



# Uralkali—Leader to Capture Growth

THE RUSSIA FORUM 2010, TROIKA DIALOG  
FEBRUARY 3 - 5, MOSCOW

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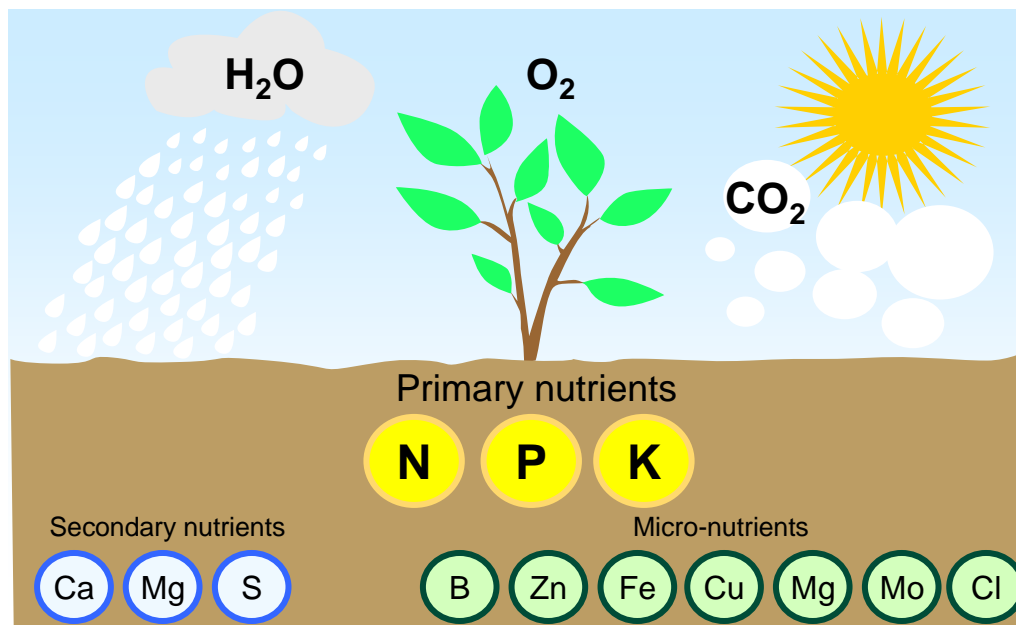
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# Potash Market Fundamentals

# Potassium: One of the Three Primary Nutrients



## Nitrogen (N)

- Promotes protein formation
- Determines plant's growth, vigour, colour and yield

## Phosphorus (P)

- Plays a key role in adequate root development and photosynthesis process
- Helps plant resist drought

## Potassium (K)

- Improves plant durability and resistance to drought, disease, weeds, parasites and cold weather

# Potash is unique



- Essential nutrient for plant growth
- No known substitutes
- Most attractive fertilizer sector
- Strong underlying growth in demand
- Good supply visibility and high entry barriers

# Potash: Growth, Visibility, Stability



	Potash (K)	Phosphate (P)	Nitrogen (N)
Market size <sup>1</sup> (2010E)	28,6 Mt (K <sub>2</sub> O <sup>2</sup> , 47 Mt KCl)	39,6 Mt (P <sub>2</sub> O <sub>5</sub> )	102,1 Mt (N)
Geographic availability	Very limited	Limited	Readily available
Industry members	Small number of leading players	Several leading players	Large number of players
Long-term pricing stability	High	Medium	Low
Profitability	High	Low/medium	Low/medium
Barriers to entry	High	Medium	Low
Cost of greenfield capacity	US\$2.8bn for 2 Mt (KCl)	US\$1.5bn for 1 Mt (P <sub>2</sub> O <sub>5</sub> )	US\$1bn for 1 Mt (NH <sub>3</sub> )
Greenfield development time	min 7 years	~3-4 years	~ 3 years

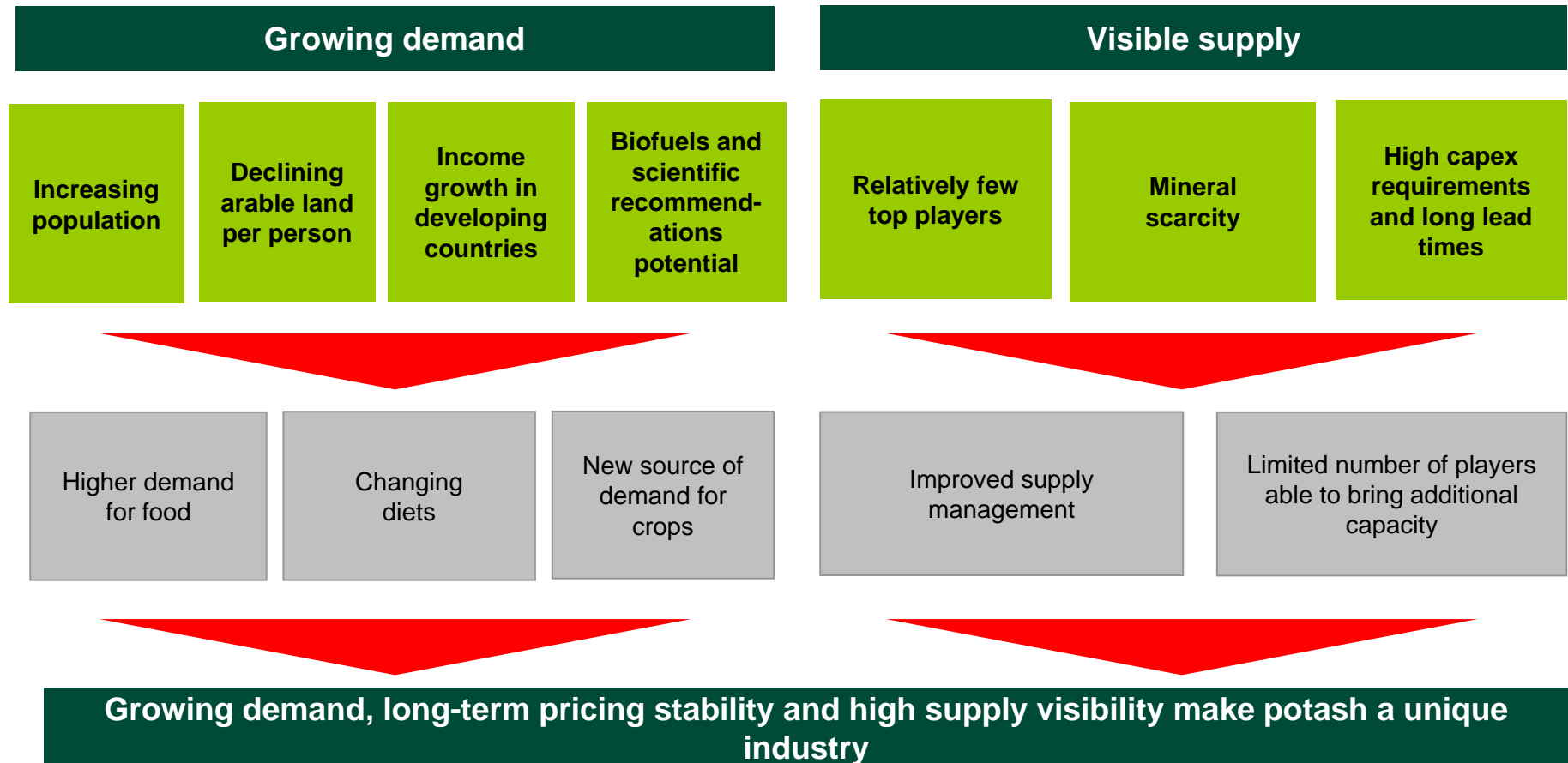
**Potash represents the strongest investment story across the fertilizer industry**

Source: Fertecon, Uralkali, PotashCorp, IFA

Notes:

- 1 All references to tonnes (t) throughout this presentation refer to metric tonnes. Any reference to US short tons is referred to as "ton"
- 2 1t K<sub>2</sub>O(nutrient) is equal to 1.67t KCl(product)

