



中化化肥控股有限公司  
SINO FERT HOLDINGS LIMITED

# 2014 Annual Result

March 26<sup>th</sup>, 2015

# Disclaimer

This presentation and the presentation materials distributed herewith include forward-looking statements. All statements, other than statements of historical facts, that address activities, events or developments that Sinofert Holdings (“Sinofert”) expects or anticipates will or may occur in the future (including but not limited to projections, targets, estimates and business plans) are forward-looking statements. Sinofert’s actual results or developments may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties, including but not limited to price fluctuations, actual demand, exchange rate fluctuations, exploration and development outcomes, estimates of reserves, market shares, competition, environmental risks, changes in legal, financial and regulatory frameworks, international economic and financial market conditions, political risks, project delay, project approval, cost estimates and other risks and factors beyond our control. In addition, Sinofert makes the forward-looking statements referred to herein as of today and undertakes no obligation to update these statements.





**I. Financial Performance**

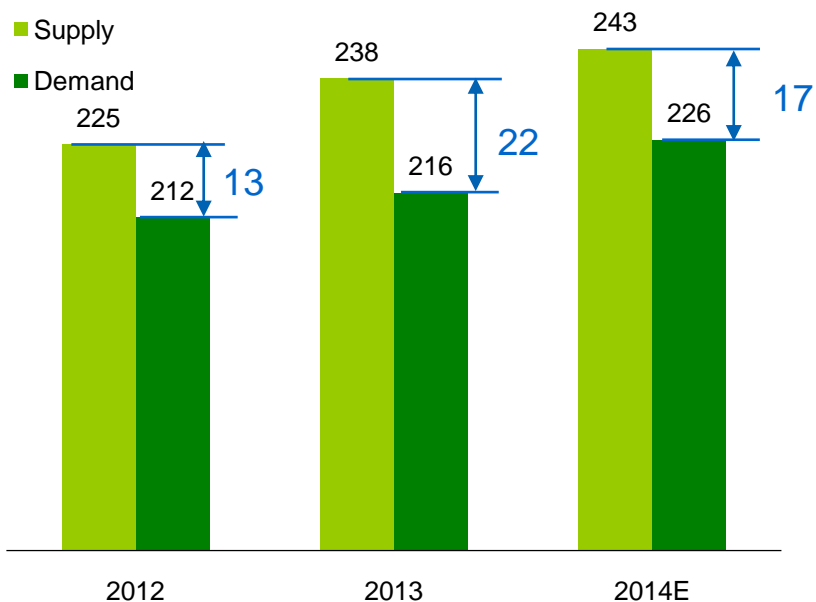
**II. Operation Review**

**III. Outlook**

# Market Environment: Complicated and Fickle (1/3)

## Global Oversupply Continued

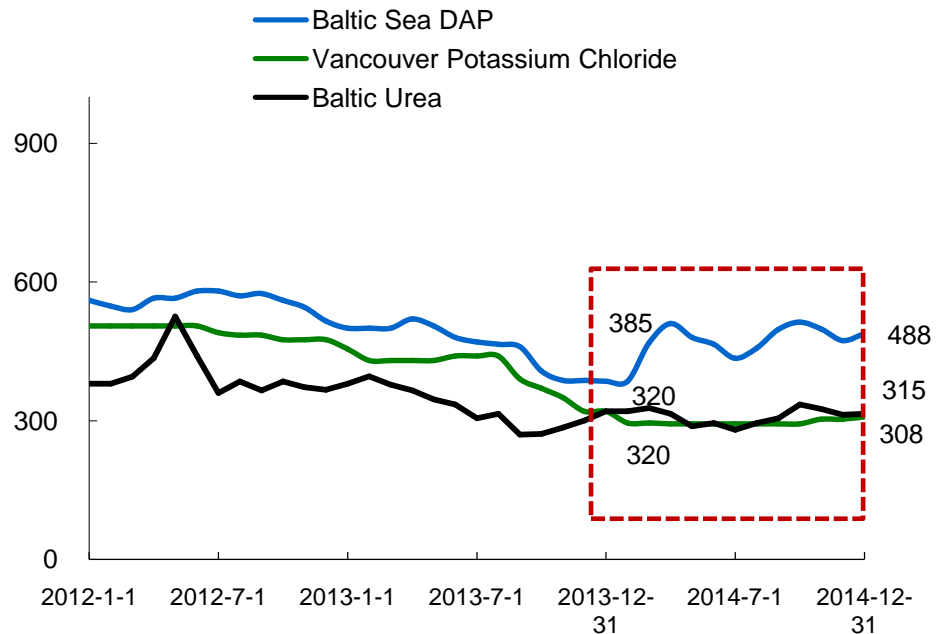
Status Quo of Global Fertilizer Supply & Demand  
(Million Tons, Pure Amount)



Source: IFA

## Prices of Global Major Fertilizers Fluctuated

Price of Global Major Fertilizers  
(USD/Ton)

