% and 14% year-on-year, respectively, in 6M 2014.

Export revenue from urea increased by 14% year-on-year from RUB 4,919 million (USD 159 million) in 6M 2013 to RUB 5,589 million (USD 160 million) in 6M 2014, in line with the 15% increase in sales volumes. Ammonium nitrate (AN) sales volumes decreased by 6% year-on-year, which, combined with a 2% decrease in revenue per tonne, was the major factor behind the 8% decline in revenue from AN sales from RUB 1,932 million (USD 62 million) in 6M 2013 to RUB 1,785 million (USD 51 million) in 6M 2014.

Nitrogen segment gross profit during 6M 2014 increased by 38% year-on-year to RUB 3,097 million (USD 89 million), in line with the segment's revenue growth, resulting in a gross profit margin of 38% compared to 31% in 6M 2013.

Revenue per tonne for the principal nitrogen-based fertilizers

Product	6M 2014	6M 2013	year-on-year change, %
	RUB	RUB	
Domestic:			
Ammonium nitrate	9,610	9,857	(2.5%)
Urea	11,822	13,022	(9.2%)
Export:			
Ammonium nitrate	-	9,591	-
Urea	11,070	11,225	(1.4%)
NP	10,094	8,961	12.6%

Cost of Sales

Item	6M 2014			6M 2013			Change y-on-y	
	RUB mln	USD mln	% of cost of sales	RUB mln	USD mln	% of cost of sales	RUB mln	%
Materials and services	10,778	308	32%	9,596	309	28%	1,182	12%
Salaries and social contributions	4,976	142	15%	6,108	197	18%	(1,132)	(19%)
Natural gas	3,694	106	11%	3,005	97	9%	689	23%
Depreciation	3,629	104	11%	3,518	113	10%	111	3%
Potash	1,957	56	6%	2,296	74	7%	(339)	(15%)
Electricity	1,782	51	5%	1,735	56	5%	47	3%
Ammonia	1,599	46	5%	2,898	93	9%	(1,299)	(45%)
Fuel	1,545	44	5%	2,450	79	7%	(905)	(37%)
Sulphur and sulphuric acid	1,719	49	5%	1,879	61	5%	(160)	(9%)
Heating energy	804	23	2%	237	8	1%	567	239%
Ammonium sulphate	354	10	1%	706	23	2%	(352)	(50%)
Other items	15	1	-	32	1	0%	(17)	(53%)
Change in stock of WIP and finished goods	681	19	2%	(243)	(8)	(1%)	924	(380%)
Total	33,533	959	100%	34,217	1,103	100%	(684)	(2%)

PhosAgro's cost of sales decreased by 2% year-on-year in 6M 2014, to RUB 33,533 million (USD 959 million), while overall fertilizers sales volumes increased by 4%. This decrease in cost of sales was primarily due to the following factors:

- An increase of RUB 1,182 million (USD 34 million), or 12%, year-on-year in the cost of materials and services due to price inflation of 7% (PPI 6M 2014 vs 6M 2013) and outsourcing of certain functions, compensated by a significant decrease in personnel costs.
 - A 19%, or RUB 1,132 million (USD 32 million), year-on-year decrease in personnel costs as a result of the staff optimisation programme.
- A year-on-year decrease in expenditure on purchased ammonia of RUB 1,299 million (USD 37 million), or 45%, from RUB 2,898 million (USD 93 million) in 6M 2013 to RUB 1,599 million (USD 46 million) in 6M 2014. This was due to year-on-year declines in purchase volumes by 32% and prices by 19%. PhosAgro was able to decrease purchases from third parties after the modernisation of ammonia production facilities in Cherepovets, which helped to increase production of ammonia by 54 ths tonnes per year, or by 10%.
- A year-on-year increase in expenditure on natural gas of RUB 689 million (USD 20 million), or 23%, to RUB 3,694 million (USD 106 million) in 6M 2014. Natural gas is required primarily for the

production of ammonia. The price per cubic metre of natural gas rose by 17%, while natural gas consumption increased by 5% year-on-year. The price increase was due to a 15% tariff increase in the second half of 2013. The 5% growth in volumes of gas purchased was due to a 10% year-on-year increase in ammonia production as a result of higher production capacity following completion of modernisations in 3Q 2013.

- A year-on-year decrease in expenditure on potash by 15%, or RUB 339 million (USD 10 million), to RUB 1,957 million (USD 56 million) in 6M 2014. This was mainly due to a 31% decrease in potash purchase prices, which was partially balanced by a 24% increase in potash purchase volumes as a result of a 10% year-on-year increase in NPK production.
- A year-on-year decrease in expenditure on fuel by RUB 905 million (USD 26 million), or 37%, from RUB 2,450 million (USD 79 million) in 6M 2013 to RUB 1,545 million (USD 44 million) in 6M 2014, which was in line with a 37% decrease in fuel consumption as a result of the replacement of heating oil purchases with direct purchases of heating energy, as well as decreased open-pit mining.
- Heating energy expenses increased by RUB 567 million (USD 16 million) year-on-year, from RUB 237 million (USD 8 million) in 6M 2013 to RUB 804 million (USD 23 million) in 6M 2014, as a result of the replacement of heating oil, which is consumed in boilers generating heating energy at Apatit, with direct purchases of heating energy, providing significant savings on fuel.
- A decrease in expenditure on sulphur and sulphuric acid by RUB 160 million (USD 5 million), or 9%, year-on-year from RUB 1,879 million (USD 61 million) in 6M 2013 to RUB 1,719 million (USD 49 million) in 6M 2014. This was driven by a 14% decrease in purchase prices. The decrease in purchase prices was partly offset by a 6% 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 352 million (USD 10 million), or 50%, year-on-year.