# Strong Industry Fundamentals

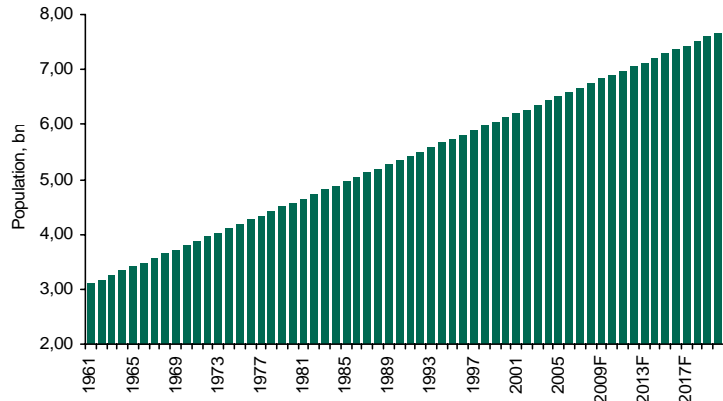


Source: Uralkali

# Higher Yields Required to Feed Rising Population

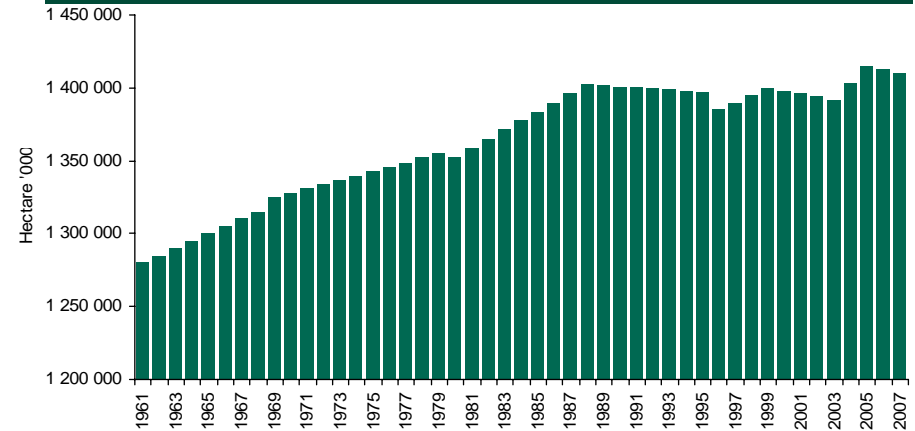


## Growing population Needs Higher Crop Yields



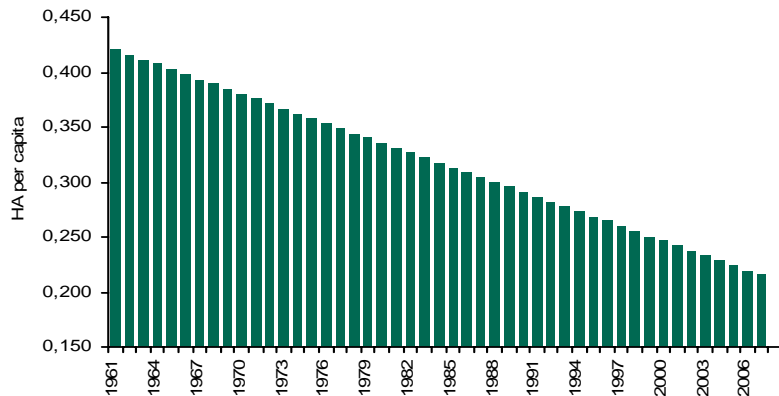
Source: FAO, Macquaire Research, Jan 2010

## Arable land has not increased for more than two decades



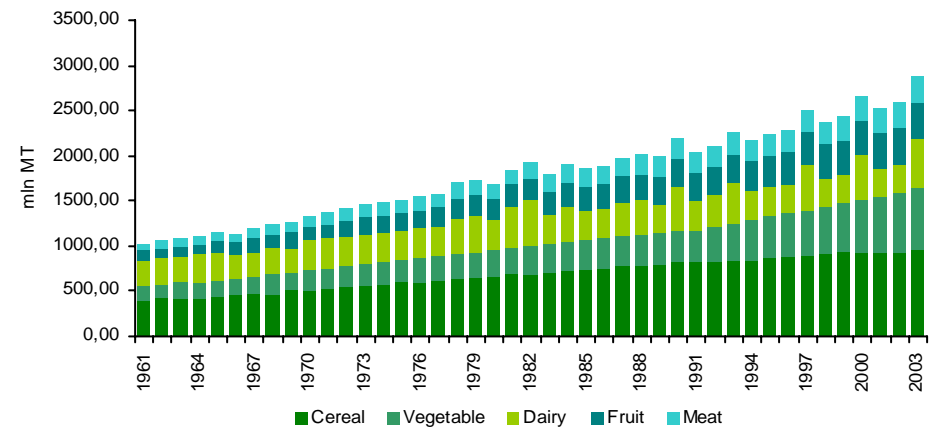
Source: FAO, Macquaire Research, Jan 2010

## Arable land per capita is shrinking



Source: FAO, Macquaire Research, Jan 2010

## Food consumption is increasing



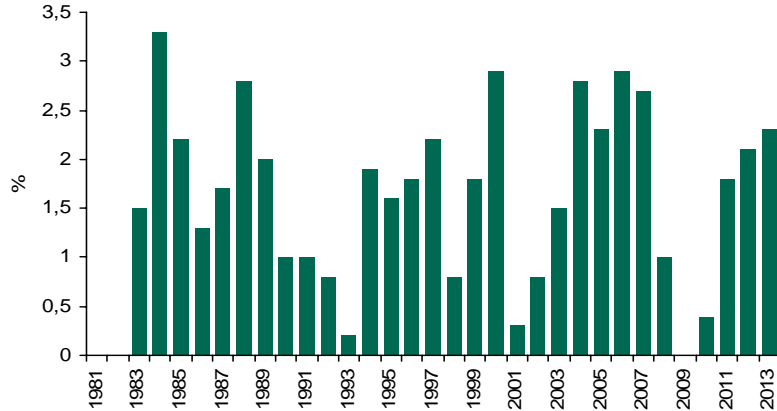
Source: FAO, Macquaire Research, Jan 2010



# Increasing Prosperity Driving Major Dietary Changes

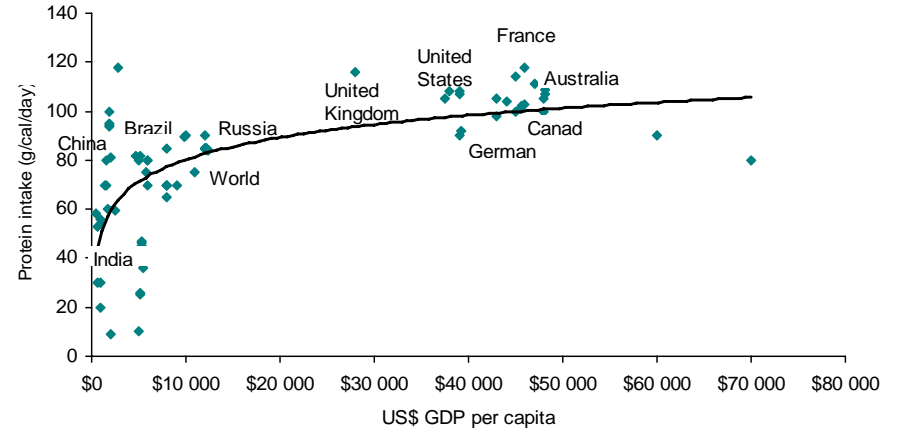


## World income growth, %



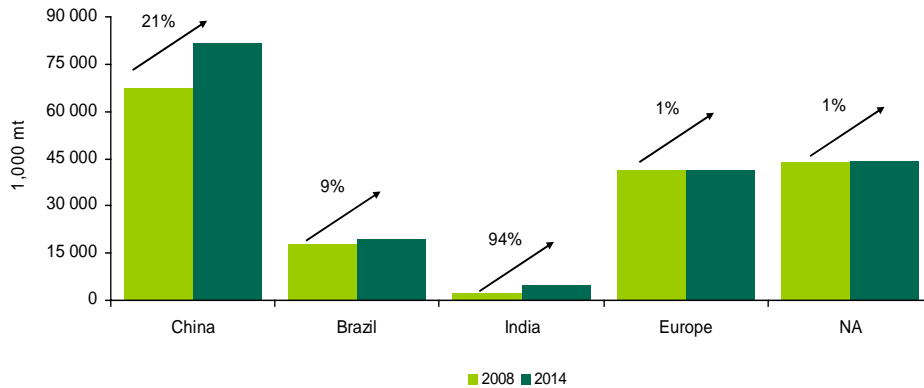
Source: Economist Intelligence Unit

## Protein intake increases with GDP growth



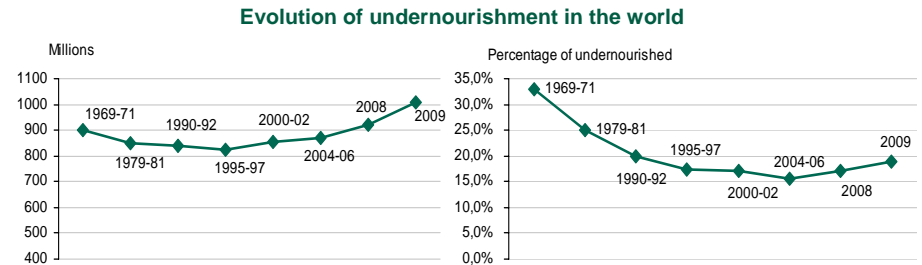
Source: FAO, IMF, Macquaire Research, Jan 2010

