

PhosAgro

PhosAgro 2015 IFRS results

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Edited transcript

Speakers:

- Andrey Guryev, CEO
- Irina Evstigneeva, Director for Corporate Finance and Investor Relations
- Alexander Sharabaiko, CFO and Member of the Management Board

Participants asking questions:

- Yonah Weisz, HSBC
- Andrey Lobazov, ATON
- Alexander Nazarov, Gazprombank
- Milan Shah, BMO
- Christopher Rivituso, Debtwire
- Kevin Whyte, VTB Capital
- Muneeba Kayani, Morgan Stanley

Operator: Ladies and gentlemen, welcome to PhosAgro FY2015 IFRS results conference call. Today's speakers will be Irina Evstigneeva, Head of Corporate Finance and Investor Relations, and Andrey Guryev, CEO. I will now hand over to our first host, Irina Evstigneeva. Madam, please go ahead.

Irina Evstigneeva: Hello, ladies and gentlemen. Welcome to our FY2015 financial results conference call and webcast. As usual, we have the full management team in the room, and all the managers would be able to answer all of your questions. We will start with a presentation by our CEO, Andrey Guryev, on the achievements, on our production and assets growth for the five years since IPO.

Andrey Guryev: Thank you, Irina. Good afternoon, ladies and gentlemen. Thank you again for joining PhosAgro here in Moscow. That was quite a great year for the Company. It is the fifth year for PhosAgro being public, and this is quite a good time for us to underline what we have achieved during all these years of turmoil on the market. Many different things have developed for the last years with supply demand, the recent energy price collapse... We saw plenty of things, but what is today clear for me is that for the last five years we have been showing a very strong and consistent performance of the Company. All the figures that I want to show you are quite clear and demonstrate our fantastic, excellent financial performance during all these years. Of course, this performance could not have been the case without our production achievements. This is one of the biggest achievements that the management and the staff of the plants

were able to make during the last few years through quite significant optimisation of business-processes that we used to have on our mines, on our phosphate production facilities, and also the installation of a prilled urea unit that took place in 2015, and so on.

Now, please take a look at page 2 of the presentation. This is about our growing production capacity. I want to stress that since IPO we managed to increase production of all our fertilizers, both phosphate-based and nitrogen, by 40%, and basically we achieved almost 8% of growth per annum (see the bottom chart). I think this is a fantastic result. We were able to manage our capex, our investment and achieve significant growth in production. On the chart, you can see the growth in fertilizer production. We increased in-house processing of our best quality rock, as you know, by almost 30%. That again comes together with our strategy – we want to be more integrated, we want to use as much of our rock as possible for the in-house, internal processing, and of course to produce our best-quality fertilizers that are today well known in any part of the world. At the same time we are still selling 2 million tonnes of phosphate rock externally. That again tells me about our future and possible achievements in terms of production and in terms of natural and organic growth that we are today able to achieve. And we know how to achieve that with much less capex than any other newcomer or any other producer in the world today.

On slide 3 you can see our strategy in terms of growth, and here I would like to specify several points. It includes production growth of all of our products like MAP, DAP, and, of course, NPK/NPS and so on. We were able to diversify our product line today for more than 30 different grades. I think this is also an excellent achievement, [because we were able to deliver the best quality on all these grades at PhosAgro. All the products that PhosAgro managed to bring to the market will be present on our production lines]. All these products are well known on the market. So, we were able to achieve fantastic growth of 1 million tonnes within almost the last two years. That happened on the back of modernisation, of debottlenecking of our assets, of our phosphoric acid and granulation plant. We were able to reduce shutdowns of the plants and many other things which were implemented by the management in terms of the way how we want to produce, how we want to work, and where we want to sell.

So, that's the big matrix of how we can increase the production and achieve the best profit on the products that we are able to produce (taking into account, as I said, all the 30 grades of products that we are able to produce today).

At the same time the total capex for all these innovations, all this optimisation and debottlenecking over all these years, was USD 70 million for 1 million tonnes, as I said, of extra production. Basically, it's USD 70 per tonne, which is a fantastic result for the Company. Today, that work has already added USD 200 million on our EBITDA in 2015. I think this is a fantastic payback for all of us today. We do not want to stop, we will continue with this plan in the future, and today we already see possibilities to continue with optimisation of the production. In 2016, I think, we will be able to achieve maybe another 5–7% of increase in fertilizer production (I am talking very conservative right now). As I said, that is a great job that was done by the management of the Company, particularly on the sites, on the plants, on the production units. We will continue with this pattern in 2016.

