PhosAgro

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Unidentified Participant: So we'd like to get started with our next presentation. We have PhosAgro. PhosAgro is a global top five phosphate-based fertilizer and rock producer. The company is one of the few listed pure phosphate plays.

From PhosAgro today we have Maxim Volkov, who is CEO of the company and has been a member of the board since 2002. With that, I'm going to turn it over to Mr. Volkov.

Maxim Volkov: Well, good afternoon, everybody. We are new to the public sector. We just been placed, make an IPO in the July this year. And we're developing our company for the last 10 years. And primarily we were only involved in the phosphates, therefore I will talk only about phosphates today and we'll answer questions afterwards.

So, as I said, almost 90% of our revenues are direct from the phosphate-based products. In more specific, 88%. And by far, we are the most profitable company in this sector. For the last years, gross margin equal to the 44%, while the next company after us in this sector is ICL with 32% margin.

Why the phosphates are important? On this picture, this field is without phosphate, this one with phosphate. What phosphates do for us is increase the capacity of the crop to generate the roots, and then this way to benefit from the other nutrients.

Those are the figures which shows the effect of the additional each unit of phosphates what gives to the yields of the farmers. And this is in current price terms, so if you were to apply one unit of phosphates on top of the nitrogen, the farmer will increase for the court (ph) almost $390 to an acre. So effect to application of the fertilizer in general, and the phosphates in specific, is the tool to manage the yields of the farmers, so revenues per acre.

What differentiates phosphates from other products like potash? Phosphates are used not only for the fertilizers, but for the technical application as well. Approximately 15% of the total demand of the phosphates are used in the fields, in the technical fields like production of the toothpastes, lithium batteries, soft drinks, like all of you are drinking actually phosphoric acid if you're drinking Coca-Cola. The biggest application is detergents. The 6% of the phosphates are used as the feed component for the animals. So if you eat meat, you'd have to eat phosphates as well.

Two sources of the phosphates, igneous and the sedimentary. The major difference is that igneous are more scarce and they're more pure compared to the sedimentary, hence the P2O5 content, or useful content, in the phosphates rock. And the igneous is almost all the times is lower, but because of the impurities are low as well, it is highly beneficiated afterwards, and you can produce phosphates rock with a high P2O5 content like 40%, for example, in our case, comparing to the 30% normally what you receive from the sedimentary resources.

What is also important to note is about the phosphates rock production on the global terms is that world production of the phosphates rock is growing 2% on average. But if we subtract the China out of this picture, we would receive these slightly different result. There'd be world production of the phosphates rock is stagnating.

And actually, there were some theoretical discussions already have been started -- do we actually pass the peak of the phosphates rock production or not? And some of the theorists saying that we are already past back, so there is no way anymore can (inaudible) phosphates rock reserves in the future. We'll be headed up at the same pace as they used to be in the past.

Another crucial point to understand about the phosphates rock supply is to understand that now, in 2010, 84% of the total phosphates rock production were done by the integrated companies like us, like OCP, like Tunisians, like Israelis. So those companies who produce phosphates rock and produce regular available (ph) fertilizers afterwards.

And only 16% of the phosphates rock were traded. Now to this one, 70% of the trade would not-- again would be by the companies which do have their own DAP and MAP production. So then actually, they are the most interested companies to sell phosphates rock as high as possible then to process it domestically into the DAP and MAP.

And this is exactly what we do see for the last years with OCP, Morocco. OCP used to sell phosphates rock, let's say 10 years' worth, a very cheap price for the long-term contract. Now they are not selling it cheap. The last price that OCP's charging Indian consumers is around $180 per tonne of the phosphates rock. And they do not conclude any more long-term contracts. They do sometimes even quarterly prashing (ph) the phosphates rock.

And what we would see in the next five years, we would see decreased share of the non-integrated phosphates rock producers available for the market. So it means that non-integrated producers would lose their competitive advantage more and more. And only integrated will benefit from the (inaudible) phosphates rock available for them.