## Meat consumption increase – biggest in developing countries



Source: USDA

## ...still number of hungry people is going up – more food is required

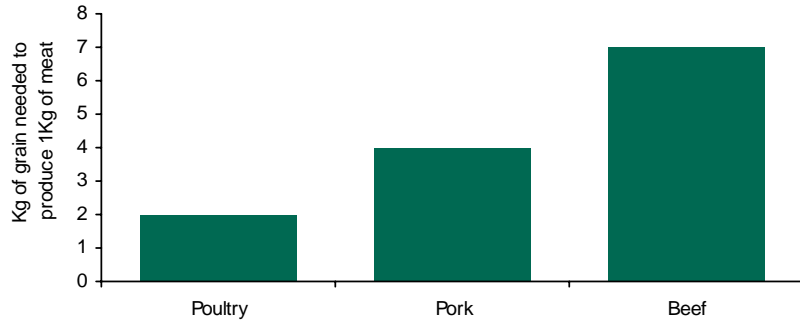


Source: FAO

# Changing Diets Drive Demand for Grain

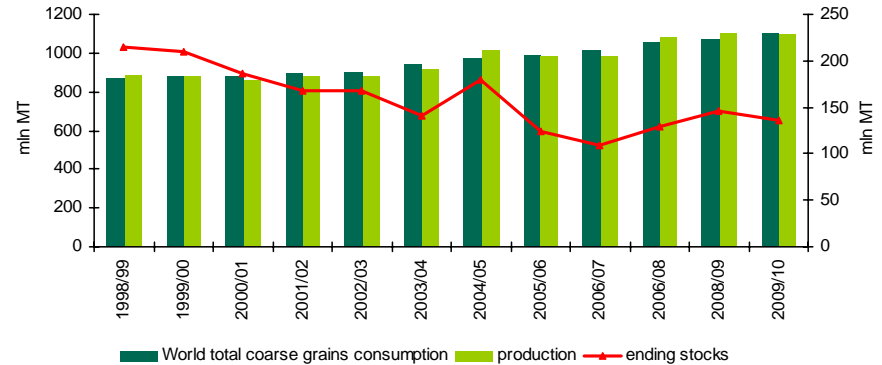


## Protein requires lots of grains



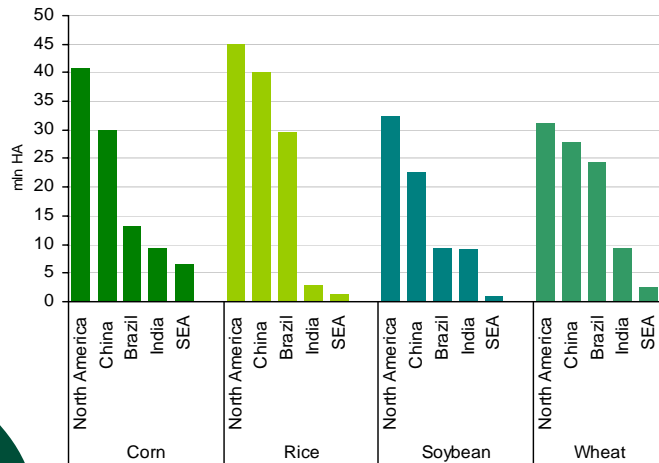
Source: Doane, PotashCorp

## Coarse grains consumption is steadily growing



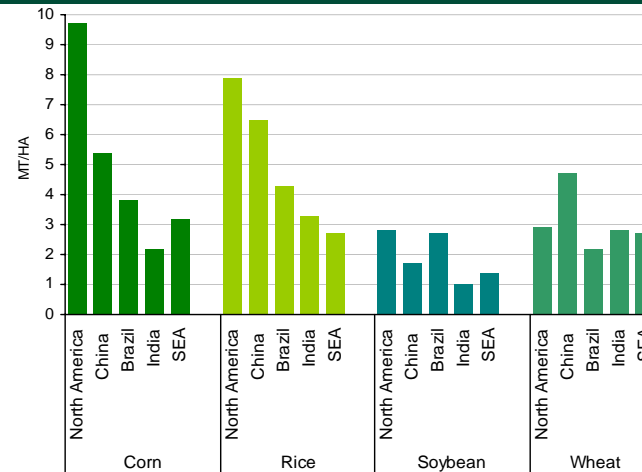
Source: USDA

## Developing countries have a big portion of total crop acreage



Source: USDA

## ...though have lower yields compared to developed agricultures



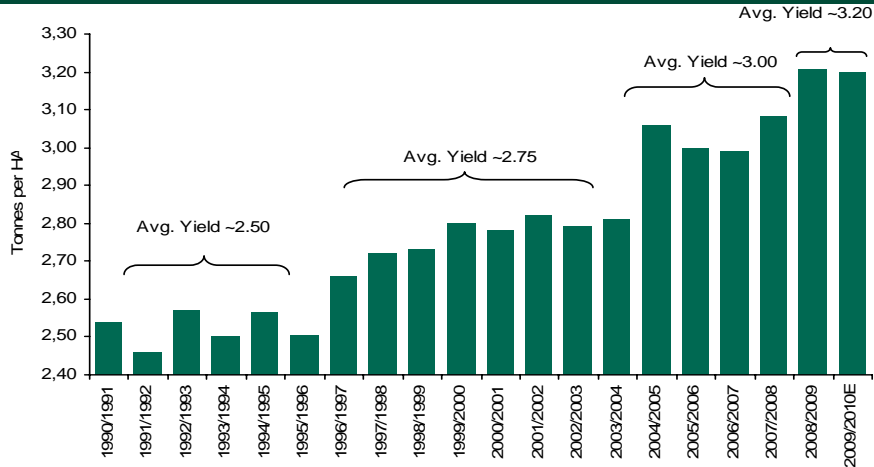
Source: USDA

## **A Market In Recovery**

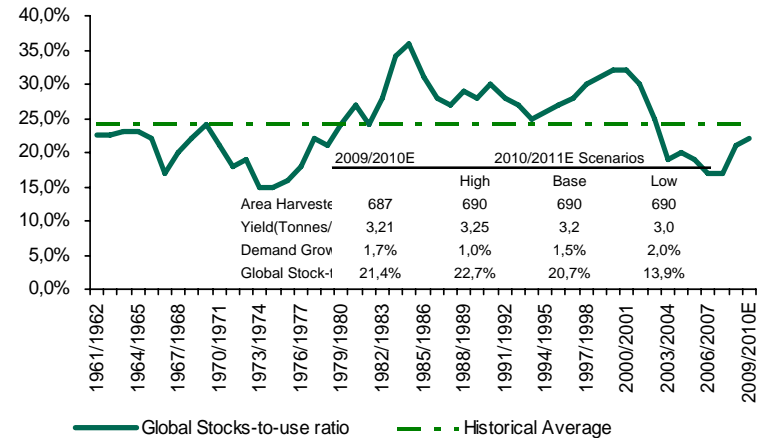
# Grain Market Recovery Well Underway



## Global Grain Yield Requirements are Growing



## Global Grain Stock-to-Use Ratio is Still Below Average

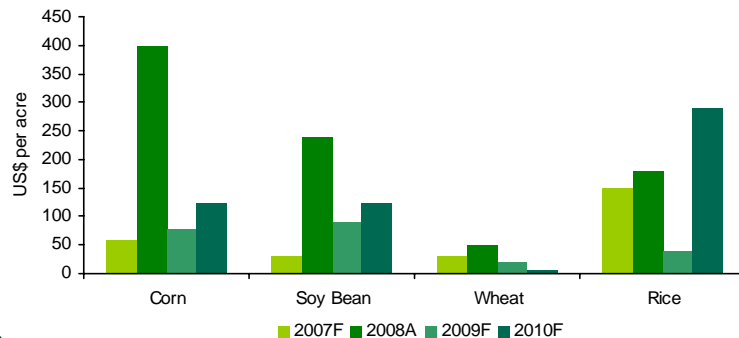


Source: RBC Capital Markets

Source: RBC Capital Markets, USDA

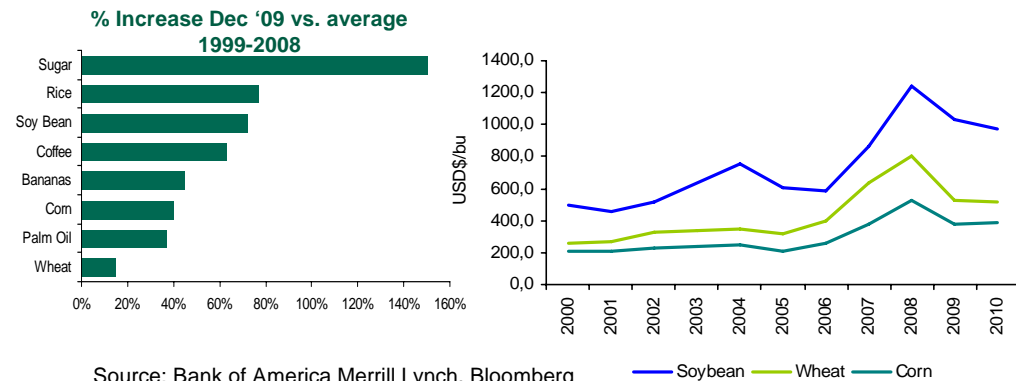
## Supportive for Commodities Prices, Farmers' Margins... and Fertilizer Demand

