

Q&A with our CEO

How would you summarize EuroChem's performance in 2009?

For the global fertilizer market 2009 was very challenging: record-high prices in 2008 collapsed and remained at low levels until the very end of 2009, when we began to see signs of a recovery. At the same time, partly due to prices, we produced and sold a higher volume of fertilizers in 2009 than in the preceding year. Profit and other Profit and Loss numbers were significantly lower year on year, but both Fitch and S&P confirmed EuroChem's overall financial stability when both agencies affirmed our BB credit rating in mid- 2009. The fact that we continued to invest in important projects that will help us to grow long into the future served as further confirmation of our financial strength.

Because of EuroChem's sound fundamentals, we were able to stay focused on our long-term strategic goals: we launched two new nitrogen fertilizer products on more efficient production lines and began sinking mine shafts at the Gremyachinskoe potash deposit. We made progress toward greater vertical integration and optimization of logistics, completing the Tuapse transshipment terminal, which will reach full capacity this year. And EuroChem continued expansion in one of the markets that we think holds the greatest potential for growth: our home market of Russia and the CIS. EuroChem's opened new retail outlets and distribution centres that contributed to strong growth in the small but promising segment of fertilizer, crop protection and agronomics consulting.

2009 was not easy, but we continued to make investments that make EuroChem the key to growth in the fertilizer industry.

What is your outlook for 2010 after the unprecedented difficulties that the global economy, and your industry, faced in 2009?

The fundamental global challenges that will continue to demand more from the agriculture industry remain, despite the economic crisis: increased demand for food due to growing populations, changing diets and alternative fuels, combined with shrinking arable land per capita. While application of some fertilizers may decrease in financially challenging years, the agriculture industry must replenish the nutrients removed from the soil with each harvest or face significant declines in productivity.

We have taken a conservative approach in our planning for 2010 because we believe that the global economy has not fully recovered yet. The last quarter of 2009 and first months of 2010 have been promising in terms of fertilizer volumes, however, and we have seen significant price recovery to pre-2008 levels. Currently, prices for all major products are above our forecast for the year, but we will maintain our conservative outlook until the global economy shows more significant signs of a sustained recovery.

What will the eventual liberalization of Russian domestic prices for natural gas mean for EuroChem's position as a cost leader in nitrogen fertilizers?

The nitrogen fertilizers market is highly competitive and we must constantly "run to stand still" in terms of our cost-efficiency relative to other producers. Fortunately, EuroChem has been "running" since the company was formed – we have invested over RUR 20.6bn into our nitrogen plants in the last five years, much of which has gone toward improving the efficiency and capacity. At the same time, we believe that we will continue to enjoy a significant cost advantage over European and Ukrainian producers: even when fully liberalized, domestic natural gas prices will be equal to European netbacks, meaning we will still pay less for contract gas than end users in those regions. By 2015, which based on press reports appears to be the current deadline for this price liberalisation, we will already have installed new and significantly more efficient equipment on several of our lines, and we expect to maintain our cost advantage over at least two-thirds of global producers.



Dmitry Strezhnev
Chief Executive Officer

How will you finance your intensive capex programme over the next five years?

EuroChem will continue to generate a strong cash flow because the world needs fertilizers to support growing demand for food and we can deliver the product at a competitive cost. In 2009, despite the unprecedented market disruptions, operating cash flow was RUR 17.5bn. We therefore believe that over half of our planned capex will be financed by our own cash flows. Nearly half of our capital expenditure, US\$ 2.0bn out of a total US\$ 4.6bn over the next five years, will go toward completion of Phase I of the Gremyachinskoe potash mine and other potash projects. The remainder of this planned capex will be focused primarily on increasing capacity and efficiency at our nitrogen and phosphate fertilizer plants. While capex is a top priority for EuroChem, it is also important to note that around 80% of the total capex budget through 2014 is development-related, as distinct from "must do" maintenance, hence it is relatively flexible and could potentially be delayed, should the need arise, with little or no losses to the current business.

Beyond our own cash flow, we will finance our significant capex budget either by a combination of new equity, new debt (this would depend on our debt capacity which is in turn driven by profitability) and, if necessary and at an attractive price, disposal of investments which we have on the balance sheet.

What are EuroChem's plans for its stake in K+S AG?

K+S AG is a leading global producer of potash that is listed on all stock exchanges in Germany. While we believe there could be significant strategic benefits from a number of potential forms of cooperation, we also view these shares as a significant stabilizer to our balance sheet. Liquidity of the shares gives us financial flexibility; the large size of our stake, on the other hand, is also a strategic opportunity to develop the relations between our companies further, if mutually attractive forms of such cooperation may be found.

Are you considering an IPO in the near future?

We believe that EuroChem's story is highly attractive for potential shareholders, and we get this question all the time. Although we are not a public company, management regularly meets with investors and analysts; the company has taken numerous steps to improve our transparency and disclosure during the past few years; and you will see more changes in 2010. With our ambitious plans to enter the potash segment as a major global player, in addition to significant investments in nitrogen and phosphate to maintain or improve our competitive positions, we are constantly reviewing our numerous options for financing these projects. Naturally, one of these options is an initial public offering of shares. Given EuroChem's credit capacity and current capex plans over the next five years, one could draw the conclusion that the possibility of an IPO at some point during this period is high.