

# PhosAgro 1Q18 EBITDA Grows 13% YoY to RUB 14.3 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 consolidated IFRS financial results for the three months ended 31 March 2018 ("1Q 2018").

Revenue in 1Q 2018 increased by 23% year-on-year to RUB 54.6 billion (USD 960 million). EBITDA for 1Q 2018 was RUB 14.3 billion (USD 251 million), advancing by 13% year-on-year, with an EBITDA margin of 26%. Net income (adjusted for non-cash FX items)\*\*\* in 1Q 2018 increased by 13% year-on-year to RUB 6.3 billion (USD 111 million).

## 1Q 2018 financial and operational highlights

<b>RUB million or %</b>	<b>1Q 2018</b>	<b>1Q 2017</b>	<b>Chng, % YoY</b>
Revenue	54,622	44,398	23%
EBITDA**	14,293	12,675	13%
EBITDA margin	26%	29%	-3pp
Net income	6,878	12,263	-44%
Net income adj*	6,343	5,638	13%
	<b>31.03.2018</b>	<b>31.12.2017</b>	
Net debt	120,105	119,985	
ND/LTM EBITDA	2.27x	2.34x	
<b>Sales, 000' mt</b>	<b>1Q 2018</b>	<b>1Q 2017</b>	<b>Chng, % YoY</b>
Phosphate-based	1,753	1,533	14%
Nitrogen-based	652	461	41%
Phosphate rock	956	911	5%

RUB/USD rates: average 1Q 2018: 56.9; average 1Q 2017: 58.8; as of 31 March 2018: 57.3; as of 31 December 2017: 57.6

\*\*\* Net Income adjusted calculated as Net Income minus Foreign exchange gain (net)

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

\* adjusted for non-cash FX items

PhosAgro CEO Andrey Guryev said: "I am proud of the financial results PhosAgro has delivered for the first quarter of 2018. I would particularly underscore the year-on-year improvements in EBITDA and free cash flow generation, which shareholders have been eagerly awaiting following management's successful implementation of our multi-year strategy. We have grown production organically, kept operating costs under control and completed major construction projects on time and on budget. These achievements, combined with a sustainable recovery in phosphate prices and our expectation of a weaker year-on-year ruble, give us a high degree of confidence that the Company has passed the bottom in terms of profitability.

"Operationally, PhosAgro is off to a strong start in 2018, with nearly 20% year-on-year growth in downstream production and a more than 10% year-on-year rise in upstream output. The impressive growth in our downstream operations was provided by a nearly 50% year-on-year jump in production of nitrogen products after the launch of our new granulated urea line in August 2017.

“Our sales strategy, which is based on the principle of moving closer to our end customers, is also a cornerstone of our long-term strategy. In 1Q 2018 sales volumes increased by more than 20% year-on-year, while sales to our priority European and Latin American markets advanced by over 60% and nearly 20% year-on-year, respectively. At the same time, we have maintained a focus on a core principal of our sales strategy, which is to leverage our flexible business model to maximise our net-back price. We boosted sales to North America by almost 60% year-on-year as the North American market has become highly attractive after the idling of Plant City by Mosaic.

“Looking ahead to market conditions in the second half of 2018, we remain constructive on prices. Our view is based on exceptionally firm import demand from India after two consecutive increases in phosphoric acid prices, and weak import numbers in 1Q 2018 in Brazil (MAP imports were down by half year-on-year), which means additional demand is likely to appear during the summer ahead of the high season. Taken together, these factors should help the market to avoid any traditional softening in prices in May-June and to move into the traditionally strong July-September period, which is the autumn season for markets like Russia, Europe and North America.”