Some other notes about our productivity improvement for the last five years. On slide 4 you can see that in addition to the increase of production we also increased productivity, efficiency on all our production, upstream and downstream assets. So, we've done a great job with optimisation for the last four years, and that helped us to increase productivity per capita. For instance, in our mining operations it's over 100% in the four years (see the left chart), and over 140% in our fertilizers production (see the right chart). It is also

a great achievement, and today [the Company's staff operating the mines, the production, the management company, are very fit and motivated] for further achievements and improvements that our Company is going to deliver in the future.

Another very important slide I want to show you is slide 5. It is about growing return for our shareholders. What I want to stress is that everything that we have discussed so far is bringing us to additional cash despite even what happened with the DAP prices. As you may see at the bottom of the slide, since our IPO in 2011 DAP price has fallen down 25% from an average of USD 620 in 2011 to an average of just around USD 460 last year. But, at the same time, our EBITDA in 2015 was much higher than in 2011. As you can see, it is USD 1.35 billion in 2015 vs USD 1.2 billion in 2011. For the period, our EBITDA margin grew by 8% from 35% in 2011 to 43% in 2015. That was provided by the production growth, operational efficiency and, of course, the recent devaluation of the rouble that happened in Russia.

As you can see at the top of the slide, we are distributing all of our additional cash to shareholders. Our current policy is to pay out 30% to 50% of our net profit. In fact, historically we have been distributing over 50% of our net profit, so I think we will stay consistent with this strategy and again will prove to our shareholders and stakeholders that all our promises will be fulfilled in the future.

If you look at this year, the payout ratio of our FX-adjusted net profit is 51.74%. I think that again goes in line with our promises to investors. For last two years we have been distributing all of our free cash flow, so dividends paid to shareholders went up 50% in dollar terms in 2015. So, what we do as a company for its shareholders is delivering both growth and high return, so that is a really great achievement by PhosAgro.

A bit more on our cash costs is on slide 6. Several things that I want to stress are of course our cash costs on DAP basis (FOB Baltic) at the moment – our cash actual costs are just around USD 130.

It is down since IPO around 50%, which makes us the most secure, profitable and sustainable company in the sector, no matter what the price environment is in the future.

Talking about our urea cash costs, we are just around USD 80 per tonne, it is a USD 55 drop since IPO in 2011, with the current gas price in Russia about USD 1.5 per MMBTU compared to, for instance, USD 1.9 in USA in February.

I want to summarise again five of our major advantages that we have achieved and that we will strive to keep, because they form the foundation, the ground for the Company.

First of all, it is premium quality of our phosphate resource of 70+ years at the current production rates, our lowest cash costs in the industry. I think we will be able to keep this cost in the near future. Again, that's our flexible production lines and a wide range of fertilizers. That goes together with no dependence on any single nutrient market, as we are highly diversified, we can mix products and sell them everywhere, so we are not focused on market share, we are focused on the profit, on the nutrients we are able to produce, on the price that we can sell at.

And, finally, of course, it is a healthy and robust balance sheet, unique symbiosis of growing production capacities and good return for shareholders (dividend yield is more than 7%).

I want to thank you again for being with us, for investing in PhosAgro, for doing all your work with analysis and so on. I think that the results we are disclosing today again prove that we are doing the right thing here in Moscow, in Apatity in the Murmansk Region, in Cherepovets and Balakovo, in each and every place

where we have offices – in Europe, Sao Paulo, Singapore. We will be with you, with our investors, analysts, shareholders, and of course with our clients everywhere in the world in the future, remaining the greatest company today in the sector. Thank you.

Irina Evstigneeva: Thank you, Andrey. Now let us move on from our last five years' achievements to our last year's achievements. And as usual, we start with the 2015 market context. I would focus more on Q4 rather than FY financial results, as you have seen the FY results in our [press] release with quite substantial explanations on what has happened. Going back to the market, the average DAP price was down about USD 11–12 between DAP and MAP in 2015 relative to 2014. Now, let us consider what has happened through the year. Demand was pretty solid in most of the markets. Mature markets like US and Europe helped prices to recover within the spring time closer to USD 500 per tonne. The price was holding up between USD 460–480 per tonne throughout spring and then summer, which was obviously supported by a very good Indian demand. We saw a huge recovery from this market when they took almost 6 million tonnes of DAP compared to 2014. And there are certain things happening in India which actually helped to recover on phosphate. I think, you do remember that they had been significantly underapplying over the previous two years.

Then let us talk on the weakest markets – obviously, it was Brazil. The biggest point was less on agricultural side, but more on macroeconomic side; the whole situation with the weakening real and all other macroeconomic problems resulted in a substantial increase of interest rates, which made credits unavailable for the farmers. And Brazilian Government was not on time with the subsidy decision, basically, the decisions on interest rate subsidies were taken only in late August and the subsidy scheme started working very late in the year, if not from beginning of this year. So, at the end of the day Brazil has taken MAP less 24% compared to 2014 and the overall consumption on all P2O5 fertilizers, including simple phosphate and all complex fertilizers, went down by a quite significant 15%.

