



# **Uralkali**—Leader to Capture Growth

1h 2008 Results and Market Overview September 2008

## Disclaimer



This presentation has been prepared by OJSC Uralkali (the "Company"). By attending the meeting where the presentation is made, or by reading the presentation slides, you agree to the following limitations and notifications.

This presentation may not be reproduced, redistributed, passed on, or the contents otherwise divulged in whole or in part or otherwise disseminated, directly or indirectly, to any other person or published in whole or in part for any purpose.

The presentation does not constitute or form part of, and should not be construed as, an offer, solicitation or invitation to subscribe for, underwrite or otherwise acquire, any securities of the Company or any member of its group nor should it or any part of it form the basis of, or be relied on in connection with, any contract to purchase or subscribe for any securities of the Company or any member of its group, nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever. Any person considering the purchase of any securities of the Company must inform himself or herself independently before taking any investment decision. The presentation has been provided to you solely for your information and background and is subject to amendment. Further, the information in this presentation has been compiled based on information from a number of sources and reflects prevailing conditions as of its date, which are subject to change.

This presentation is neither an advertisement nor a prospectus. The information contained in this presentation has not been independently verified. The information in this presentation is subject to verification, completion and change without notice and the Company is not under any obligation to update or keep current the information contained herein. Accordingly, no representation or warranty, express or implied, is made or given by or on behalf of the Company or any of its respective members, directors, officers or employees or any other person as to the accuracy, completeness or fairness of the information or opinions contained in this presentation, and any reliance you place on such information or opinions will be at your sole risk. Neither the Company nor any of its respective members, directors, officers or employees nor any other person accepts any liability whatsoever for any loss howsoever arising from any use of this presentation or its contents or otherwise arising in connection therewith.

This presentation includes "forward-looking statements," which include all statements other than statements of historical facts, including, without limitation, any statements preceded by, followed by or that include the words "targets," "believes," "expects," "aims," "intends," "will," "may," "anticipates," "would," "plans," "could" or similar expressions or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Company's control that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Accordingly, any reliance you place on such forward-looking statements will be at your sole risk. These forward-looking statements speak only as at the date as of which they are made, and neither the Company nor any of its respective agents, employees or advisors intends or has any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained herein to reflect any change in theCompany's expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based.

## **Investment Highlights**



- Largest publicly traded pure-play potash producer
- One of the fastest-growing companies in the potash industry
- Attractive potash industry fundamentals
- Ability to add significant capacity on the cheapest basis vs. global peers
- Leading trading platform in a disciplined and concentrated market
- Exceptional access to the fastest growing BRIC markets
- Industry-leading sustainable financial performance

## **Uralkali - Leading Pure-Play Potash Producer**



#### Net sales breakdown by product<sup>1</sup> (2007)



(US\$mm)

Source: Relevant company reports, broker reports

Notes:

- 1 Converted to US dollars at the following exchange rates: USD/EUR of 0.731, USD/NOK of 5.86 and USD/CNY of 7.61, USD/JOD of 0.713
- 2 Nitrogen sales represent figures from Fertiva and COMPO segments. Adjusted sales (sales net of freight)
- 3 Potash sales represent figures from the Wholesale segment. Adjusted sales (sales net of freight)
- 4 Nitrogen sales represent figures from the Upstream and Downstream segments
- 5 Uralkali audited 2007 IFRS results
- 6 Silvinit 2007E forecasts based on ING report (29 February 2008)
- 7 2006A net sales, 2007 financials not available

## **Potash is unique**





- Essential nutrient for plant growth
- No known substitutes
- Most attractive characteristics of the three fertilizer sectors
- Robust and growing demand
- Good visibility of supply and high barriers to entry
- Favourable supply/demand balance and outlook
- Two major export associations support stable pricing environment

## Potash: Growth, Visibility, Stability



	Potash (K)	Phosphate (P)	Nitrogen (N)
Market size¹ (2008E)	34.3 Mt (K <sub>2</sub> O²)	41.5 Mt (P <sub>2</sub> O <sub>5</sub> )	99.2 Mt (N)
Geographic availability	Very limited	Limited	Readily available
Industry concentration	6 top players account for >70% of the industry	6 top players account for 39% of the industry	6 top players account for 25% of the industry
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 (KCI)	US\$1.5bn for 1 Mt (P <sub>2</sub> O <sub>5</sub> )	US\$1bn for 1 Mt (NH3)
Greenfield development time	min 7 years	~3-4 years	~ 3 years