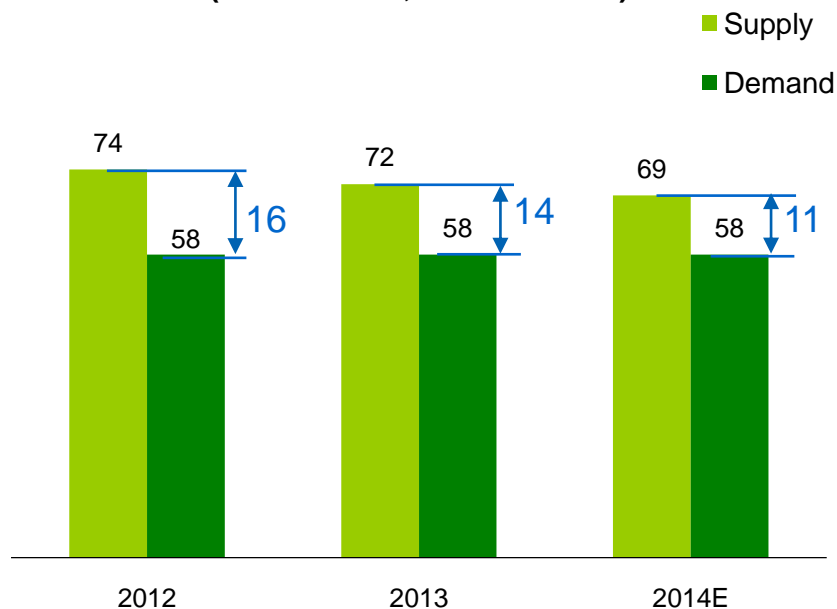


Source: FMB

# Market Environment: Complicated and Fickle (2/3)

## Domestic Oversupply Slightly Mitigated

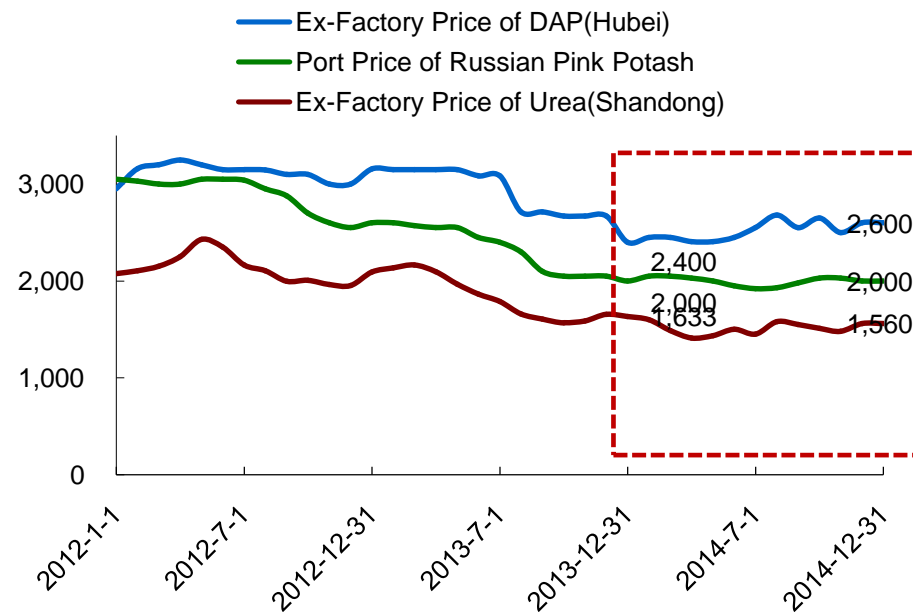
Status Quo of Domestic Fertilizer Supply & Demand  
(Million Tons, Pure Amount)



Source: Data of 2012-2013 is from Wind ; data of 2014 is based on Sinofert's estimation

## Domestic Major Fertilizers' Price Fluctuated in Low Level

Price Trend of Major Fertilizers  
(RMB/Ton)