Talking about China, that was another big surprise – dramatic increase of export from this country, and that was on the back of cancelled export duty. They have been holding just minimum RMB 100 per tonne through the year instead of 15% in the previous year and even higher throughout high season in China before. So, with that Chinese producers have substantially increased volumes, and the export from China on DAP has increased 64%. So at the end of the day, if you look at the spot market last year, China was about 50% of DAP spot market and it was slightly less on MAP: they have increased by 41%. Just to remind you, most of that MAP is not of a high grade (64% of nutrients), but a lower grade (between 50% and 55%), but there is still good MAP in China. So [up] 41% and taking about 30–35% of the whole spot market last year. And then, last year we saw a downturn of the DAP pricing a bit earlier than normal that happened at the very end of August going through September. That was weakening monsoon and rupee in India. Before August it was one of the strongest EM currencies.

So, all that together has put some pressure on DAP. DAP was going down to the 450–430 level and then moving into the low season by the end of December DAP has dropped down slightly before USD 400.

Now, the biggest point on urea. Obviously, the prices were down relative to 2014, more significantly – about USD 40–43 – and the biggest point there was obviously the substantial export from China.

Let us move on to the price dynamic chart that will show you all three concentrated fertilizers again which at the end of the day will result in NPK pricing. Also, NPK market is somewhat different. You have already seen it in the operating release that we had very big NPK sales. Another complex fertilizer which has been showing record volumes not just in Russia but globally and not just from PhosAgro was NPS of different

grades. Just to remind you, a lot of soil has become globally very poor on sulphur, and sulphur is a secondary nutrient needed for most crops globally. So, these two complex grades of fertilizers – NPK and NPS – that include even more macronutrients have been showing a much better price performance than the concentrated fertilizers. But at the end of the day it all comes from the major fertilizer market, so on DAP, you see that the prices started sliding down from early September or end of August, and in March – at the moment – prices are around USD 360 but we will talk on that a bit later.

Now, let us talk about fundamentals. Now we show not just DAP to the cereals basket, but we show fertilizer basket to DAP, and the fertilizer basket is calculated based on the ratio of 4 nitrogen – 2 phosphate – 1 potassium. That is the most common ratio for big cereals like wheat and rice. And if you look at the chart, you will see that in January and even in March, which is now, the prices are about 360. The fertilizer basket is very well affordable by the farmers and we recently have seen that some of the cereals started recovering. The biggest point of this chart is that you should also differentiate the market. This picture works very well for USD-based economy or countries where the local currency is strictly linked to USD, but for big agricultural regions like Brazil, Russia or even Europe, with the devalued euro to USD, the margin situation for the farmers is much better than what is shown on this chart.

Irina Evstigneeva: Now moving on to financial performance. The revenue has grown 54%. Excellent growth both in volume and realised prices in rouble terms, as you saw that USD prices actually went down. EBITDA has grown to record levels in PhosAgro history. EBITDA margin has grown to 43%, quite a significant level, the best since 2008 when DAP prices were sky-rocketing above USD 1,000. We showed great net profit results as well.

I would also remind you about FX, as in Q4 we saw very substantial FX differences, but again it comes from the rouble fundamentals. Q4 was a big quarter of maturities, debt being repaid by a lot of sanctioned corporates in Russia. Multiplied with a very weak performance of oil, that all resulted in further significant devaluation of rouble. Nevertheless, the most part of the FX is unrealised because most part of our debt is longer than two years.

Earnings per share are showing basically the same dynamics as net profit. Net debt now is much closer to what is our target, i.e. 1.0x of net debt to EBITDA. As at 31 December 2015, a big point to that was devaluation of rouble which was a one-off, so on the balance sheet date our net debt to EBITDA was less than 1.3x. The target is being closer to 1.0x. We have reduced the debt and we are going to reduce it further so that we make sure that we are around our target.

Cash spend on capex was about RUB 43 billion and free cash flow increased substantially. That was the basis for increase of dividends which were record dividends since IPO.

Talking about the Q4 2015 performance and key financial indicators, gross profit margin increased vs Q3 2015 to 57%, EBITDA margin was about 41% and net profit margin reached 10% though it was heavily influenced by the FX loss. If we talk about revenue breakdown, there are not many big surprises here, we have been trading more in our target markets. Russia has taken about 23% of sales in Q4, the Americas (both North and South) accounted for about 23%, too. Let me remind you that we opened offices in Sao Paulo, Brazil and Zug, Switzerland, Europe, so in 2015 we already started direct trading to local distributors. Europe increased quite substantially taking about 32% of our sales. At the bottom of slide 17 you can see that the phosphate segment is as usual bringing most of our revenues and net profit – almost 90%.