Chinese, we always receive the questions about Chinese; what are they going to do and how they develop in the past. So here, three graphs showing first, Chinese phosphates rock export in the past. And as we can see, it was a peak in 2000, 2001, and then it will decrease sharply due to the increased domestic production of phosphates rock into the fertilizers. But it is important to note is that for the last years, and specifically for the next five years, we do not see any new additions, or the pace of the additions for the Chinese decreasing sharply.

And what is even more important with the Chinese that there are planned two of the plants in China, which produce 200,000 tonnes of the DAP to a year. Those type of operations are not economical in the current terms. When they lost subsidy on the

energy, and the phosphates rock is increasing in the prices, the plants which produce only 200,000 tonnes of the DAP per year is uneconomical and will be shut down.

And more specific, the Chinese government do understand that, and therefore they imposed recording export duties on the DAP and MAP in the past. The export duty, as you know, is up to 110% for tonne of the DAP and MAP, and covers most of the high season for the fertilizer consumption. Therefore Chinese, with last year is they start increasingly exporting the so-called lite DAP, lite MAP, NP and TSP products. So DAP of the low quota (ph).

But the rest of them is true (ph); rumors from the market that Chinese government is considering to impose the export duties on those type of further sales will at least, we believe, to decrease over the phosphates products provided by the China world market in the future.

What is not really appreciated so far is that phosphate industry is highly concentrated. Because when you think about phosphates, you should think about all phosphate-based products like MAP, DAP, TSP, and phosphoric acid. Why? Because they pricing on the markets are interrelated, and all of them are priced together. And if you would count all these products traded between the countries, you would see that 57% of the total global trade between the countries are controlled or down by six players. They are listed all on this page.

Barriers to entry. It is also not very well appreciated by the markets so far that barriers for entry to the phosphate fertilizers producers club (ph) is as high as for the potash guy. And sometimes it's even more complicated. Why? Because to produce the phosphate-based fertilizer, you need three crucial feed stock. You need, first of all, phosphates rock, you need the alfalfa, and you need gas, and you need electricity.

So you need phosphates rock to produce-- to beneficiate it, then to produce phosphoric acid plant using the sulfuric acid, which you produce from sulfur, and you need ammonia produced from gas and electricity. And these three are going to produce NPK, you need to produce-- or to have an access to the potash as well.

So all of that makes the infrastructure very heavy and very complicated, because it is not only the mine what you need to develop; you need to develop all those plants as well, and the infrastructure for these plants are big.

We provide here the example of the Ma'aden. Ma'aden is the only Greenfield project which has happened for the last years. And we can see that Ma'aden is already spent six years on the road to construct the 3 million tonne DAP capacity, and already spent $5.6 million in CapEx. And they still have not reach the plant capacity for the moment.

So this graph gives you an idea that you need at least roughly the $2 billion per 1 million tonne of DAP capacity to build up. And those figures are comparing Mosaic-- oh sorry, comparing Ma'aden with PhosAgro. So we are approximately 20% bigger than Ma'aden by volumes.

Supply-demand for the next years in the phosphate industry. We do not see any huge disruption from the future. And we believe that the market for the phosphates will be very well balanced of the next five years for sure and onwards. Why? First of all, Mosaic, if they will go with 100% capacity, they will end up 1.8 million tonnes of the

P2O5 fertilizer-- sorry, Ma'aden. Those are outweighed by the 1 million tonne DAP capacity closures which took place in the first quarter this year, primarily in American, Mexico, and Spain. And mainly those closures attributed to the non-integrated DAP producers.

Then OCP, as I told previously, OCP is making much more prudent policy, marketing policy for the moment. And they have made specific statements in the past that they will not allow overproduction crisis, and they will manage effectively the new capacities with the demands, with the world demand. So we believe that in the future, they, in the two, the more disciplined than they used to be in the past.

Because we-- because of how main the level of the integration, we have 100% self-sufficient in the phosphates rock, we're 94% self-sufficient in ammonia. We have diversified supply sources for the sulfur, and we're almost 30% self-sufficient in electricity generation. We have the lowest cash cost for the DAP among our peers. And here we show that specifically what is more important would be cash cost over the Indian producers because they cash cost effectively defines their minimal worldwide price for the DAP in the future.

Now the interesting observation is the rate of crop removal of the nutrients from the land. It is well known that each crop consumes certain volumes of the nutrient from the farming land each year.