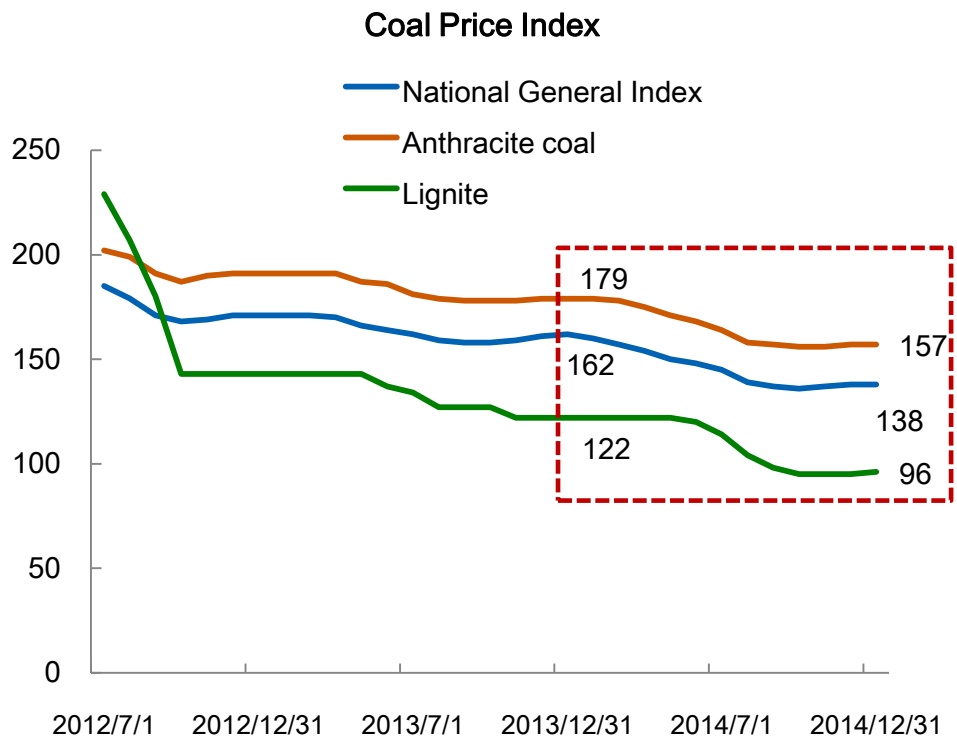


Source: Baiinfo



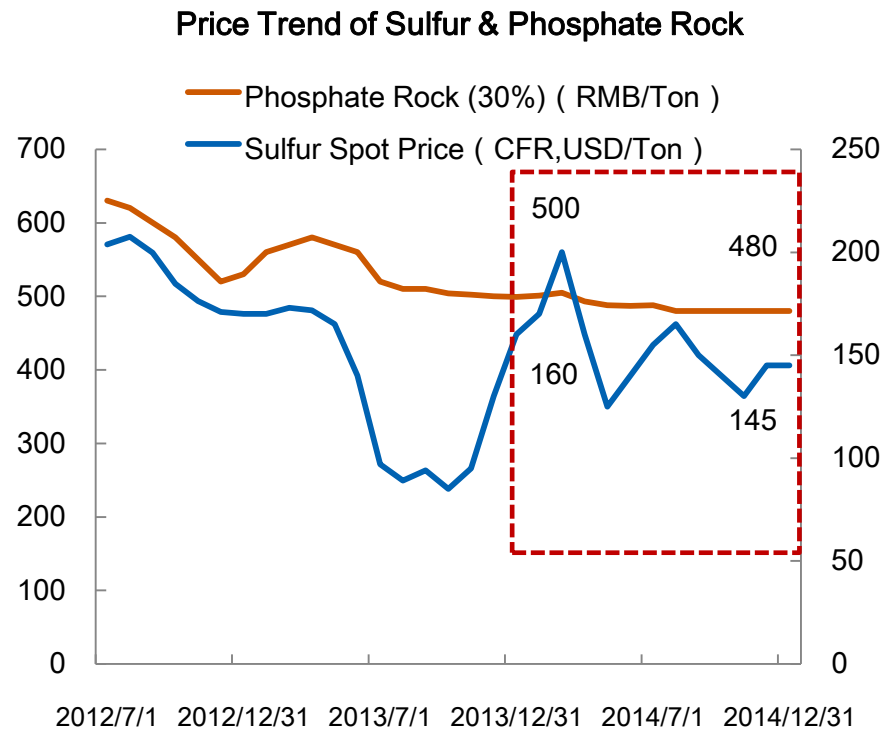
# Market Environment: Low Prices of Major Raw Materials Stalled Recovery of the Industry (3/3)

## Coal Price Index Declined



Source: Wind

## Sulfur Price Declined, Phosphate Rock Price Slightly Declined



Source: Wind

# Key Performance Index

Million Tons/Million Yuan

Annual Result	2012	2013	2014	Y-o-Y
Sales Volume	17.14	16.28	14.63	-10%
Turnover	41,190	34,722	28,311	-18%
Pretax Profit	1,022	-281	272	-
Net Profit Attributable to Owners of the Company	878	-476	229	-
<i>Includes : Impact of deferred income tax assets written down</i>	-	-351	-126	-
<i>Net profit attributable to owners from current period operation</i>	878	-125	355	-
EPS(RMB)	0.1250	-0.0678	0.0326	-
ROE	6.36%	-3.64%	1.72%	-

# Profit Scale: Overall Gross Profit Increased On Y-o-Y Base

## Gross Profit

(RMB Million)