### Farmers' Net Income per Acre – Up from 2009 Lows



Source: Bank of America Merrill Lynch

### Crop prices are above historical average

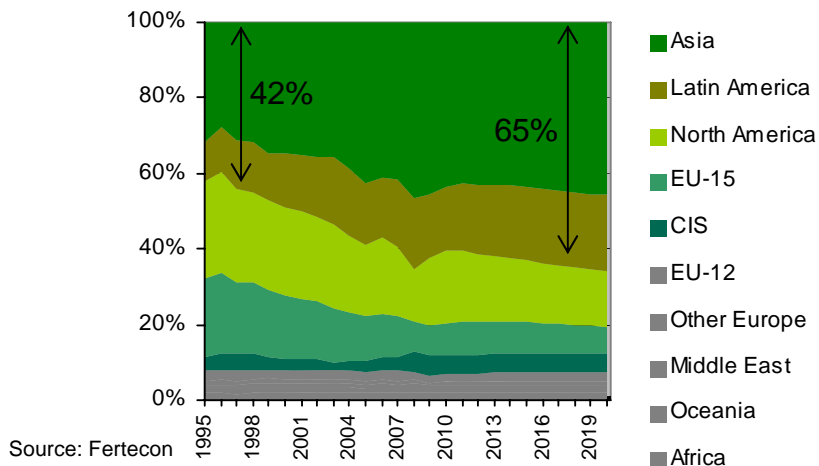


Source: Bank of America Merrill Lynch, Bloomberg

# Potash Demand Growth Driven by Strong Fundamentals

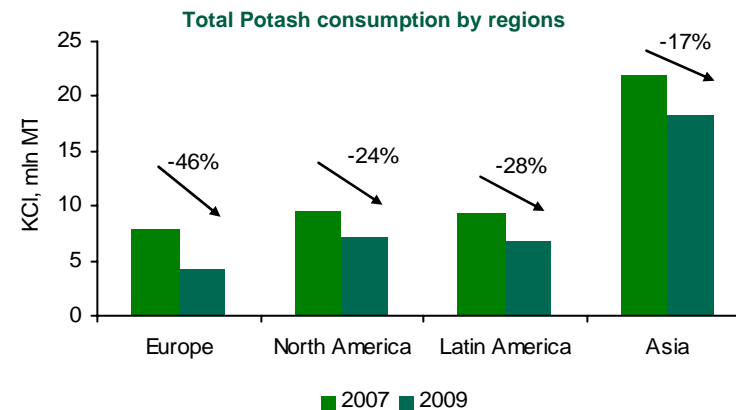


## Potash use growing in developing countries



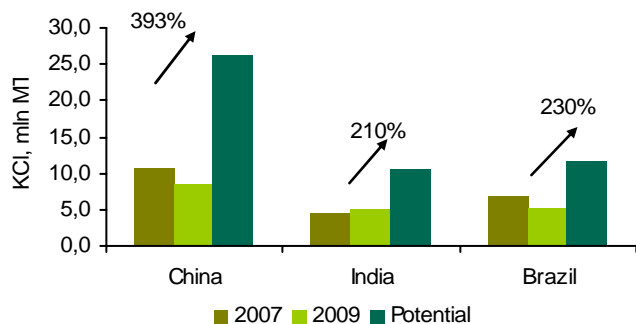
Source: Fertecon

## Crisis forced farmers to deplete soil



Source: Fertecon

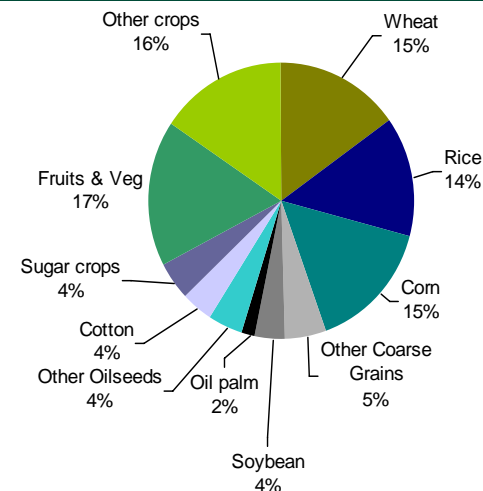
## Low KCl applications unsustainable



Source: IPNI, Fertecon

Potential: Calculated on the basis of scientifically recommended potash application rates (2:1:1 NPK ratio)