And if you would take the USDA data for the last 10 years for the production of the-- at least these four cereals like wheat, corn, soybean, and rice, and we applied the rates of the removal by the each crop of the phosphates from the land, and would compare it with the phosphates delivered to the land, you would see that there is a huge gap for the last, at least in the last three years, between the amount of the removed phosphates from the land and the amount of the added on by the fertilizers. And this makes us to believe that in the future, the phosphates have to be consumed much heavily, otherwise the farmers would see dramatic drop in yields because of the farmland will be exhausted with the phosphates.

Another reason for phosphates being in a more attractive position than others is because when we do see the change in the GDP per capita, it is already proven that GDP per capita means-- increasing the GDP per capita means changing in the diets and people start consuming more meat. So by consuming meat, they consume more cereals, in effect, at the one hand. But on the other hand, by consuming meat, they effectively consume the phosphates, cheap phosphates, which just to remind you, accounts for the 9% of the total consumption of the phosphates in the world. So hence we have the double effect on this.

Here is stock-to-use ratio, but my colleagues from the industry already talked heavily about the stock-to-use ratio, so they're historically low. So driving crop prices, you already saw this in the different section in different (inaudible) graphs, and I would (inaudible) they would be.

This one. Here we showed you the correlation between the DAP price and corn price. And we do see that the correlation for the last years is 0.78. So pretty high correlation. Why? Mainly because of the BOX (ph) on them, and because of the corn.

Here we're also showing you the deficiency between the DAP price and the corn price.

And with the corn price, we can see that either DAP has to go upwards to be of the historically average levels-- at the historical (inaudible) ratio. Or corn price may go down without DAP price will be changed-- without changing the DAP price.

Ma'aden. We already touched base about Ma'aden, but enough information which we believe proves that Ma'aden will already consume by the market is the 10-year history. 10 years backwards, there were two plants were put into operation in the world with total capacity close to 3 million tonnes of the DAP per year. One in India and one in Australia. Six months before those two plants were put into operation, the DAP prices fell sharply for 35% almost.

This year, Ma'aden already put into operation in May. And they, by now, concluded contracts. They sold 400,000 tonnes by contracts to the March next year. And we also saw them on the last (inaudible), and they say, okay, we'll be over 150,000 tonnes of the DAP. So in total, they offered to the markets as the supply, 550,000 tonnes of the DAP. And what we see, we see that the prices are still going upwards. So it means that the markets already absorbed the Ma'aden volumes.

Company highlights. As I said, we are number three worldwide by the production of the DAP, after the OCP and Mosaic. We-- sorry, wrong slide. So we are number one producer worldwide by the high-grade phosphates rock. That compares over the P2O5 on our phosphates rock on average is 35.-- 35.7 is the high-grade phosphates rock. We do produce 39% and 40%. So we're number one in the world with this respect, and second after the Mosaic with the DAP. We will not count for the Chinese, whose 36% is not really-- could be questionable at the moment. So if we do not count for the Chinese, we are second.

Here is the comparison of the phosphates rock available for the other producers. Our phosphates rock is unique because it's of the igneous nature, comparing to all others which are sedimentary. It has, apart from the cost weight, the contents of the alumina in the phosphates rock. So we do produce, as well as the byproduct of production, production of the phosphates rock, we do produce nepheline, which is used for the production of the alumina, cement, and potash in Russia. And this allows us to decrease cost of production of the phosphates rock because mining, of course, contributes to several products.

We have very low level of radioactivity and very low level of the hazardous elements. So we do not bear any costs associated with the removal of all these problems from the process as some of our other colleagues are doing.

So it's effectively the same graph. Why is it important to be integrated? Because once again, we are 96--94% self-sufficient in ammonia, we have diversified sulfur access, we have 100% self-sufficiency in phosphates rock, and this allow us to consume more than 70% of our total cash cost of the DAP, and therefore, we are much more competitive than others.

Here is the comparison done by Fertecon on the cash cost for us and for other peers. As you can see, we are number, second after the Ma'aden for the most of the regions where we do deliver the fertilizer.