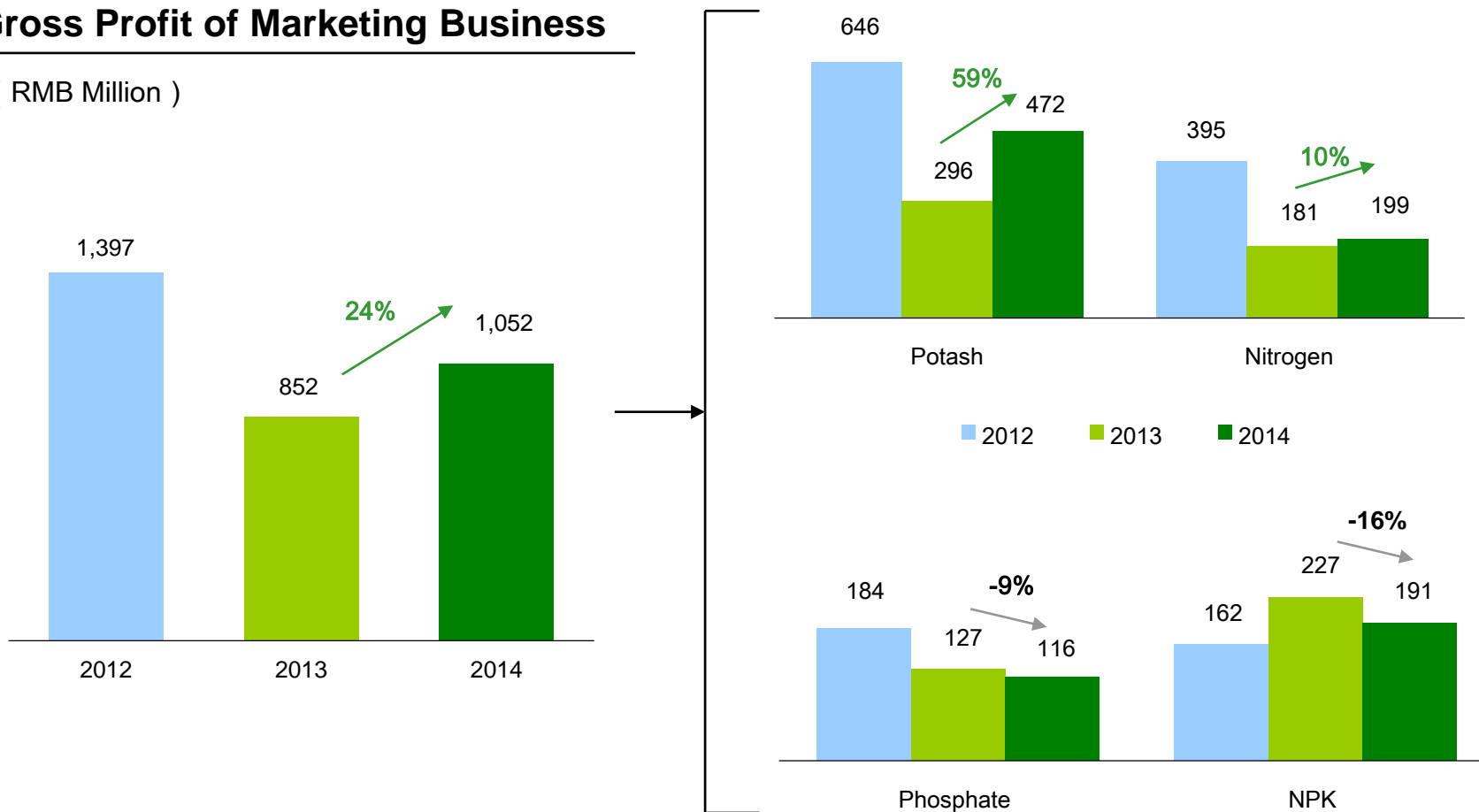




# Profit Scale: Marketing Business Profit Increased

## Gross Profit of Marketing Business

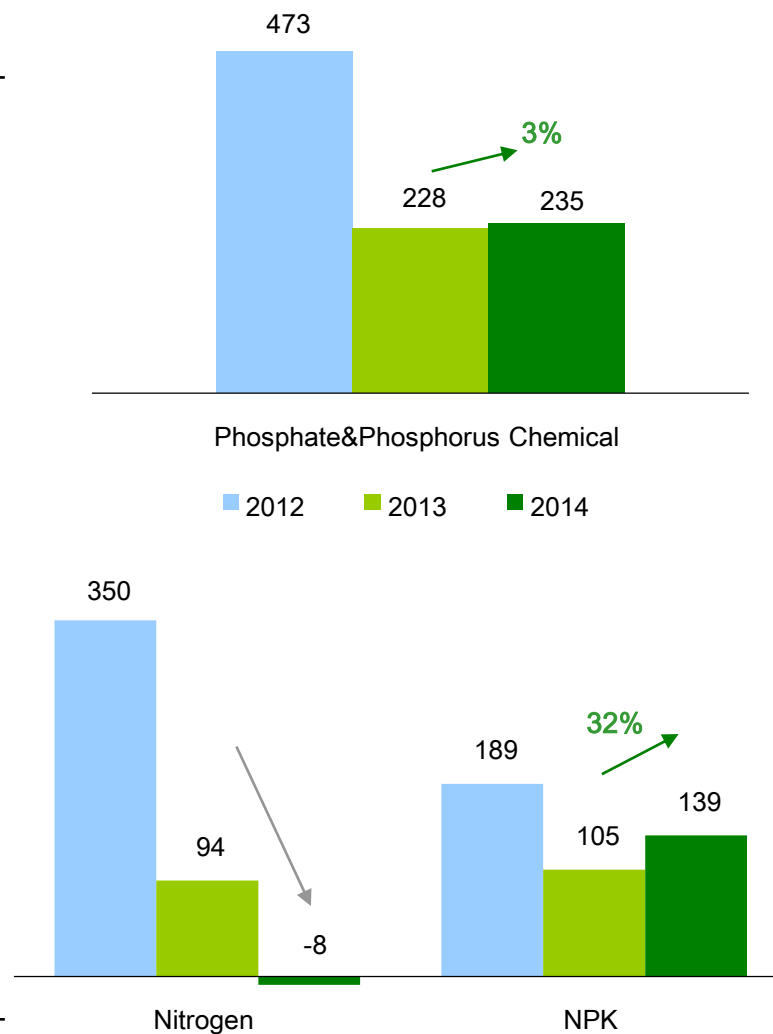
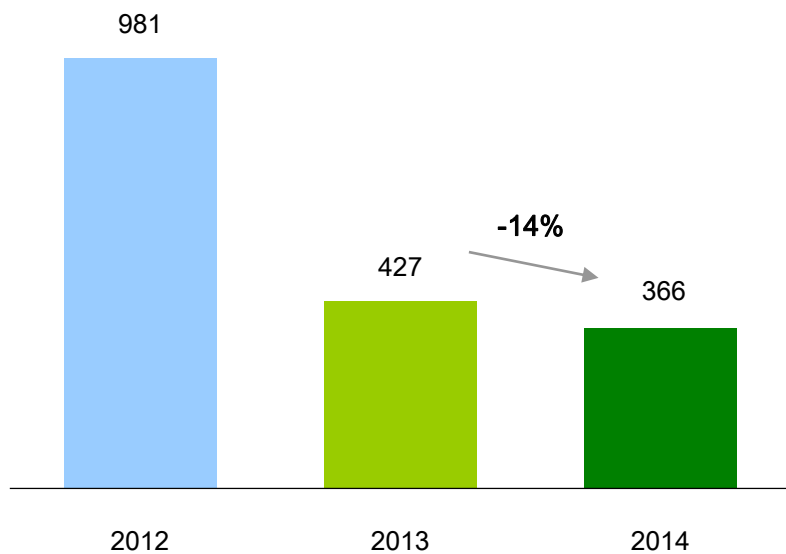
( RMB Million )