## Potash use spread evenly across crop types

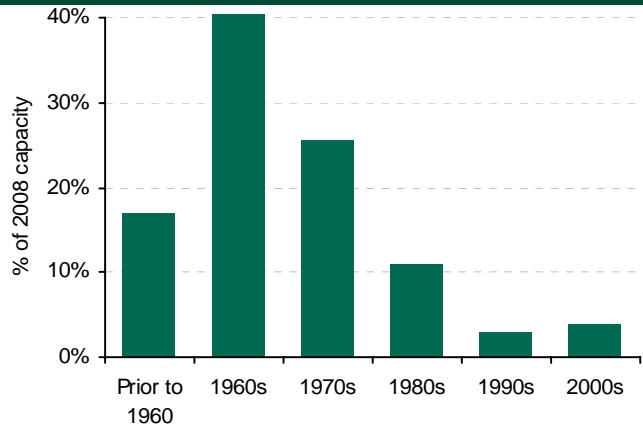


Source: IFA

# Potash Supply Remains Constrained

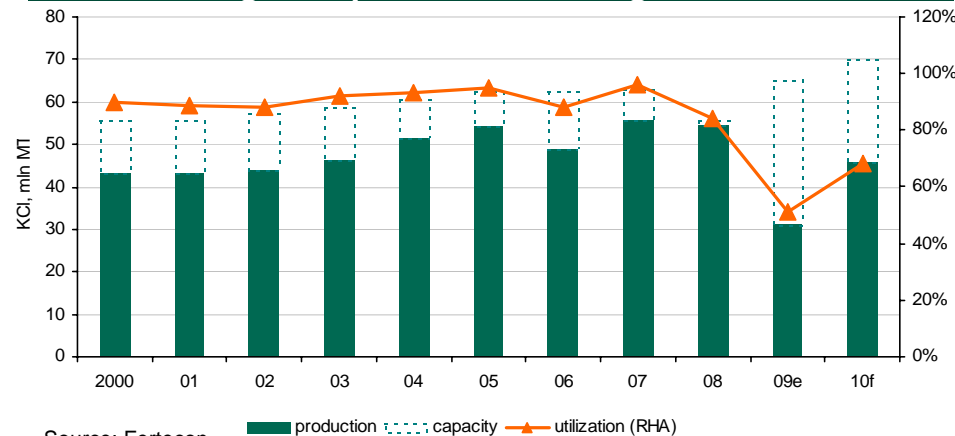


## Global capacity built decades ago



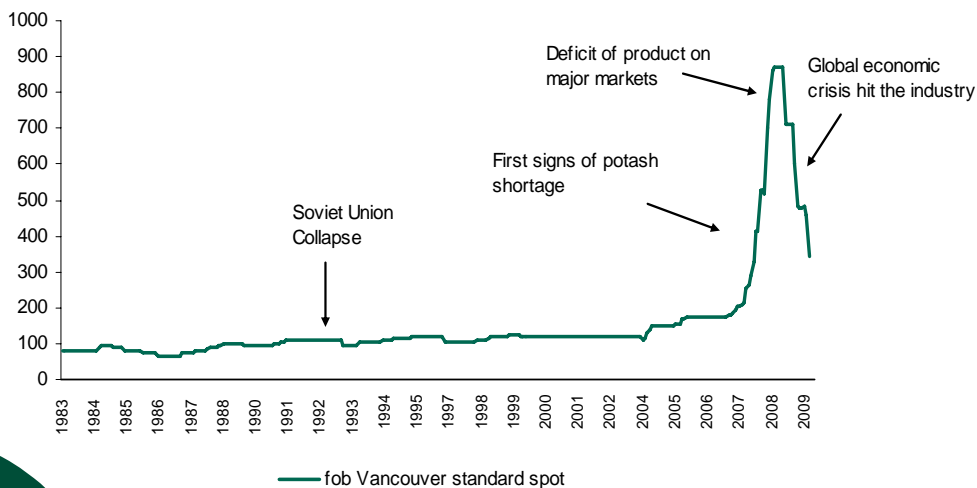
Source: Macquarie Research

## Utilization rates have been high as a response to global potash demand growth



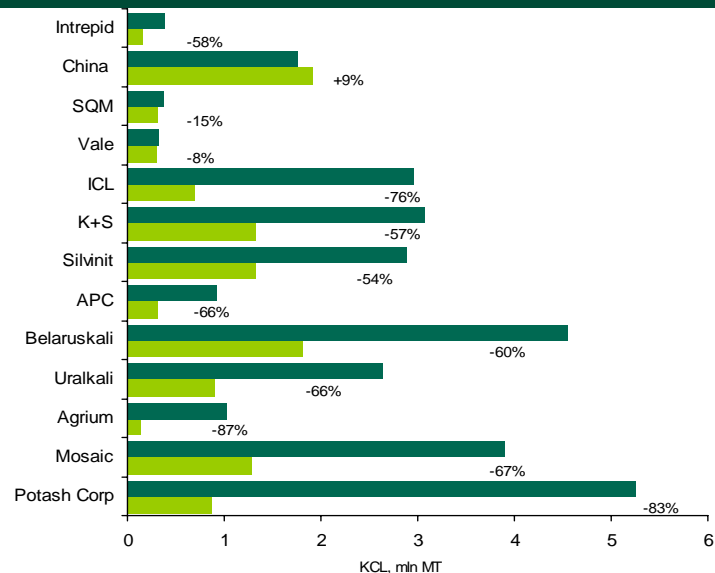
Source: Fertecon

## Price performance reflects supply/demand tightness



Source: Fertecon

## 2009 Crisis caused potash sales to fall



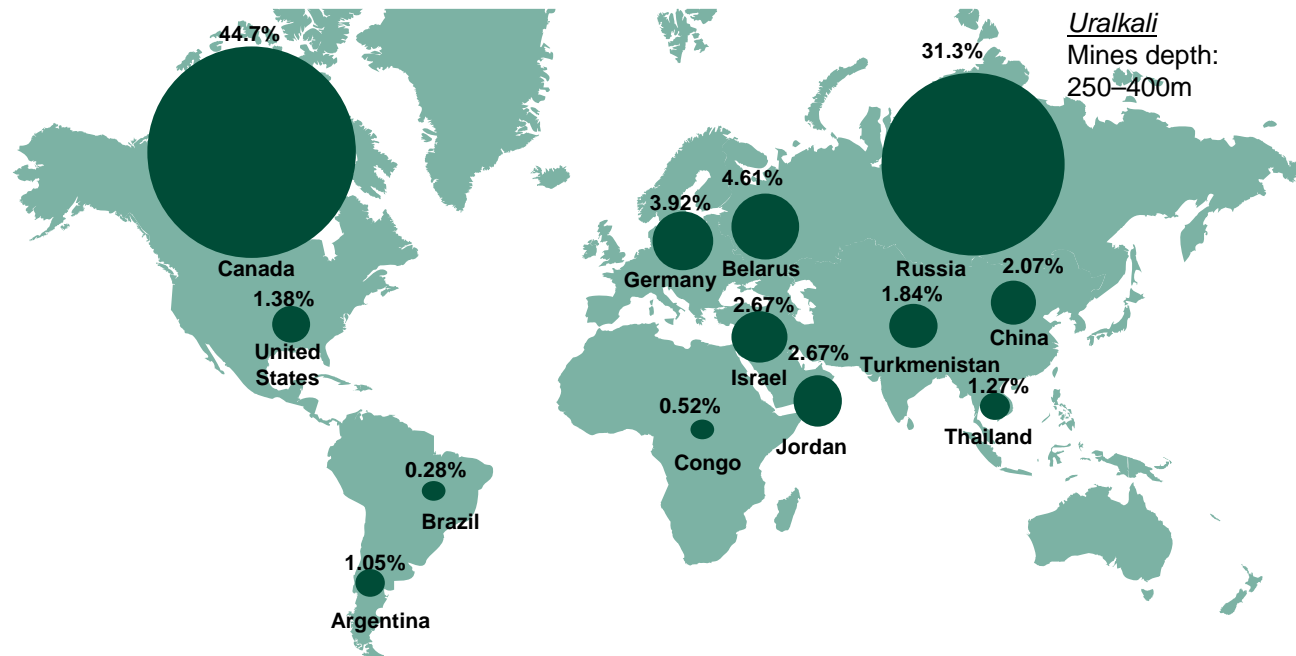
Source: IFA, Companies reports

Total sales H1 2009 Total sales H1 2008

# Mineral Scarcity Means High Entry Barriers



Proven resources of potash (25,508Mt) are largely concentrated in Canada and Russia<sup>1</sup>



Source: ERCOSPLAN, IFA, FERTCON, CRU, USG, Canadian GS, 2008

Notes:

1 Other countries, not represented on the map, account for less than 2.0% of total resources

Limited access to resources, few high quality ore deposits

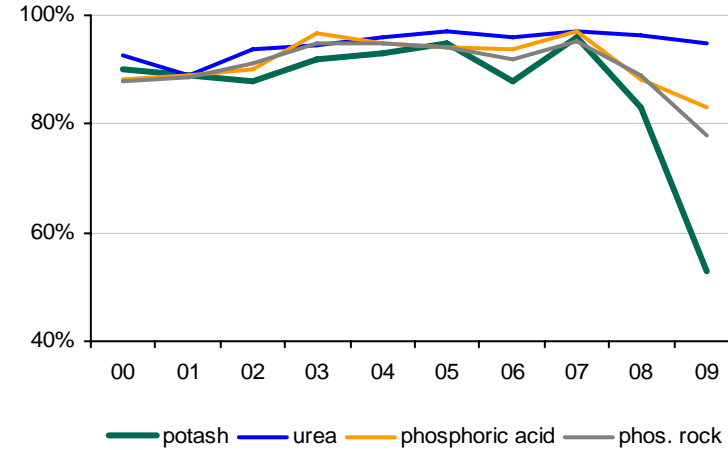
# BPC: Export Market Leadership Maintained Despite Strong Challenges



## 2009 – a year of collapse

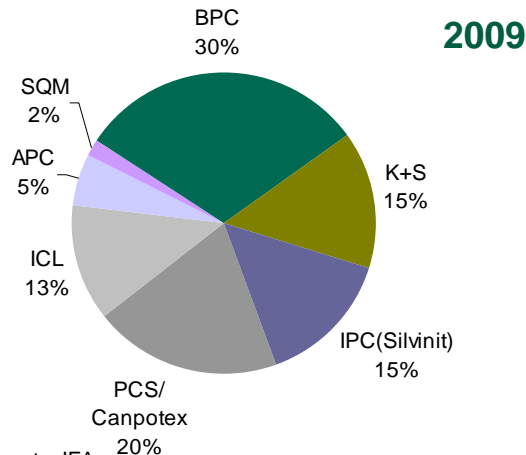
- After several years of sustained growth world fertilizer consumption was strongly impacted by the global crisis
- In 2009 a number of small players boosted their market shares though cutting prices to capture bigger volumes
- However, BPC retained its leadership by responding effectively to the changing market environment

## Utilization Rates in Potash Suffered the Most

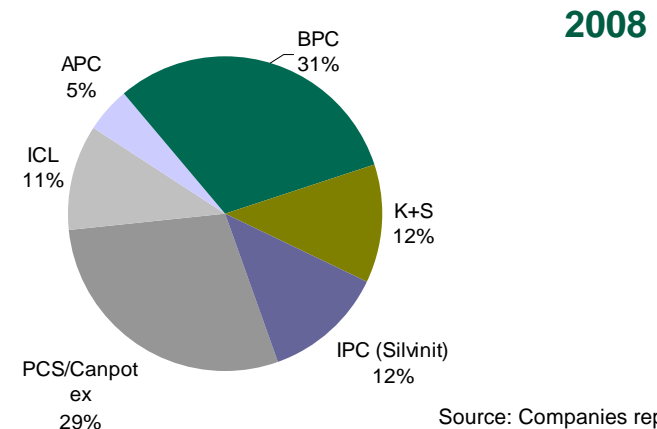


Source: IFA, BPC

## BPC's Leadership on Export Markets Has Proved its Sustainability



Source: Companies reports, IFA, Fertecon, BPC

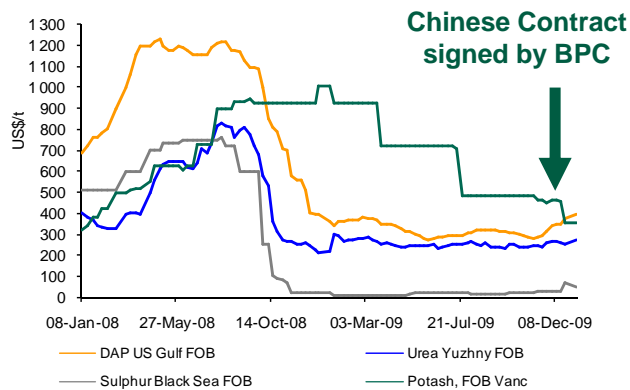


Source: Companies reports, IFA, Fertecon, BPC

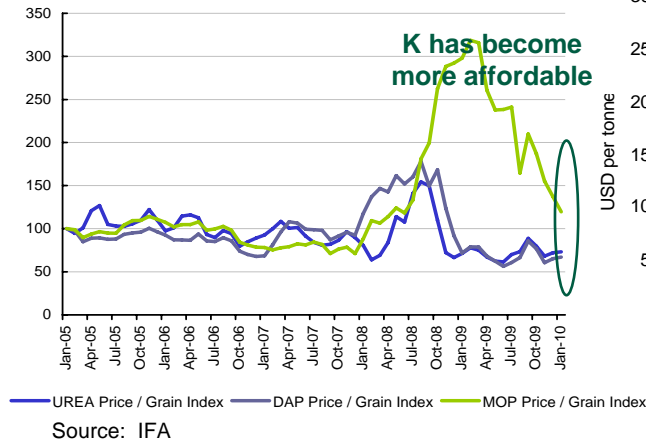


# China Price Agreement Triggers Price Rebound

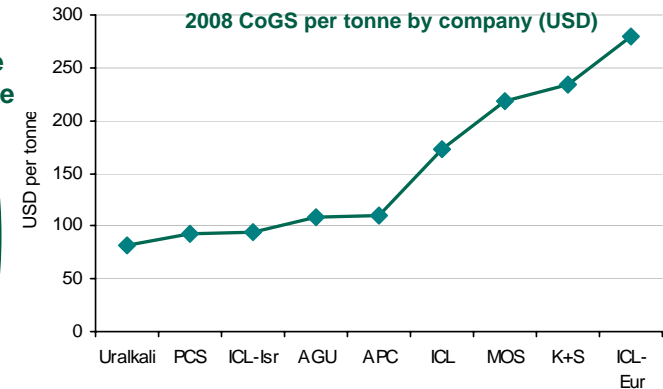
## K price Converged with P and N



## Ag Commodity Prices to Fertilizer Prices (base 100=Jan 1995)



## Potash Industry Cost Curve



Source: FMB, Uralkali

Source: IFA

Source: HSBC, Uralkali

- BPC China contract settlement key for the industry as:
  - Removed uncertainty from the market
  - Set a psychologically acceptable level for buyers
- Potash prices highly unlikely to fall to historical lows as:
  - Production costs of some major players are high
  - Potash prices should justify greenfield CAPEX of around 2.8 bln USD for annual production of 2 mln MT