We use flexible production mode and flexible sales mode. What is that? This is the specific feature of the PhosAgro production lines, which allows us to switch between the

producing DAP, MAP, NPK, and M-piece (ph) as the one production line. So it's this same production lines to produce all these fertilizers.

And how we do it, we effectively receive the prices from our sales guys, and we can track out further (inaudible) based on the desire to maximize our gross profit. So if we do earn more on the count of the phosphorus used in the NPK, we produce NPK. If we earn in DAP, we produce DAP.

And therefore, you could see that year by year, the markets for us are changing, and the composition of the product mix is changing as well. This is due to the fact that we are maximizing the profits, and this allows us to operate at the very high capacity level of operational.

So financial overview quickly. The growth rate for the revenues, 42% comparing to the first-quarter results last year. The EBITDA 36% growth. Net income 25%. Our revenue, we already touched base.

So the cost structure, we don't have any singular course which are not counseled by us and which exceed 8% in our total cost structure. So it's thanks again to our integration level.

CapEx, the forecast of CapEx for the 2011, $562 million. And mainly we spending the CapEx for constructing the new urea plant, what we are building in Cherepovets. Why we do need urea is because we do have spare ammonia for the trading in Cherepovets, and there will be more of the region close to the Moscow in Russia.

And because of our flexibility mode, when we shift from the DAP to NPK, we release ammonia for the trading. And to trade the ammonia on its port (ph) is a not really profitable business, therefore it's much better to convert ammonia in to the urea. Therefore, we can (inaudible) in the urea plant which will enable us to get rid of the trade-- of the ammonia for trading in the future at all.

So total debt to EBITDA ratio is very conservative for us. It's currently below 0.6. And future potential, we do have for the trading right now, almost super (ph) and 5 million tonnes of the phosphates rock.

We have two options -- either to sell it or to process it internally. And for the last 10 years, we increased processing of the phosphates rock internally. We almost doubled it. So nothing will preclude us from increasing it further, and if we will process all phosphates rock that we are currently selling, we may increase the total production output of the fertilizer by 85%.

Questions and answers.

Unidentified Participant: Just to kick off the questions, you talked about OCP seeming to be more disciplined in the phosphate rock market. What do you think prompted that change, and what makes you feel comfortable that they will indeed be more disciplined as they bring on all the new capacity planned?

Maxim Volkov: Well, as we said, it's actually just a common sense exercise here, because if you-- it's impossible to sell DAP at the right price if you are dumping on the phosphates rock side. Therefore-- because for the last years, OCP is constantly increasing their production of

the DAP, they realize that it is absolutely abnormal marketing policy to sell cheap phosphates rock while trying to sell at the market price DAP.

Unidentified Participant: If you would comment on just the brush-in fertilizer trends. The government takes action at times to put restrictions on grain exports or control domestic fertilizer prices. How does that impact the farmers' new sentiment or their outlook on fertilizer consumption?

Maxim Volkov: Well, as everywhere in the world, in Russia, the farming industry is highly politicized. But the good thing about Russian farmers is that they think in ruble terms. They think not about the market price of the fertilizers worldwide, but they compare the last year figures with the current figures, and then usually they apply the industry inflation rate. Take into consideration recent strength (inaudible) of the ruble, we receive the higher process domestically than the worldwide sector.

Unidentified Participant: Are there any other questions?

Unidentified Audience Member: If you were to further integrate into full scale and have no rock exports, how much money would you need to spend on doing that?

Maxim Volkov: I can tell you on these figures, we doubled processing with the phosphates rock now, but our (inaudible) plant close to Cherepovets. We used to process there 1 million tonne of the phosphates rock. Now we are currently processing 2 million tonne. And we spent in CapEx around $120 million.

Unidentified Audience Member: Cheap. And--

Maxim Volkov: Because we used the existing infrastructure, and we have developed infrastructure. In the Soviet Era, the infrastructure was developed for the much bigger volumes, so this allows us to benefit from that.

Unidentified Audience Member: Even for infrastructure for you it's not a problem to get the product into the market?

Maxim Volkov: No.

Unidentified Audience Member: Thank you.

Unidentified Participant: Okay, are there any other questions? Okay. Thank you, Mr. Volkov.

Maxim Volkov: Thank you.