# Profit Scale: Gross Profit of Phosphate and NPK Production Increased

## Gross Profit of Production Operation

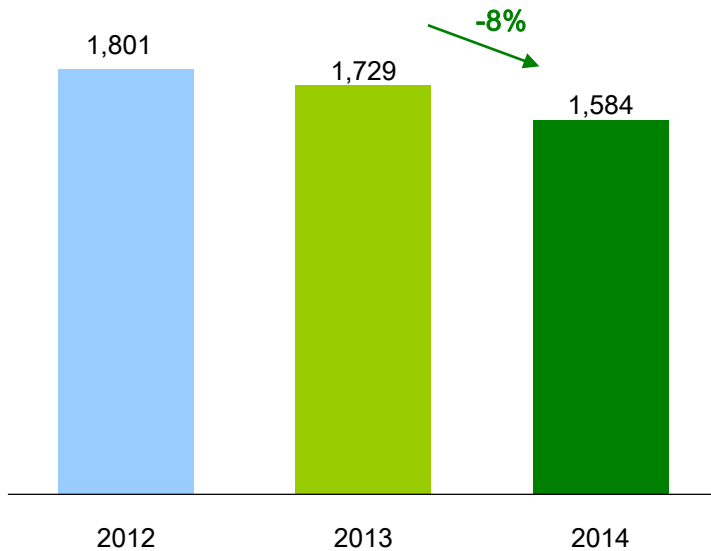
( RMB Million )



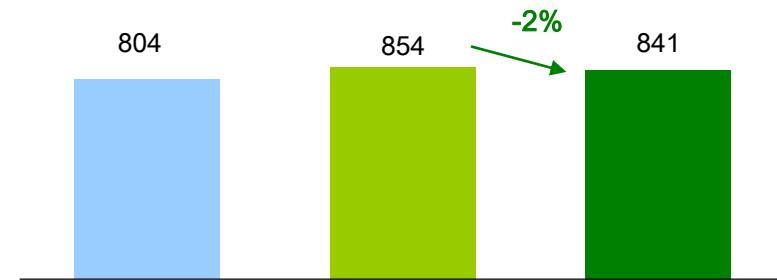
# Period Expenses: Three Major Expenses Declined On Y-o-Y Base

## Period Expenses

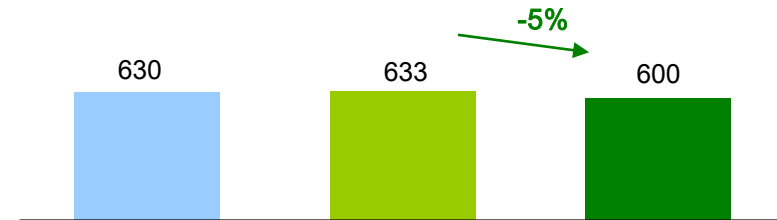
(RMB Million)



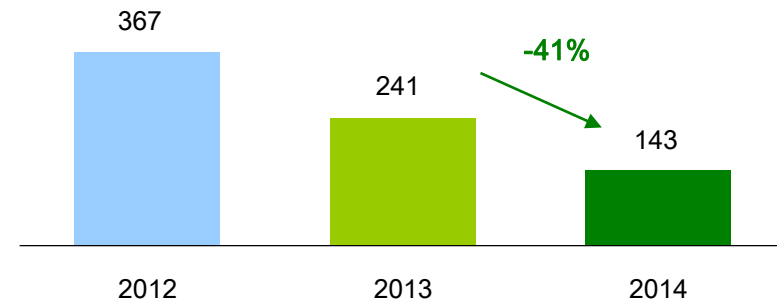
## Sales & Distribution Costs



## Administrative Expenses



## Financing Costs

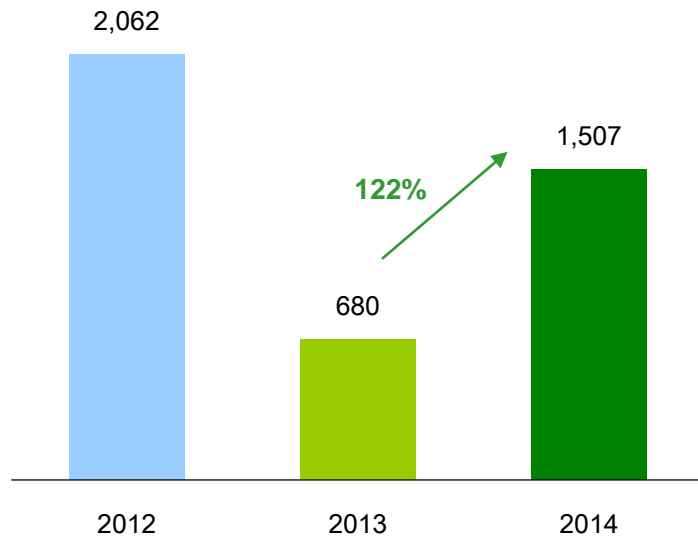




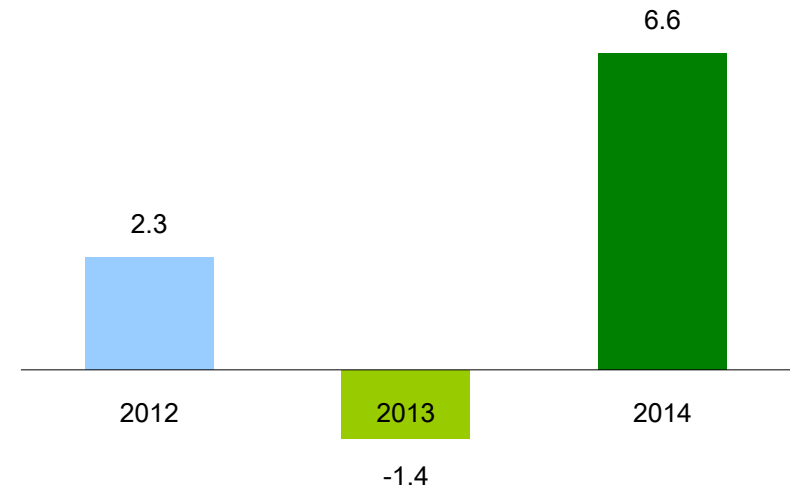
# Operating Cash Flow Made Consecutive Net Inflow