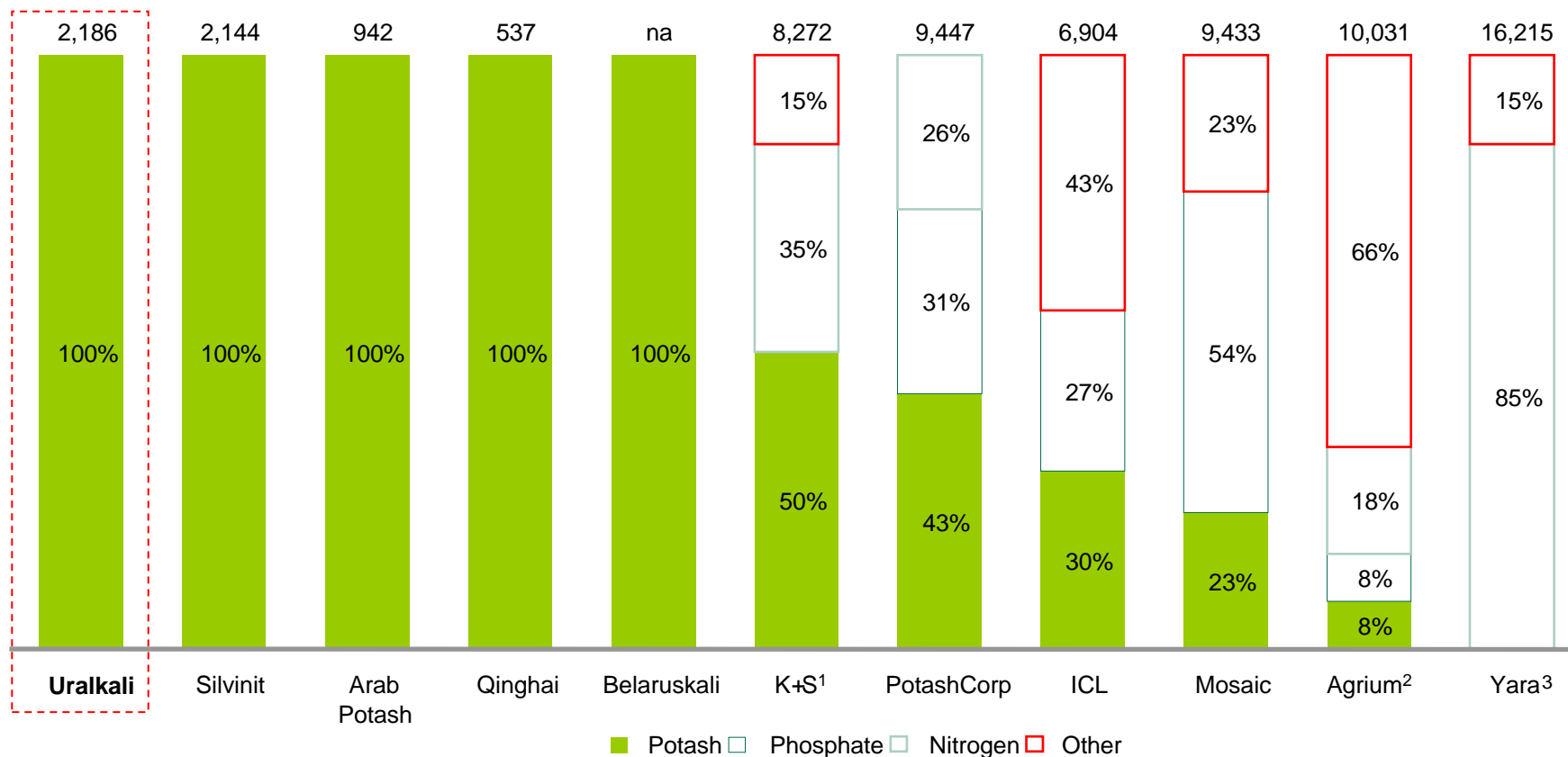
## **Uralkali: Production and Financial Position**

# Uralkali – Leading Pure-Play Potash Producer



## Net Sales Breakdown by Product (2008A)

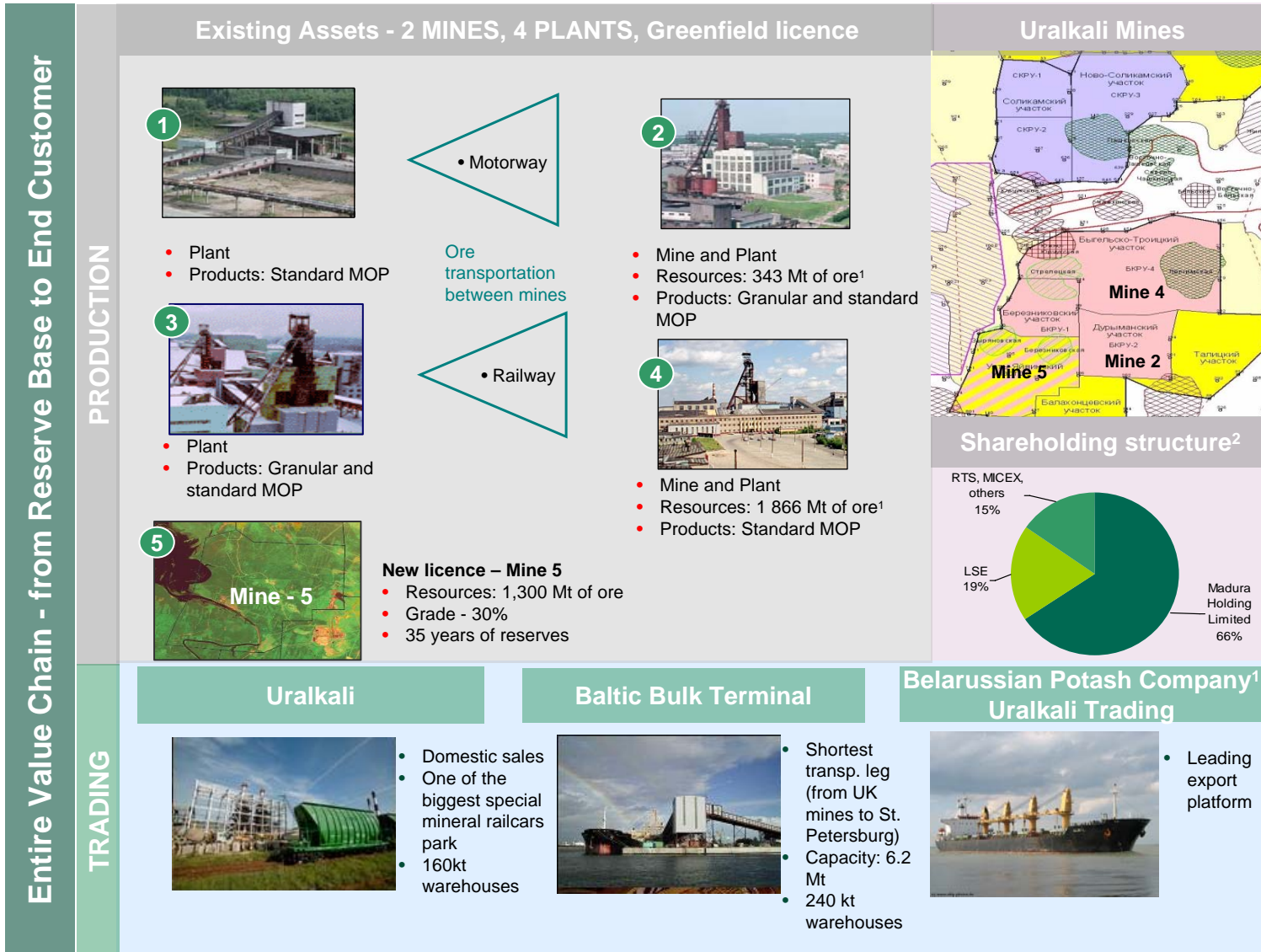
(US\$mm)



Source: Relevant company reports, Uralkali adjusted from financial information prepared in accordance with IFRS

Notes:

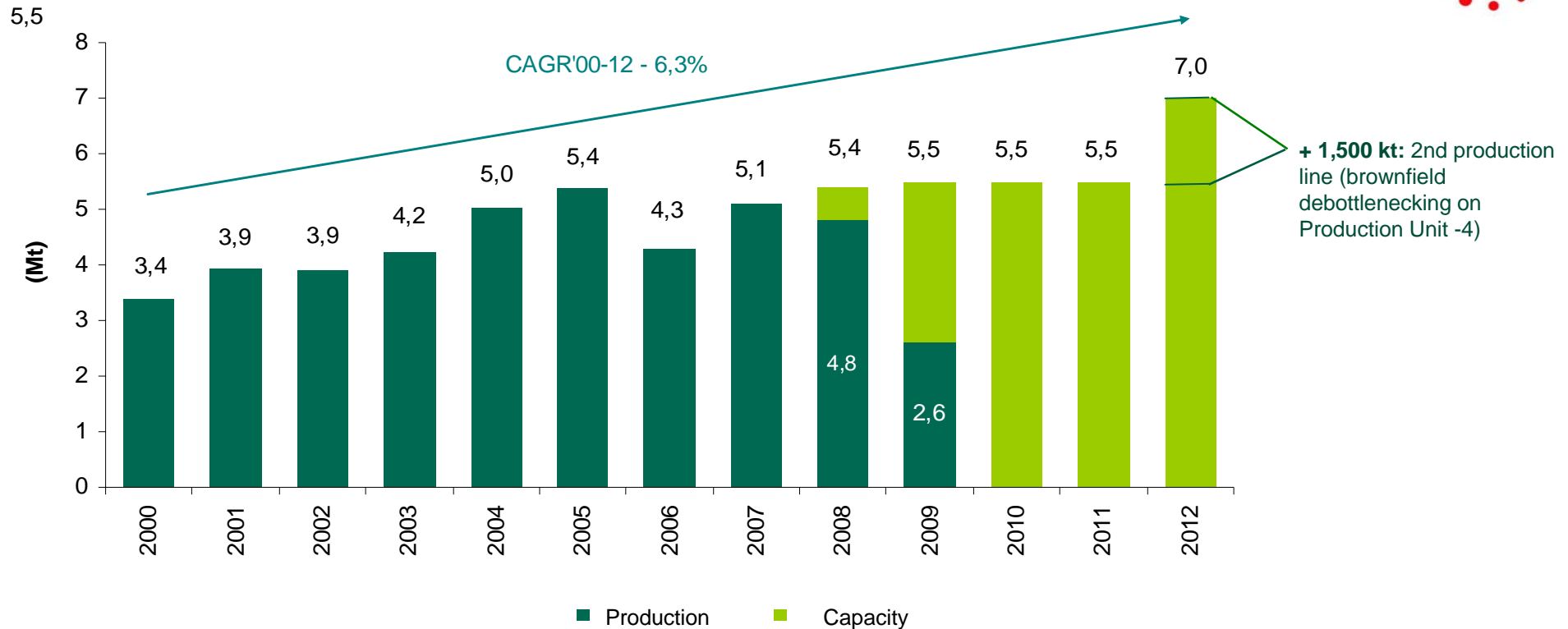
- 1 Nitrogen sales represent figures from Fertiva and COMPO segments. Adjusted sales
- 2 Potash sales represent figures from the Wholesale segment. Adjusted sales (sales net of freight)
- 3 Nitrogen sales represent figures from the Upstream and Downstream segments



## Notes

- JORC as of December 31, 2008
- As of December 31, 2008

# Well-Positioned to Meet Market Recovery



- **In addition to the 27% capacity expansion planned for 2012, Uralkali has an option for further long-term expansion at Mine 5**
- **Mine 5 key milestones:**
  - 2011 – preparation and approval of the mine construction design documentation
  - 2018 – mine launch
  - Processing capacity - decision to be made once potash market recovers and necessary approvals are granted

# 1H2009 – Key Highlights

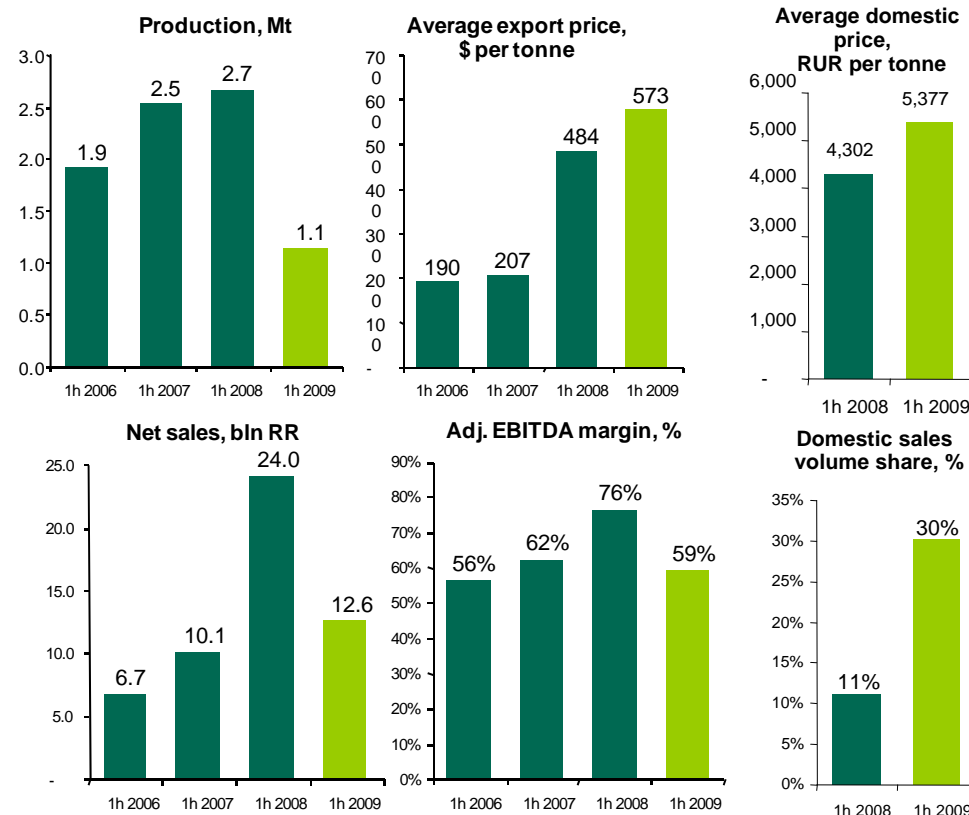


## IFRS Financial Results

RURm	1h 2008	1h 2009	Change %
Production (Mt)	2.7	1.1	-57%
Sales (Mt)	2.6	0.9	-65%
<i>% of domestic sales</i>	11%	30%	
Gross Sales	28,562	13,873	-51%
Net Sales <sup>1</sup>	24,001	12,553	-48%
Mine flood costs <sup>4</sup> (net of depreciation charge)	280	32	
EBITDA <sup>2</sup> adjusted	18,292	7,444	-59%
<i>Margin<sup>3</sup></i>	76%	59%	
Net Profit	13,795	4,465	-68%
Operating Cash Flow	10,988	1,227	-89%
Capex	5,905	5,982	1%
Expan//Mainten. proportion	59/41	50/50	
Debt	11,423	12,980	14%
Cash	11,752	9,911	-16%
Net Cash/(Debt) <sup>5</sup>	329	-3,069	
Dividends Payout Ratio	62%	0%	

## Key considerations

- Decrease in export sales and production in 1H 2009 and increase in the share of domestic sales was caused by consumption drop.
- Resulted in a year-on-year decrease of Net Sales and EBITDA margin.

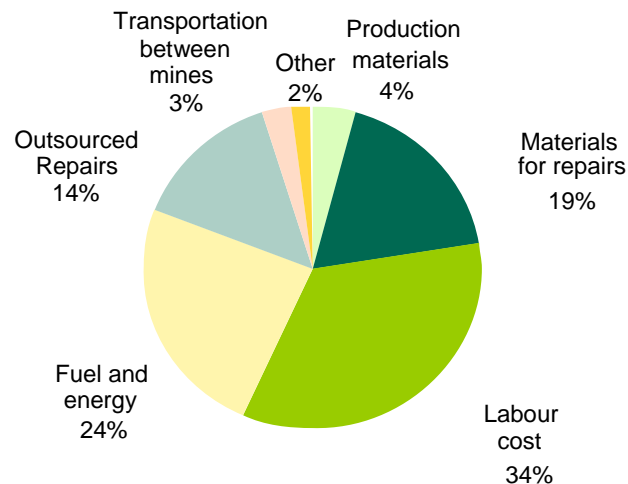


### Notes:

- 1 Based on adjusted sales (sales net of freight, railway tariff and transshipment costs)
- 2 Adjusted EBITDA is calculated as Operating Profit plus depreciation and amortization and does not include mine flooding costs
- 3 EBITDA Margin is calculated as EBITDA divided by Net Sales.
- 4 Mine flooding costs are included in the net of depreciation charge
- 5 Net cash position is calculated as Cash and cash equivalents (including deposits) minus Bank loans

## Cash COGS

Cash COGS<sup>1</sup> structure (1H2009)



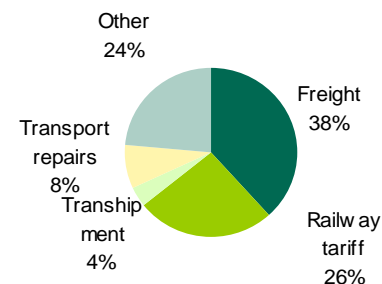
- Low cost producer within potash industry
- Fixed vs. variable cash COGS structure 60/40<sup>2</sup> is preferable to production volume growth
- Potash segment Cash COGS<sup>3</sup> 1H 2009 – 75\$ per tonne vs. 53\$ per tonne in 1H 2008
- Abnormal period due to production cut >60% in 1H 2009

Notes:

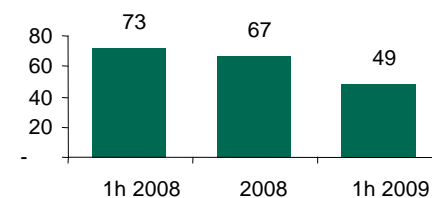
1. Cost of goods sold less depreciation
2. For normalized utilization rate
3. Total cost of sales for potash segment (Note 6) less depreciation in CoGS (Note 14). Depreciation is divided proportionally btw. Potash and Other segments.