### 1Q 2018 market conditions

- The average price of DAP (FOB Tampa) in 1Q 2018 was USD 404 per tonne, which implies a year-on-year increase of USD 48, or 13%, per tonne.
- The key reasons behind 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) a nearly 10% cut in exports from China during the domestic market’s high season; and 3) lower shipments from Morocco as a result of bad weather conditions.
- The average price of urea (FOB Baltic) in 1Q 2018 was USD 226 per tonne vs. USD 238 per tonne in 1Q 2017. The price decrease was due to cold spring weather conditions in Europe and North America, which delayed the beginning of seasonal demand.

### Financial performance

Revenue in 1Q 2018 was up by 23% year-on-year to RUB 54.6 billion (USD 960 million), primarily driven by 21% year-on-year growth in the sales of fertilizers and MCP and a 13% year-on-year increase in the average realised price (in USD terms) for MAP/DAP/NPK/NPS products. These were partially balanced on the negative side by further RUB strengthening against USD of 3% year-on-year as well as a 13% year-on-year decrease in realised USD prices for phosphate rock.

A more detailed revenue breakdown by key products is presented below.

### Revenue breakdown by key products

<b>RUB million</b>	<b>1Q 2018</b>	<b>1Q 2017</b>	<b>Chng, % YoY</b>
DAP/MAP	18,631	15,151	23%
NPK(S)	10,880	7,888	38%
PhosRock	4,862	5,750	-15%
Nitrogen-based products	9,555	6,134	56%

Gross profit was RUB 22.6 billion (USD 397 million) in 1Q 2018, up by 13% year-on-year, with the gross profit margin declining to 41%, versus 45% in 1Q 2017. Gross profit and margin performance for the phosphate-based and nitrogen-based segments in 1Q 2018 were as follows:

- The phosphate-based segment saw a 2% year-on-year increase in gross profit to RUB 17.3 billion (USD 303 million), while the gross margin decreased to 41%, from 47% in 1Q 2017.
- Gross profit for the nitrogen-based segment was up by 74% year-on-year to RUB 5.0 billion (USD 88 million). The gross margin for the segment increased to 52%, from 46% in 1Q 2017.

EBITDA increased by 13% year-on-year in 1Q 2018 to RUB 14.3 billion (USD 251 million), while the EBITDA margin declined to 26% from 29% in 1Q 2017. Net profit (adjusted for non-cash FX items)\*\*\* amounted to RUB 6.3 billion (USD 111 million) in 1Q 2018, up by 13% year-on-year.

The RUB appreciated by 3% year-on-year against the USD during the quarter (the average RUB/USD exchange rates for 1Q 2018 and 1Q 2017 were RUB 56.9 and RUB 58.8, 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 31 March 2018 (RUB 57.26 per USD) compared to 31 December 2017 (RUB 57.60 per USD) resulted in an FX gain of RUB 0.5 billion (vs. a RUB 6.6 billion gain in 1Q 2017).

Cash flow from operating activities in 1Q 2018 increased by 49% year-on-year to RUB 10.4 billion (USD 183 million), mainly driven by lower income tax and interest payments.

Gross debt (including finance lease liabilities) as of 31 March 2018 increased marginally by 1% quarter-on-quarter to RUB 124 billion (USD 2.2 billion). Nonetheless, net debt as of 31 March 2018 remained flat in comparison to end-December 2017, at RUB 120 billion (USD 2.1 billion), representing a net debt/LTM EBITDA ratio of 2.27x, versus 2.34x as of 31 December 2017.

#### Cost of Sales

<b>RUB million</b>	<b>1Q 2018</b>	<b>1Q 2017</b>	<b>Chng, % YoY</b>
Materials and services	8,805	7,008	26%
D&A	4,754	2,801	70%
Natural gas	3,497	1,937	81%
Salaries and social contributions	3,201	2,873	11%
Sulphur and sulph. acid	2,878	1,178	144%
Potash	2,272	1,444	57%
Fertilisers and other products for resale	1,862	1,647	13%
Electricity	1,427	1,418	1%
Ammonium sulphate	1,099	735	50%
Ammonia	1,091	2,168	-50%
Fuel	999	940	6%
Heating energy	169	268	-37%
<b>Total</b>	<b>32,054</b>	<b>24,417</b>	<b>31%</b>

Cost of goods sold grew by 31% year-on-year in 1Q 2018 to RUB 32.1 billion (USD 564 million). The key factors behind the growth were as follows:

- Spending on materials and services grew by 26% year-on-year to RUB 8.8 billion (USD 155 million), mainly driven by 19% year-on-year growth in overall fertilizer production and 6% year-on-year PPI inflation.
- D&A reached RUB 4.8 billion (USD 84 million), up 70% year-on-year, due to the

commissioning of the new ammonia and urea units.