## Net Operating Cash Inflow

(RMB Million)



## Surplus Cash Coverage Ratio

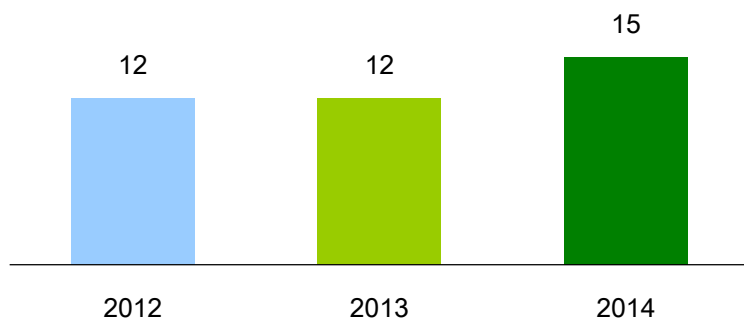


Notes : Surplus Cash Coverage Ratio=Net Cash Inflow from Operating Activities/Net Profits Attributable to The Company

# Operation Efficiency is at a relatively high level

## Receivables Turnover Days

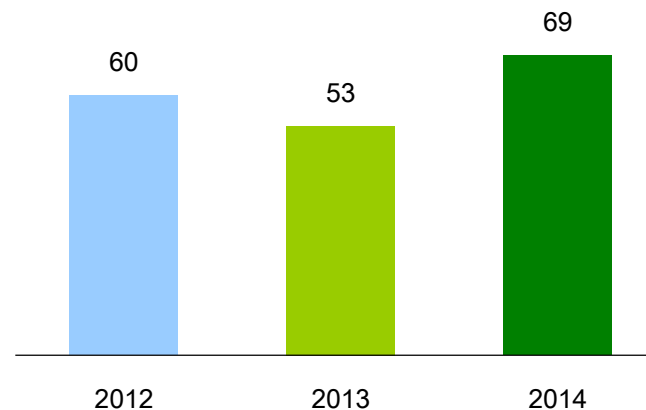
(Days)



Note : Receivables Turnover Days= $360/(\text{Sales Revenue} / \text{Average Receivables})$

## Inventory Turnover Days

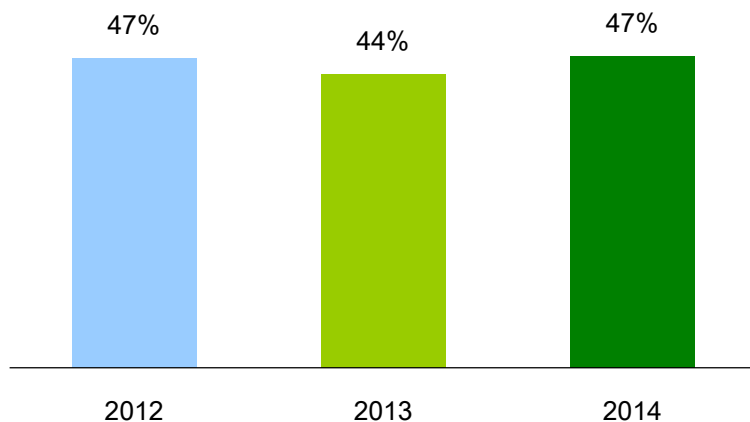
(Days)



Note : Inventory Turnover Days= $360/(\text{Sales Cost} / \text{Average Inventory})$