Potash displays the most attractive characteristics of the three fertilizer sectors

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 KCI(product)

# **Strong Industry Fundamentals**





Source: Uralkali

## **Macroeconomic Outlook**









# Increasing Population and Decreasing Arable LanduralKALI®





Higher crop yields are required to feed increasing population

## **Growing Meat Consumption**





# Grain for US Ethanol, China Meat, vs. US Corn production 1995–2007 (million tonnes of grain)





Source: USDA

- Global consumption of meat has been growing. Chinese meat consumption grows at the fastest pace
- As the demand for meat rises, the demand for grain and protein feeds used to produce the meat grows quickly. Feed-to-meat conversion rates vary depending on the class of animal
- US corn production increased dramatically in the 1995-2007 period, but even more spectacular was the rise in grain demand for Chinese meat consumption. Applying grain needs to meat consumption, China would have required 350 million metric tonnes of grain in 2007 to supply livestock for its meat demands

## Changing Diets Driven by Growing Income in Developing Countries





#### Global Consumption Coarse Grains



Source: FAO, PotashCorp, USDA, Doane, EIU country data (August 2007)

Increased meat consumption drives demand for grain

## **Rising Crop Prices Drive Fertilizer Use**





Demand for crops is growing



Source: USDA, NBER, Morgan Stanley Commodity Research

## **Low Crop Inventories**





Wheat world stocks-to-use ratio

Corn world stocks-to-use ratio

Soybeans world stocks-to-use ratio



1999 2000 2001 2002 2003 2004 2005 2006 2007 2008

#### Rice world stocks-to-use ratio





# Concentrated Resources - High Barriers to Entry URALKALI®

#### 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
- 2 PotashCorp's New Brunswick mine (1.3Mt capacity) has depths of 400–700m

Limited access to resources, few high quality ore deposits

## **Supply/Demand Balance**



#### Global supply/demand balance is going to be very tight in the upcoming years



• 100% operating rates are assumed for all producers. Given probability that not all companies can operate at 100% utilization rates, the deficit may be even higher than 100 Ktpa.

Source: Company reports, IFA, Fertecon, UBS, BPC

- Notes:
- 1 Other: APC, Vale, MagMinerals
- 2 Demand grows at an average rate of 4 % (based on CAGR 2000-2007 for potash deliveries as per IFA statistics)

## **New Era of Price Growth**



#### **Evolution of potash prices**



Fertecon (August 2008)

#### Uralkali gross price performance<sup>1</sup>



Notes:

- Price is calculated as annual revenue(grossed up by the export duties where applicable) divided by 1 tonnage sold
- 2 Price for 2008 is calculated on the basis that prices as of August 2008 are maintained till the year end

#### 2008 price development (CFR US\$/t KCI)



#### Potash demand growth 2000-2008



- 1 Russian price used for the graph purposes is calculated according to the formula set in 2008 contract with a umber of NPK fertilizer producers (FOB Chinese price adjusted for the railway tariff from the mine to St.Petersburg and transhipment). The price for agricultural producers differ from that price.
- 2 Term contracts account for about 40% of sales and are renegotiated once a year, typically in the springsummer with the Indian buyers and in the winter-spring with the Chinese customers
- Price for China sea deliveries is calculated as the FOB Chinese contract settled by BPC on April 16, 2008 3 adjusted on the average spot freight rate for the region

## **BPC** – Leader in the Potash Export Market



#### Facts

- #1 in export potash trade<sup>1</sup>
- Geographic coverage of over 60 countries
- Sales offices in 6 countries

## Major potash players by export trading<sup>2</sup> (2007)



Global potash industry by markets, %



## Sales portfolio breakdown, % of volumes

Markets	2007	2008
SEA	11%	19%
India	7%	16%
Europe	8%	13%
USA	0%	13%
Brazil	21%	11%
Russia	10%	10%
China DAF	25%	8%
China FOB	15%	7%
Other	2%	3%
	100%	100%
Source: Uralkali		

Source: IFA, Uralkali Notes:

1 Together with Uralkali Trading (UKT)

2 Excludes domestic sales and deliveries between the US and Canada

3 Calculated as the total export volume deliveries from Belaruskali and Uralkali (including railway deliveries to China)

## **Uralkali's Assets**



0

Ē

PRODU

0

*IRADIN* 

1

2



#### Uralkali

Source: Note:

> Uralkali holds 50% of BPC shares, Belaruskali holds 45% and State corporation "Belarusian Rail Road" holds 5% JORC as of January 2008

#### New Licence – Mine 5



- Resources: 1.300 Mt of ore<sup>2</sup>
- 35 years of reserves

#### PRE-FEASIBILITY STUDY RESULTS:

- Production volume planned 3,7 mln t of KCI
- CAPEX \$800 per ton of production, including:

  - New plant at RU-4 of 2,2 mln t
  - New plant at RU-3 of 1,5 mln t
  - No additional infrastructure required
- Such costs were Cost efficiency of ~\$17 mln per annum due to the elimination of ore transportation



#### Leading export platform with 33% share

17

## **Capacity Additions Programme**





Note:

1

According to the Pre-feasibility study results, Company data

## 1H2008 – Booming Prices



## **Key Highlights**

	1H2007	1H2008	Change 1H08 to 1H07
Production (Mt)	2,52	2,65	5%
RURm			
Gross sales	13 323	28 562	114%
Export potash sales	12 014	26 680	122%
Domestic potash sales	758	1 255	66%
Other sales	551	627	14%
Net Sales <sup>1</sup>	10 100	23 962	137%
EBITDA	5 973	18 012	202%
Margin <sup>2</sup>	59%	75%	27%
EPS	1,82	6,57	267%
Net Profit	3 824	13 795	261%
Margin <sup>3</sup>	38%	58%	53%
Operating Cash Flow	4 196	10 988	162%
Сарех	2 591	5 905	128%
Net Cash (Debt)	-3 892	329	
Av. exchange rate to USD	26,08	23,9	

## **Key Highlights**



Source: Uralkali

Notes:

1 Based on adjusted sales (sales net of freight, railway tariff and transhipment costs)

2 EBITDA Margin is calculated as EBITDA divided by Net Sales.

3 Net income Margin is calculated as Net Income divided by Net Sales

4 Average gross export sales per ton grossed up by export duties. Export price for 1H 2008 net of export duties is 475 USD

## **Cost Analysis**



#### **Cash COGS**

- Cash COGS<sup>1</sup> in 1H 2008 1,290 RUR per/ton (\$54 per ton)
- Cash COGS<sup>1</sup> is one of the lowest in industry
- · Advantage is sustainable in the future

#### 160 140 120 100 80 60 40 20 0 Uralkali Silvinit PCS Agrium Arab ICL Mosaic<sup>1</sup> Interpid Uralkali Cash COGS/tn Uralkali Total COGS/tn Total COGS/tn

#### COGS/tn. vs. main competitors 1H 2008

 Cash COGS<sup>1</sup> structure (1H2008)
 Variable and fixed cash COGS<sup>1</sup> (1H2008)

 Other

Source: Companies financial reports

1. Six months ended February 2008

Notes:



Cash COGS<sup>1</sup> per tonne (1H2008)



USD per tonne



Variable Fixed

#### Notes:

1 Cost of goods sold less depreciation and amortisation in potash segment

## **Cost Cutting Programme – Labour Costs**



#### Labour costs (1H 2008)

Salary cost per employee per month



#### Headcount reduction (period average)



Main production Unit Uralkali Group consolidated

Source: Uralkali Notes:

21

1 Average payroll of the Main production Unit employees, UST excluded.

2 Canadian Companies based on PotashCorp annual report 2007 and PotashCorp "Overview of PotashCorp and it's industry 2008"

3 Decrease in headcount of Main production unit in 2007 in comparison with 2006

4 Increase in headcount of main production unit in 1H 2008 in comparison with 2007

#### Significant headcount reduction

- Salary lined up with regional level 28% increase up to 25,970 RUR (1,100 USD)
- Two times productivity increase planned
  - target 6,000 employees in main production unit in 2010

# **Cost Cutting Programme – Fuel and Energy**



#### Energy tariffs 2007, Uralkali vs. Europe<sup>1</sup>





Stage 1: launched in 2Q 2008

Stage 2: Planned for 2009 (+2 turbines, 25 MWt in total)

Capex approx. \$2,000/KW

Estimated cost saving<sup>3</sup> –

\$2/tonne

(=2 turbines, 25 MWt in total),

#### **Energy consumption volumes**



Fuel oil

3%

Heat 2%

Electricity 16%

Gas

5%

Other cash

COGS

74%

#### Power generation programme



Source: Uralkali, Gazprom Notes:

- 1 Effective Electricity and Gas Tariff, Converted to RUR at a US\$/RUR exchange rate of 23.9
- 2 Average natural gas and electricity prices charged to final industrial consumers as for 2007 year in UK, Germany and Spain per <u>www.epp.eurostat.ec.europa.eu</u>, adjusted for 2008 in accordance with Deutsche bank estimates.
- 3 Estimated energy cost savings per tonne in 2011 based on assumption of 25% annual gas price increase, 16% annual electricity price increase from average 2006 prices to average 2011 prices

## **Distribution Cost**



#### **Distribution costs 1H 2008**

**Distribution** cost,

**RUR per tonne** 



#### Effective freight tariff 1H 2008





Notes:

1 Effective freight rates are calculated as freight cost divided by freight volumes

# Distribution costs structure

## Railway costs<sup>2</sup>



Notes:

2 Effective railway tariff includes both loaded and empty railcars fares

## **Capex to Drive Future Growth**





Note:

1 Per year estimates, for Mine-5 CAPEX exchange rate of 24,6 rur per usd is used

#### Expansion CAPEX, 1H 2008



Standard MOP expansion – one of the lowest within the industry



1 Including 4.95mt.of compaction capacity added



#### Maintenance CAPEX, 1H 2008

## **Cash Flow**



#### **Key considerations**

- As at June 30, 2008 net cash 14 mln USD
- · Company is under leveraged
- Prefers to pay dividends if there are no M&A opportunities
- Interim dividends for 2008 356 mln USD (61%)
- WACC 10%







#### **Dividend payout ratio**<sup>1</sup>



#### Note:

1 Dividends declared for the year divided by IFRS Net Income for the respective period

## Take-aways...



Sales	<ul> <li>Brownfield expansion from 5.3 in 2008 to 7.0 Mt in 2010</li> <li>Greenfield - increase up to 10,7mt with Mine-5 development</li> <li>Running close to full capacity due to incremental demand/supply mismatch</li> <li>Directing bigger volumes to spot market – greater exposure to rising prices</li> <li>Focus on elimination of "Chinese discount" and bringing contract prices closer to spot</li> </ul>
Costs & Margins	<ul> <li>Sustainable EBITDA margin driven by price increases</li> <li>67%/33% fixed/variable cash cost structure favourable for future growth</li> </ul>
Capex	<ul> <li>Brownfield capacity additions US\$170/tonne</li> <li>Greenfield capacity additions US\$800/tonne</li> <li>Maintenance capex equal to depreciation</li> </ul>
Effective Tax Rate	<ul> <li>Estimated tax rate of approximately 20%</li> <li>Export duty of 5% from Export Sales<sup>1</sup></li> </ul>
Dividend Policy	<ul> <li>IFRS-based dividend payout ratio of at least 15%</li> <li>Dividend capacity dependent on future cash generation, M&amp;A opportunities and capex</li> <li>Historical payout – 63%, 55%, 97%, 50%, 62% in 2004, 2005, 2006, 2007 and 1H 2008 accordingly</li> </ul>

Source: Uralkali

Note:

1 Basis for export duty is FOB/DAF price excluding loaded railcar tariff to the border



## **APPENDIXES**

## **Biofuels—a New Source of Demand**







Source: PIRA, Merrill Lynch

## **Growing Production of Biofuels - Increases Potash Demand**





Crops demonstrating the best yields in biofuel production are potash-intensive

## **Auction Results**

## Assumptions

- Required rate of return 13%
- CAPEX \$1,250 per 1 tn of annual production
- Incentive price calculation includes
  - license cost
  - export duty of 5%
  - no infrastructure costs

## Palashersky plot

- Ore resources 1 069 mln tn
- Ore grade 29.8%
- Production justified 2.0 mln tn
- Life of mine 55-60 years
- Cost of license ~\$170 mln
- Incentive price \$550 at the mine

## Winner: Eurochem





## Polovodovsky plot

- Ore resources 3 500 mln tn
- Ore grade 25%
- Production justified 4.0 mln tn
- Life of mine 60-65 years
- Cost of license ~\$1 484 mln
- Incentive price \$670 at the mine

Winner: Silvinit

## Talitsky plot

- Ore resources 681 mln tn
- Ore grade 33.4%
- Production justified 1.5 mln tn
- Life of mine 40-45 years
- Cost of license ~\$700 mln
- Incentive price \$710 at the mine

Winner: Acron