I would not comment a lot on revenue per tonne, you can analyse it yourself. As I have mentioned before, in Q4 the prices slowed down into the low season environment. You would see that the domestic prices were slightly above, and now the situation is going back to normal for us. The prices are netback but then we have a distribution margin on top of that.

The next slide is on the rouble prices that you can analyse yourself as well. No big surprises here.

Now, sales volumes. We have just talked about different markets. Talking about different fertilizers, you would see that due to the market dynamics it was mostly DAP, MAP and all sorts of NPKs and NPSs bringing us money.

As for our performance by segment, our favourite is the phosphate segment which brings most of our money. Gross profit margin was 59%. You would not see anybody in the industry any close to such a number. In term of sales, we did increase volumes of both sales and production relative to last year. In sales volumes, you would see a slight decrease relative to Q3 but there is a very simple explanation of that. Given that we have opened the direct trade offices in Europe and Brazil, we are changing the sales schemes as well. If you look at inventories, there were about 200,000 tonnes, which were actually on the way to Europe, and some of that to the Russian distribution network. So given that we are now trading directly to distributors in Europe and Brazil we have to accumulate some stock over there for the next season and all of that was already sold in January and at the beginning of February. In the nitrogen segment, there are not many surprises either. Urea performance was much weaker than that of phosphate or complex fertilizers, with a weaker margin of 38%. One more driver behind this lower margin is the fact that we have to buy some of the ammonia from the market. That will go away very soon, i.e. in 2017, and you will see an increase in this margin just because we will be fully self-sufficient with ammonia.

Cost of goods sold. There have been several items changing. The biggest change to the previous year and to Q3 was an increase of production and the effect of inventories, which you see at the bottom of slide 22. As mentioned before, over 200,000 tonnes were accumulated to be moved to our warehouses. Going item by item, the reason for personnel cost can be simply explained by annual bonuses to all personnel besides KPI. About 100 senior managers are within the KPI system, and the rest of managers and workers receive annual bonuses in Q4. Ammonium sulphate increased. The reason is a switch to the fertilizer grades that use more ammonium sulphate, i.e. more NPS production. Sulphur cost decreased by 7% as a result of decreasing Sulphur purchase price. Natural gas cost increased by 19% relative to Q3, because in Q3 we do maintenance of our ammonia plants, and in Q4 they are fully operating. That is why we need more natural gas. The decrease in potash cost is driven by the switch between different types of fertilizers. As Andrey Guryev has said, a significant part of our strategy is that we offer the fertilizers which the market wants. Therefore, potash use decreased by about 36%, due to a decrease in the purchase volume and in NPK production.

Now, capex. Let me remind you that our policy is trying to keep capex within 50% of EBITDA so that there is enough cash left for dividend distribution. You can see that in 2015 we were able to achieve that. Let me outline the main projects that you saw for the past couple of years. First, the construction of Main Shaft No. 2 at the Kirovsky mine, our biggest underground mine. It started operating last year so in the future we will be benefiting on the cash cost side of all mining, as it is cheaper for us to mine underground. Second, the construction of a new ammonia plant which would start operations in 2017. Third, the construction of a liquid ammonia storage that has been finished in 2015 and helped with ammonia supply in Balakovo. Then, the construction of a new urea plant that has already started; we have been making first payments on this contract. It will start running together with the ammonia plant.

Our debt profile, as I have already said, [the situation] is quite comfortable at the moment. Net debt to EBITDA is below 1.3x, and our Treasury and CFO are looking to further reduce our debt in 2016 so that we are closer to 1.0x.

As for our ratings, nothing really has changed so far. Fitch still keeps us at BB+/Stable, although in the last rating update they said that in case situation in Russia was better there was a chance that we would be finally upgraded to an investment grade. It is not happening unfortunately, yet we hope it will happen in the future. S&P still keeps us at an investment grade, above the sovereign rating. Moody's had to reduce us below investment grade because the ceiling for them is the sovereign rating, which is under the investment grade.