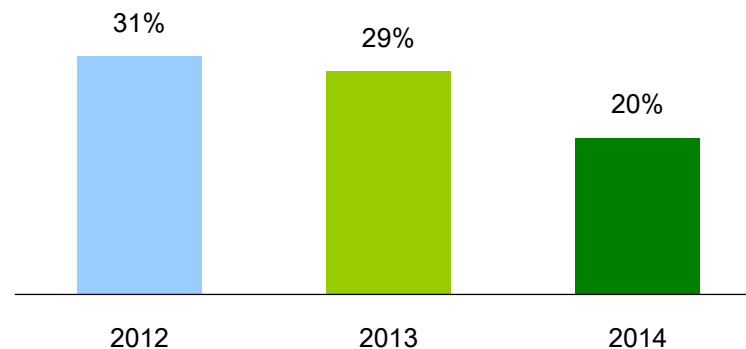
# Solvency Maintained Secure and Stable

## Liability to Assets Ratio



Note: Liability to Assets Ratio=Total Liability/Total Assets

## Debt-to-Equity Ratio

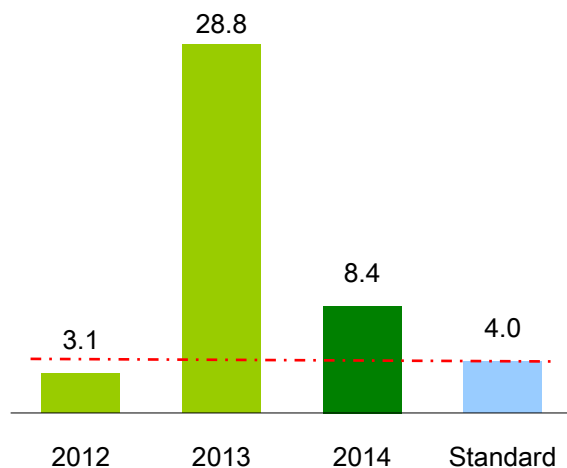


Note: Debt-to-Equity Ratio=Total Interest Bearing Liability/Total Equity



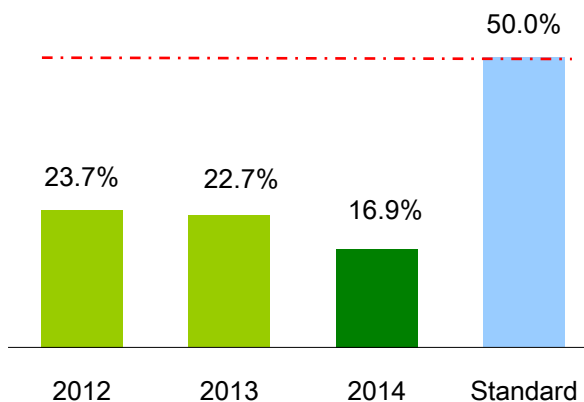
# Rating Index Maintained Stable

## Interest Bearing Liability/EBITDA



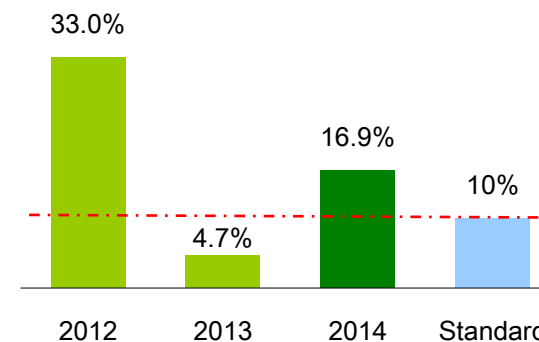
Note: This index maintained below 4.0 meets the investment grade rating requirement

## Interest Bearing Liability/Total Capital



Note: This index maintained below 50% meets the investment grade rating requirement

## FFO/ Interest Bearing Liability



Note: FFO(Funds From Operations) refers to operating cash flow before working capital adjustment. This index maintained above 10% meets the investment grade rating requirement



**I. Financial Performance**

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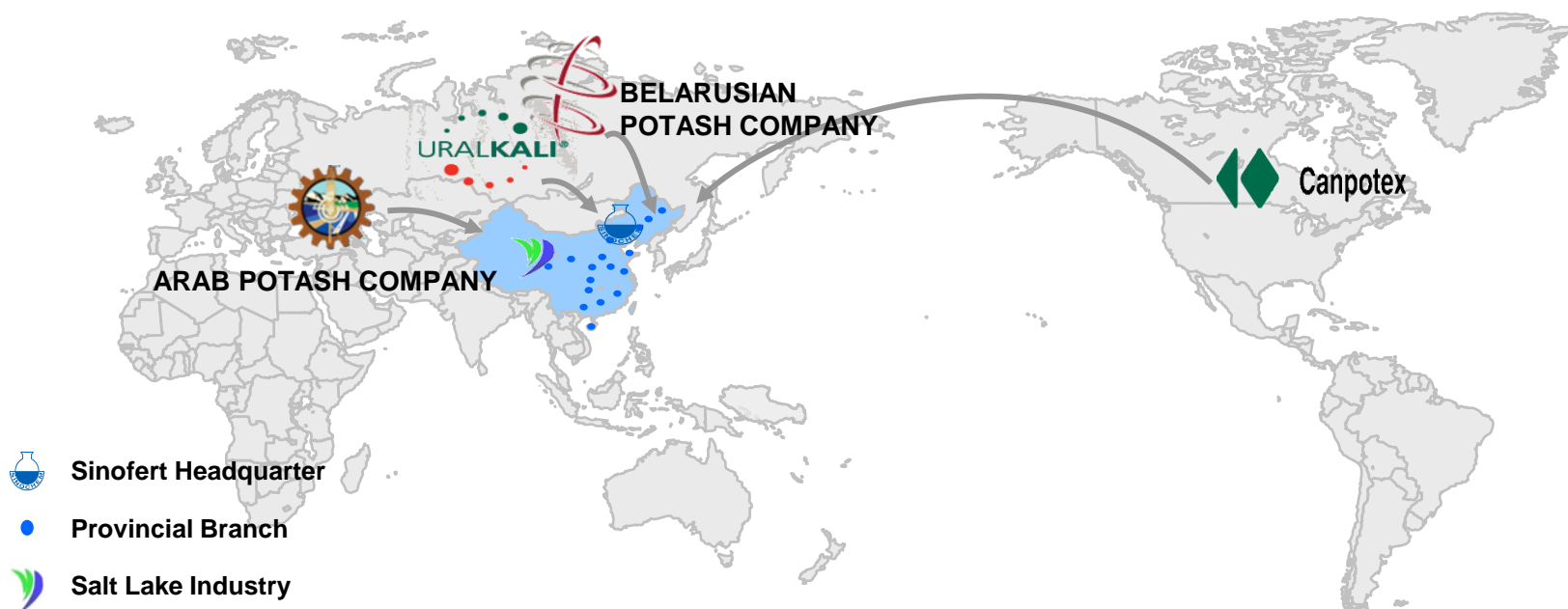