- Spending on natural gas increased by 81% year-on-year to RUB 3.5 billion (USD 61 million), mainly due to nearly 80% year-on-year growth in ammonia production after the launch of PhosAgro's new ammonia unit, where natural gas is the main feedstock.
- Salaries were up by 11% year-on-year to RUB 3.2 billion (USD 56 million), mainly due to a higher headcount at the Kirovsk branch of Apatit.
- Spending on sulphur and sulphuric acid was up by 144% year-on-year to RUB 2.9 billion (USD 51 million). The key reason for this was a more than doubling of RUB-denominated prices (in sulphur equivalent) and 12% year-on-year growth in production of phosphate-based fertilizers.
- Expenses on potash purchases came to RUB 2.3 billion (USD 40 million), up by 57% year-on-year, mainly driven by 26% growth in purchased volumes as a result of an increase in production of NPK and by a 13% increase in RUB-denominated prices.
- The 50% year-on-year decrease in spending on purchased ammonia, to RUB 1.1 billion (USD 19 million), was mainly due to a 50% year-on-year decrease in purchase volumes after the launch of PhosAgro's new ammonia unit.
- Spending on ammonium sulphate increased by 50% year-on-year to RUB 1.1 billion (USD 19 million), primarily as a result of 22% growth in consumption (on the back of higher NPK and NPS production) and 4% growth in average RUB-denominated prices.

Administrative expenses decreased by 4% year-on-year to RUB 3.6 billion (USD 64 million) in 1Q 2018, primarily due to an 18% year-on-year decrease in personnel costs to RUB 2.0 billion (USD 36 million) on the back of lower bonus payments

In 1Q 2018 selling expenses increased by 48% year-on-year to RUB 8.3 billion (USD 145 million). The main factors behind the growth were: 1) freight, port and stevedoring expenses grew by 68% year-on-year to RUB 4.1 billion (USD 73 million) primarily due to a 24% year-on-year increase in export sales of phosphate rock and fertilizers, as well as growth in shipping rates and changes in incoterms (more CFR sales); 2) spending on transportation grew by 19% year-on-year to RUB 2.8 billion (USD 50 million), driven by the 16% year-on-year growth in overall sales and the indexation in railroad tariffs.

Capital expenditure for 1Q 2018 came in at RUB 8.9 billion (USD 157 million), flat year-on-year. Capital expenditures were primarily focused on the further development of the upstream business, as well as modernisation of the phosphate business and construction of new sulphuric and nitric acid plants.

## Outlook

### Market outlook

- Imports of phosphates to India are expected to reach 5.0-5.5 million tonnes of DAP in 2018, implying a 25%+ year-on-year increase over the 4.0 million tonnes imported in 2017. The growth in imports is being driven by the increase in phosphoric acid prices, which currently stand at USD 730 per tonne of P<sub>2</sub>O<sub>5</sub>, or USD 150 higher than a year ago, making Indian domestic production loss-making.
- PhosAgro expects to see typically high activity in 2Q and 3Q in the domestic Russian market, as well as postponed demand in Latin America driven by the artificial cut in import to Brazil in 1Q 2018.
- Rising competition and the ramping-up new capacities from Maaden 2 and the final fourth unit of OCP are the main factors that could limit the further upward trend in phosphate prices.

- Stable prices for the main phosphate products means demand and prices for sulphur are due to firm.