To conclude the presentation we would as usual touch upon the market outlook. In 2016 we saw an even more dramatic drop in prices – and to no surprise. We saw oil of USD 25 per barrel at the end of January and at the beginning of February, so the whole commodity market was extremely depressed. From that time, starting from very late February in most markets which are buying fertilizers at that point in time prices were somewhat recovering by USD 30–40, so it has been pretty stable in the past couple of weeks at USD 360, FOB Tampa. Talking about different markets, we do believe that Latin America would be much better this year relative to last year. The point in Brazil is very simple: they need a lot of phosphate. Last year they had problems with credit, which has been resolved by the government. Money was pushed into the banking system and farmers should start getting subsidies on interest rates. That should certainly support the demand this year. In Argentina, there have been a lot of changes, when most of export duties on cereals were reduced to zero. With that lot of Argentinian farmers are looking to expand production of soft commodities. Moreover, Argentina has the same good soil as Brazil and quite big freshwater reserves, so there is big potential, which we hope we will see realising as early as in 2016.

Talking about the price ratios, fertilizers are very much affordable at the current prices. The biggest seasonal demand for the spot market is still yet to come from Asia and Latin America. Just to remind you, the biggest volumes on the market are traded in Q2 and Q3, when we normally see the highest prices of the year. That would add to market stability as well. Among the factors that might limit any price increases is new supply coming from Morocco. Although we have seen in the last couple of years that adding new supply OCP was in fact very disciplined, never really using their full capacity and making more margins on feedstock sales, phosphate rock and phosphoric acid.

There is still potential of export from China. However, recently great news came to the market: up to date this year export from China has substantially fallen down, on DAP by 42% y-o-y and on MAP by 55% y-o-y. Let me remind you that the cash costs of the industry are very high. This year we saw for the first time a release from Chinese producers on a significant reduction of DAP capacity utilisation in Q1 and now we finally see a significant reduction in export numbers as well. That should help the market as well. On urea, a lot depends on what happens to the Chinese production. There are more questions than answers there, because there is additional pressure being added on carbon oxide emission, on using coal and so on. Therefore, we might see positive changes there as well, however, there is not very much information available as yet.

As far as the Company itself is concerned, the weak rouble keeps helping us, but even besides that, we would continue working on operating efficiency. As Andrey Guryev has mentioned in his presentation, there is more potential to increase production even within 2016, [when no brownfield project has started]. Talking about our sales, there is good potential of additional margins because of our European offices that

are already fully operational; there is another one opened in Warsaw for the Eastern European market. Thanks to that, we are selling directly to local distributors, understanding more local farmers' needs and being able to provide the best mix of nutrients in whatever form of fertilizer. That means that at the end of the day we would be gaining better margins as well. As far as capex is concerned, all our development projects are on track, so in 1H 2017 you will see our new production, better margins, better free cash flow and hopefully better dividend as well.

With that, I would conclude my presentation. Thank you for listening. You are welcome with your questions. We have our full management team here today and we are ready to answer your questions.

Operator: Ladies and gentlemen, we will now start our Q&A session. If you wish to ask a question, please press "01" on your telephone keypad. Thank you for holding until we have our first question. Our first question is from Yonah Weisz from HSBC. Please go ahead.

Yonah Weisz: Hi there, good afternoon and thank you for taking my questions. I have a couple, if that is OK.

First, I would like to start off with a bit of clarification on dividends. I think during the presentation you referred to an adjusted payout ratio of around 50%. However, if I take the reported EPS and reported dividends based on 2015 payouts, it looks more like 80%. I am just curious if you could explain whether there is any difference, or if there is a mistake in my calculation. Any type of clarification of the payout ratio on your end would be welcome.

Andrey Guryev: No-no, you are totally right.

Yonah Weisz: OK. You just ended your presentation with a hope for, perhaps, better dividends as well in 2016, is there any chance...

Andrey Guryev: The one I spoke about was the payout ratio adjusted for the FX loss, which is not realised, of course. If we are talking about the unadjusted net profit, the payout ratio was 79.97%.

Yonah Weisz: OK. I guess the question is whether you will be officially moving your payout ratio upwards in 2016. Currently, if I am not mistaken, it is 30–50%. Will you be considering officially moving this range upwards? Or can we expect an 80% payout ratio in 2016?

Andrey Guryev: OK, first of all, today we already understand Q1 2016, which, I would say, was quite tough for the market, and I believe that Q4 2015 was also quite depressing in terms of prices. We saw a dramatic change that started in the off-season period, in November–December 2015, which continued in the first two months of 2016. Basically, today, as I have said, we understand the figures of our EBITDA and the Company's cash flow, I can say that we still believe that, if they are bringing us impressive results, there is no reason to change any policies that we promised to our investors. If we see that we are able to distribute 30–50% [of our profit as dividends], as we did in 2015 paying out the dividend for 2014, which was an adjusted payout ratio of about 51.7%, then of course we will recommend it to the Board.