Administrative expenses rose by 3% year-on-year to RUB 3,955 million (USD 113 million) in 6M 2014 primarily as a result of an increase in professional services and expenses related to depreciation and amortisation.

Selling expenses rose by 39% year-on-year, from RUB 3,908 million (USD 126 million) in 6M 2013 to RUB 5,423 million (USD 155 million) in 6M 2014. This was primarily due to the following changes from 6M 2013 to 6M 2014:

- A 13% increase in the Russian Railways infrastructure tariff and operators' fees from RUB 2,163 million (USD 70 million) to RUB 2,436 million (USD 70 million). An increase in container shipments, combined with a 23% increase in domestic fertiliser sales (largely shipped on a CPT basis) that led to higher use of rail freight transport.
- An 83% increase in port and stevedoring expenses due to significantly increased CFR sales vs. FOB in 6M 2014 compared to 6M 2013.
- A 74%, or RUB 240 million (USD 7 million), increase in materials and services was driven by

the change in delivery terms for European customers to CPT following the consolidation of Phosint Trading in 4Q 2013.

PhosAgro's foreign exchange loss decreased by 60%, from RUB 2,759 million (USD 89 million) in 6M 2013 to RUB 1,090 million (USD 31 million) in 6M 2014. This was the result of the higher Rouble depreciation during 6M 2013 by 8% (from RUB 30.3727 at 31/12/2012 to RUB 32.7090 at 30/06/2013), compared to just 3% during 6M 2014 (from RUB 32.7292 at 31/12/2013 to RUB 33.6306 at 30/06/2014).

Cash spent on capex in 6M 2014 amounted to RUB 7,117 million (USD 203 million), in line with the RUB 7,122 million (USD 230 million) spent in 6M 2013. PhosAgro's capital expenditure, which consists of additions to property, plant and equipment, amounted to RUB 6,604 million (USD 189 million) for 6M 2014, compared to RUB 8,008 million (USD 258 million) in 6M 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.

Gross debt at 30 June 2014 amounted to RUB 60,490 million (USD 1,799 million), compared to RUB 52,756 million (USD 1,612 million) at 31 December 2013. Net debt at 30 June 2014 amounted to RUB 45,621 million (USD 1,357 million), compared to RUB 43,818 million (USD 1,339 million) at 31 December 2013.

Outlook

Market:

- Economic reforms are a primary focus on the top of the agenda of the new Indian Government.
- As monsoon rains recover, Indian demand is ramping up.
- The price of phosphoric acid for 3Q 2014 in India has recently been agreed with OCP at USD 765 per tonne of P₂O₅, up USD 50 per tonne of P₂O₅, thus driving local production cash costs well above current DAP spot prices. Trading activity has also accelerated: current Chinese deliveries are reported at USD 480 CFR, up 9% from the minimum April CFR prices for Chinese DAP of USD 440.
- In Brazil and Europe the phosphoric acid price for 3Q 2014 was increased by 6-7%. Other feedstock prices remain at high levels, keeping the cash costs of most significant players up: sulphur CFR prices in most regions are above USD 150 per tonne while ammonia CFR prices are above USD 500 per tonne.
- Agricultural commodities performance could be a limiting factor for further fertilizer price increases: the basket price has decreased around 12% from the beginning of the year following favourable crop prospects. Notwithstanding recent soft commodities trends, DAP FOB prices remain around USD 500 in most ports, while urea is at USD 310-315 FOB Baltic.
- Given expectations of a recovery in activity from Indian and Brazilian buyers, combined with high season in Europe, North America and Russia-CIS, PhosAgro does not see any significant downside risk for phosphate fertilizer prices in the short term. The current IFA forecast for growth in phosphate fertilizers consumption in the 2014/2015 season is 1 mln tons of P₂O₅ or 2.4%, compared to 1.4% in 2013/2014 season.

Company:

· PhosAgro's low cash cost position and flexible production make the Company well placed to respond to changes in global demand for concentrated or complex fertilizers and NPS. The Company intends to invest further into both increasing capacity and expanding the number of NPK grades it produces.

- Following completion of the voluntary tender offer, PhosAgro sent a compulsory share purchase notification (squeeze out) to OJSC PhosAgro-Cherepovets for the buyout of the ordinary shares belonging to the remaining minority shareholders (2.01%) of OJSC PhosAgro-Cherepovets. PhosAgro plans to complete all procedures related to the squeeze out by the end of 2014.
- In line with its strategy to develop downstream production capacity and expand its product portfolio, PhosAgro has signed an agreement for the construction of a new 500 ths tonne per year granulated urea plant at PhosAgro-Cherepovets, which is to be commissioned simultaneously with the new ammonia plant in 1H 2017.
- All major development projects are on track, including the new ammonia plant designed to increase cost efficiency and support further expansion of complex fertilizer production capacity.
- 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.