## Distribution costs

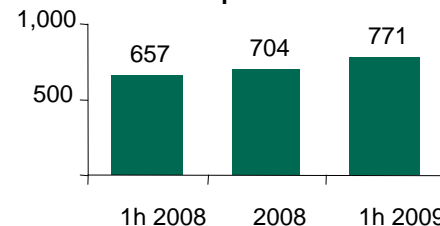
Distribution costs structure



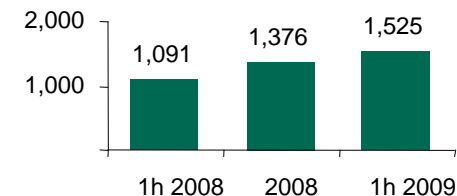
Effective freight rates<sup>3</sup>, USD per tonne



SPb railway tariff<sup>4</sup>, RUR per tonne



China railway tariff<sup>4</sup>, RUR per tonne



- Av. freight tariff – decrease due to market conditions.
- Av. railway tariff – growth to both destinations.
  - + 5% from January 2009 both to St. Petersburg and China.
  - + 5.7% from July 2009 both to St. Petersburg and China.

Notes:

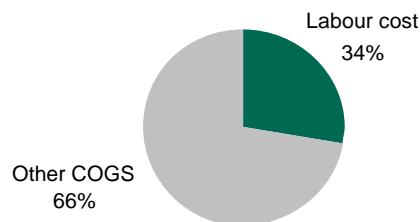
3. Effective freight rates are calculated as freight cost divided by freight volumes
4. Effective railway tariff includes both loaded and empty railcars fares

# Cost Cutting Programmes

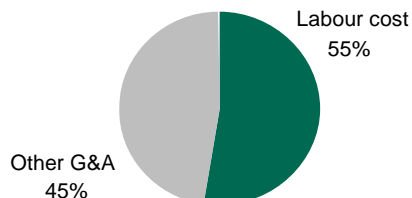


## Productivity Increase

As % of cash COGS



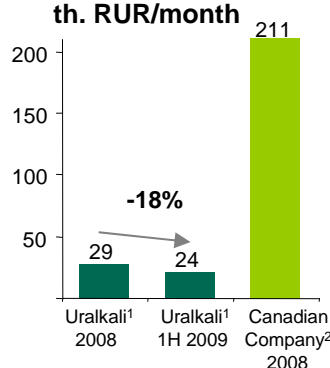
As % of cash G&A<sup>3</sup>



Headcount, (period average), th. employees



Av. Monthly Labour th. RUR/month



- Decrease of average monthly payroll is caused by reduction in bonuses due to cut in production volumes
- Target – 6,000 employees in main production unit
- In 2009 vs. 2008 - No headcount reductions due to social responsibility
- Consolidation of several monopolistic service functions (Building Repairs, Medical Care, Water Supply) in 2008

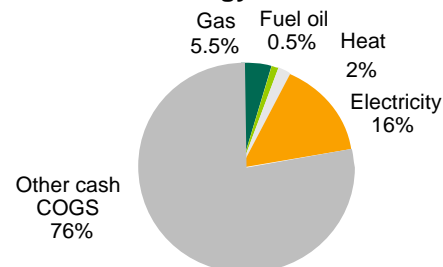
Source: Uralkali

Notes:

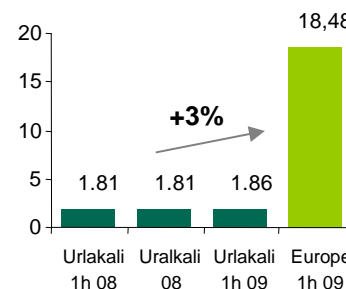
1. Total Main production Unit employees, UST excluded.
2. Canadian Companies (Potash Corp.2008) – total potash segment payroll costs divided by total active potash segment employees. Payroll tax of 9.67% excluded, converted to RUR at a US\$/RUR exchange rate of 33.27
3. General and Administrative expenses less depreciation and amortization

## Power Generation Programme

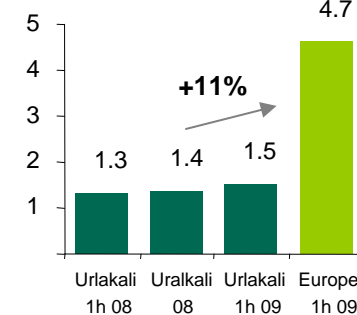
Fuel and energy costs 1H2009



Gas tariff, kRUR/ 000 m3



Electricity tariff, RUR/kWh



- Stage 1 launched in 1Q 2008, Stage 2 – end of 2009
- No permission to work in conjunction with federal electricity supply network - expected in mid 2010
- After full implementation expected efficiency is 50 RUR per tonne of potash production<sup>5</sup>

Notes:

4. Average natural gas and electricity prices charged to final industrial consumers as for 1h2009 year in UK, Germany and Spain per [www.epp.eurostat.ec.europa.eu](http://www.epp.eurostat.ec.europa.eu), converted to RUR at a US\$/RUR exchange rate of 33.27.
5. We see the effect of the programme as the difference between the costs of purchased electricity and the cash costs of generated electricity given the gas prices increase by 28% and 40%, and electricity by 18% and 22% in 2010 and 2011, respectively (MEDT forecasts of August, 2008).

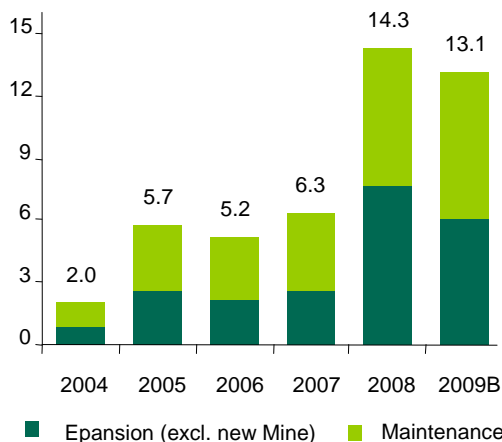


# Capex and Cash Flow

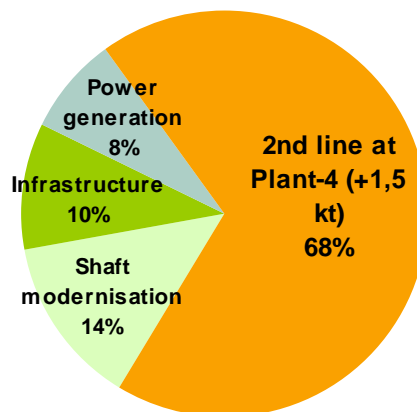


## Capex

CAPEX Evolution (in bnRUR)

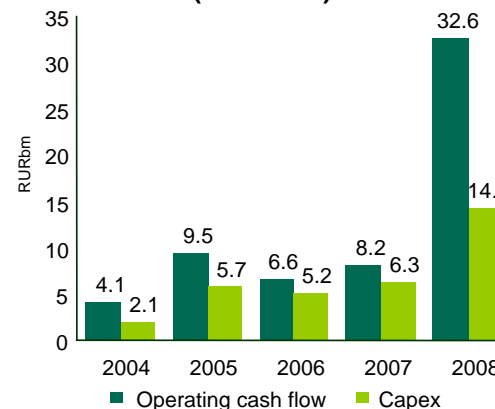


Expansion CAPEX structure 1H2009

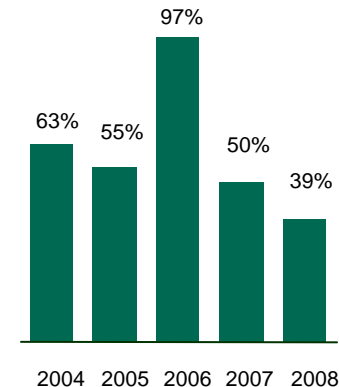


## Cash Flow

Oper. Cash Flow vs. CAPEX, (in bnRUR)



Dividends Payout Ratio



	2008	2008	1h 2009	1h 2009
	USD mln	RUR mln	USD mln	RUR mln
Debt (bank loans)	476	13,987	415	12,980
Cash	551	16,174	317	9,911
Net Cash (Debt)	74	2,187	(98)	(3,069)

Source: Uralkali

- Expansion/Maintenance in 1H09 Capex Split - 50/50
- CAPEX over 2010-2012E: 12,5 bln RUR on average (6,7 bln RUR - expansion and 5,8 – maintenance)
- 7.8 bln. RUR – total amount of compensation related to Mine-1 flooding already paid in 2009
- More than 90% of bank loans are in USD, average interest rate app. 2.31%
- Favourable effect of RUR devaluation:
  - no hedging instruments in 2008-09
  - export revenues are in USD/Euro
  - ~70% expenses and CAPEX in RUR

**Thank you!**