Yonah Weisz: OK. In terms of your capex, I am wondering if you could talk about capex spending that you plan for 2016 in total, perhaps even for 2017. Are there any specific projects? The ammonia plant is pretty much finished, so are there any specific projects you could point to that are going to attract a lot of capital spending, like maybe underground mining projects, and that you will be focusing on in the years to come?

Alexander Sharabaiko: Hello Yonah, this is Alexander speaking. We have budgeted our total capex at RUB 43 billion for 2016; however, it may change, as there is an approximately 30–35% USD component. So

depending on the exchange rate, if it goes far above what we budgeted, which is around RUB 70 per USD, that number may slightly increase. As for 2017, we have not been able to finalise all the numbers. As you know and have correctly mentioned, we have an ammonia plant on its way, and there might be some moving parts coming from 2016 to 2017. That is why I suggest we have this discussion later on this year, maybe in Q3, when we have more visibility on capex for 2017.

I guess I have answered all of it, right?

Yonah Weisz: Are there any projects that you have your eyes on?

Alexander Sharabaiko: Oh yes, the projects, yes. At the moment, we are finalising the 2025 Strategy, as we call it, and I will let Andrey speak on this more. It has various scenarios for the Company's development. However, there are no major plans on spending any additional money on any specific projects in 2017. After finalising the strategy, we may disclose to the market as to what the plans are and what projects that may involve. Thank you.

Yonah Weisz: Thank you.

Operator: Our next question is from Andrey Lobazov from ATON. Please go ahead.

Andrey Lobazov: Thank you for this opportunity. I have two groups of questions, if I may.

First, it would be great if you could guide me as to in which quarters of 2017 you expect the new ammonia and urea capacities to be commissioned. Also, could you indicate how long you think it would take to ramp up these expansions – three or six months, or is it closer to one year? What volumes should we expect from these assets in 2017–2018?

My second question is about your longer-term plans. What should we expect after 2017, assuming that the ongoing expansion projects are successfully completed and ramped up? Could it be new expansions, optimization of the existing capacities, or simply higher dividends? I know that the new long-term strategy is currently being drafted, but it would be great if you could share your preliminary thoughts on this matter. Thank you.

Andrey Guryev: Let me start with the projects. We plan to finish the construction of the ammonia and urea capacities in August 2017, and it usually takes about 1–2 months to start and fine-tune the production and quality. After that, in Q4 and probably in Q3, we will see PhosAgro's EBITDA increase thanks to the new products that we will be able to sell to the market. As we have said, these are 500,000 tonnes of granular urea, 760,000 tonnes of ammonia, and 300,000 tonnes of ammonium sulphate, if we decide to build it.

As for our strategy, we plan to invest in our factories until 2017, and after that we will consider investing in our mines, but there will not be a huge capex, it will be more about optimisation of the mines and the beneficiation plants. However, I do not really see any capex even reaching the levels of the ammonia and urea plants. We will be monitoring the market prices closer to 2017 in order to make any decisions on increasing our production or construction activities, should we find the need to do so.

Andrey Lobazov: Thank you.

Operator: Our next question is from Yonah Weisz from HSBC. Please go ahead.

Yonah Weisz: Thank you for letting me ask a follow-up question. I am just curious about what your views are on the Indian subsidy scheme that has been announced today. It introduces an approximately 30% cut in

subsidies for phosphate fertilizers in India. Does that change your outlook at all, or does it already include this information?

The second question regards the lawsuits that have been launched in Cyprus against PhosAgro's owners. Is there any update on what the Cyprus judges are saying, or in terms of negotiations with the individuals who put these lawsuits in place?

Andrey Guryev: Let me start with India. All this information was announced about two or three weeks ago, and today the numbers, I think, are more or less the same in terms of decline. To my mind, in terms of the Indian subsidy policy, all these numbers give me an assurance that the Indian market will be strong. I think that the country shows quite good results in terms of development – they have a stable currency situation, a stable economic situation, and the demand is good. For me it is hard to say that they currently have more stocks or any overstocking for the period, I do not think so. I think that, again, the recent price reduction gives farmers a fantastic opportunity to continue investing into the harvest. Fertilizers are cheaper and highly affordable today, and with subsidies in place, I do not see any disruption in terms of demand from any side of the world. I am sure that the prices will quickly recover and we will see quite a great seasonal demand for fertilizers everywhere.

As for the lawsuits against PhosAgro from Cyprus – all of them were closed. As I have said before, it is all just speculation against the Board members. There was never any legal substance behind these lawsuits, so there is no need to worry.

Yonah Weisz: Thank you.

Irina Evstigneeva: Yonah, just a slight addition on the Indian situation. I have just been to the first Indian NPK conference, and many distributors and members of FAI (Fertilizer Association of India) were present there. The interesting trend in the country, which we also observe globally, is that they do expect a slight reduction of the DAP import to around 5 million tonnes, but that would be more than compensated by a potential increase of the complex fertilizer import. If you look at the local consumption y-o-y for the past 15 years, complex fertilizer consumption in India was growing by double digits. For us, as a company, it makes no difference which form of fertilizer we sell our phosphate in: we can do all potential grades, including phosphate.

In view of that, we do believe that the Indian market will be if not solid, then at least showing further growth of P2O5, not just DAP. Then there are the Indian Government's policies this year, which for me, personally, were a big surprise: they did implement certain measures that aimed at helping agriculture in India. These would, obviously, help get rid of the imbalance between nutrients: they have been substantially overapplying urea in the recent years. They are starting to do soil tests throughout the country, in every province. This means that farmers will finally get science-tested nutrient application rates and would be able to buy the correct nutrient mix, instead of buying just urea, urea and urea.

They will also be spending additional money on the irrigation system. Monsoon problem is one of the biggest in India – we can see that when the monsoon is weakening, the demand is weakening as well. That all should potentially help the Indian demand grow in terms of P2O5, potassium, and secondary nutrients like sulphur and micronutrients in the future.

Yonah Weisz: Thank you.

Andrey Guryev: Thank you, Irina, but I think you are overcomplicating the Indian situation. During the years I have been in this business, I have learned that if the prices are favourable – and the price for soft commodities is supportive – they will take it, no matter what the subsidies are. I think now is one of the greatest years in terms of opportunities, with all the supportive factors in place: good soft commodity prices, good support from the government, and cheap fertilizers.

Operator: Our next question is from Alexander Nazarov from Gazprombank. Please go ahead.

Alexander Nazarov: Good afternoon. Thank you very much for the presentation and for the opportunity to ask my question. I have two questions. The first is about the potential dividend schedule for 2016. Have you discussed this already? Can you guide us through your potential dividend payments through the course of the year?

The second question is about some points in Andrey's interview, which I think all of us saw on Bloomberg. My question is about the discussion on potential pre-export financing. Is it already a close-to-be-done deal, or is it just a discussion on opportunity and testing the market? Thank you.

Alexander Sharabaiko: Hello, this is again Alexander speaking. In answer to the first question, on the dividend schedule for 2016, I can say that decisions will be made by the Board depending on the available cash flow generated during the previous quarter. Therefore, there is no specific schedule. We have four Board meetings, and each of them decides at a specific point in time if the cash flow is enough or not to pay out dividends and to cover all the capex that we have in place. You can follow our Board schedule – it will indicate and give you a hint on whether there is any chance of additional dividends being decided upon.

Now on to your second question about the PXF. The banks have been selected, we have already mandated two banks, namely UniCredit and Rosbank, They are managing this deal for us, but, to be frank, it is our first try, so you should expect more deals on the PXF side from us going forward, as we are looking for potential refinancing of our Eurobonds in 2018. However, it is too early to talk about it. Thank you.

Alexander Nazarov: Thank you.

Operator: Our next question is from Joel Jackson from BMO. Please go ahead.

Milan Sean: Hi, sorry, this is Milan Shah for Joel Jackson from BMO. I have two questions, if I can.

First, you mentioned the cadmium restrictions in Europe. Are you able to quantify how much of an opportunity that may be for you? I will ask the second one after.

Andrey Guryev: I think today it is too early to talk about trying to quantify the extra volume or revenue that we may get. What we can say for sure is that the restrictions will indeed happen. I am certain that all these restrictions will have a significant chance to be implemented in the near future. This will cause many producers, particularly producers of rock and fertilizers from rock with high cadmium, to look for how they can change the production pattern. It may be new investments in phosphoric acid, which will basically help purify high-cadmium phosphate rock, or it may be other technical solutions. No matter what, the situation will change, and Europe will start buying the purest and greenest phosphoric acid, phosphate rock and fertilizers, like they do now in Norway and Finland. PhosAgro owns the best, most environmentally-friendly and high-quality reserve of phosphate rock, so there are lots of opportunities for us to increase our market share of sales in that particular premium market.

Milan Shah: OK, thanks. On to my second question. There is some opportunity to buy phosphate assets in South America. What would your interest be there, if any? Thank you.

Andrey Guryev: Do you have any suggestions what we can buy? What would you buy if you were in our shoes right now?

Milan Shah: Good question. I was just wondering what your thoughts were on the assets out there, if you had any interest whatsoever.

Andrey Guryev: For us as well. If you have any ideas, please send them this way.

Operator: Our next question is from Christopher Rivituso from Debtwire. Please go ahead.

Christopher Rivituso: Thank you, gentlemen. I have a couple of questions. In terms of bringing your net debt to [EBITDA] ratio down to 1.0x in 2016, can you tell me how you plan to achieve that? My second question concerns the PXF. You say that the Company has mandated UniCredit and Rosbank. Can you tell me what you are seeking in terms of credit for that PXF and what your time-frame for raising that is? Thank you.

Alexander Sharabaiko: The way to bring the net debt to EBITDA ratio to our target level is to pay out the existing debt. This year we plan to reduce our total debt by another USD 150–200 million.

Christopher Rivituso: OK. Are you going to use free cash flow or anything else?

Alexander Sharabaiko: Mostly cash flow.

Christopher Rivituso: OK, fair enough.

Alexander Sharabaiko: Can you remind me what the second question was?

Christopher Rivituso: It regarded the PXF for which you have already mandated UniCredit and Rosbank. I just wanted to know when exactly you mandated those two banks, what sort of a sum you are looking for, if you have any idea, and for what purposes you will use this PXF.

Alexander Sharabaiko: Since you are using the terms like “mandate”, you are quite familiar with the topic, which means that you should know that these mandates contain confidential information.

Christopher Rivituso: I understand.

Alexander Sharabaiko: To give you a general overview, we mandated the banks to provide us with a facility with a total amount of up to USD 250 million. This is all the non-confidential information I can tell you.

Christopher Rivituso: OK, got it.

Alexander Sharabaiko: Other things, such as pricing and timing, are sensitive.

Christopher Rivituso: OK, fair enough.

Alexander Sharabaiko: I personally think raising this debt should not be a problem right now. The question is the pricing. PhosAgro is a very price-sensitive company, so we are looking for the best opportunity on the market, and you should expect us to go through with this deal only if we are sure that the pricing is right.

Christopher Rivituso: Thank you. One other thing: when did you mandate UniCredit and Rosbank? How recent was that?

Alexander Sharabaiko: Can you please explain to me the background of your question? I mean, why is that important to this call?

Christopher Rivituso: Because I am a journalist, and I cover debt markets and the FSU.

Alexander Sharabaiko: OK, but why is the date that important? I can easily tell you, but I want to understand the rationale, why is this important to this call?

Christopher Rivituso: Because, as a journalist, I want to try to add as much value and information to my stories as I can.

Alexander Sharabaiko: All right, it was done pre-2015YE.

Christopher Rivituso: OK, got it, thank you.

Alexander Sharabaiko: Thank you.

Operator: Ladies and gentlemen, if you wish to ask a question, please press "01" on your telephone keypad. Thank you for holding.

We have a question from Kevin Whyte from VTB Capital. Please go ahead.

Kevin Whyte: Yes, thank you. I just wanted to ask – in your basic scenario, as I understand, you are waiting for prices for fertilizers to rebound, but if they stay close to, let us say, current levels, what would you be favouring: reducing your debt level to 1.0x of net debt to EBITDA, or maintaining the 50% payout ratio form your net income prior to FX losses?

Andrey Guryev: As I have said before, we already have an understanding about Q1 2016, when we operated in a low-price environment. I think we demonstrated impressive performance, which has given me assurance that we will be able to achieve all of our targets.

Kevin Whyte: OK, thank you.

Operator: Ladies and gentlemen, if you wish to ask a question, please press "01" on your telephone keypad. Thank you for holding.

We have no further audio questions.

Irina Evstigneeva: We have a couple of webcast questions from Muneeba Kayani from Morgan Stanley, although the one on capex guidance has already been answered. The other one is "What is the maximum sales volume potential in 2016? Utilisation was high in 2015, so what will drive the higher volumes?"

I think Andrey has already answered your question at the beginning of our presentation, but I will ask him to kindly repeat it.

Andrey Guryev: Yes, as I have said in my presentation, on the back of our January and February performance we already see the potential to increase the production of phosphate fertilizers by about 5–7%, which I think is achievable.

As for utilisation, we are trying to maximise the utilisation rates at our factories. It used to be already high, like we thought it's 100% two years and 100% last year. This year, we thought again it was 100% utilisation, but we still have internal sources of optimisation.

Irina Evstigneeva: That should bring more money in 2016 without new start-ups.

We have no further questions. I would like to thank you again for taking part in this conference call and webcast. I would remind you that you are all always welcome to ask more questions by contacting us directly. We will also be able to meet at all the important industry or EM conferences. Thank you and goodbye.

Andrey Guryev: Thank you, goodbye.

Operator: This concludes today's conference call. Thank you all for your participation, you may now disconnect.