# Active Acquirement of Various Resources (1/3)

## Potash Operation Strengthened Strategic Cooperation with Foreign Suppliers and Actively Acquired Domestic Resources

- We maintained Sinofert's advantageous position in global potash market with favorable low price
- We actively acquired domestic upstream resources and announced exercising the option of acquisition of 15.01% equity interest in QingHai Salt Lake from Sinochem Corporation. We also acquired exclusive franchises of QingHai Salt Lake potash in Shandong and other four provinces



# Active Acquirement of Various Resources (2/3)

## Optimized Phosphate Purchase Supplier Layout

- Sinofert maintained exclusive franchises of imported phosphate
- Utilizing logistic advantages in Yangtze area, optimized our logistic layout and expand shipping sales volume

### Domestic Phosphate Purchase Supplier Layout



## Steady Progress of Phosphorite Resource Acquirement

- Up to the end of 2014, proved phosphorite reserves in Sinochem Yunlong and Jvlong Mining were 299.94 million tons and specified reserves with granted mining licenses were 61.01 million
- In 2014, Mozushao Mine of Sinochem Yunlong was granted the certificate of “National Green Mine Testing Unit”

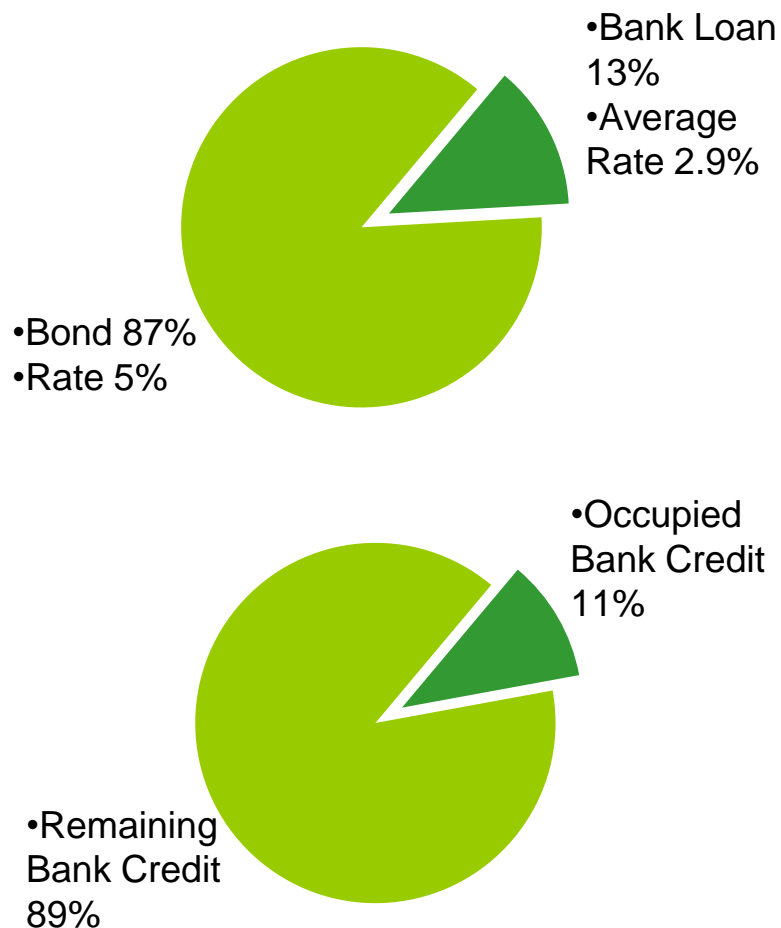


# Active Acquirement of Various Resources (3/3)

## Adequate Bank Credit Line

Granting Bank	Credit Line ( RMB Billion )	Granting Bank	Credit Line ( USD Billion )
 中国农业银行 AGRICULTURAL BANK OF CHINA	2.13	 中国银行 BANK OF CHINA	0.52
 浦发银行 SPD BANK	1.5	 交通银行 BANK OF COMMUNICATIONS	0.3
 中国建设银行 China Construction Bank	2.1	 浦发银行 SPD BANK	0.2
 中化集团财务有限责任公司 SINOCHEM FINANCE CO., LTD.	1.5	 中国工商银行	0.15
 广发银行 CGB	1.0	 Rabobank International	0.12
 交通银行 BANK OF COMMUNICATIONS	1.0	 三菱东京日联银行 MUFG	0.11
 中国工商银行	0.3	 ING	0.11
Others	3.52	Others	0.4
<b>Total Domestic Credit</b>	<b>RMB 13.05 Billion</b>	<b>Total Offshore Credit</b>	<b>USD 1.91 Billion</b>

## Stable Debt Structure Favoring Low-cost Financing



# Strictly Controlled Risk, Enhanced Transition and Stabilized Operation(1/6)

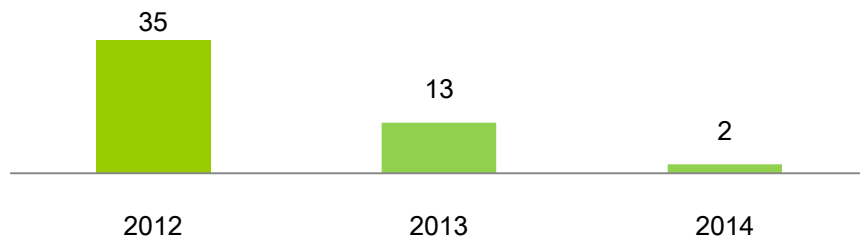
## Accelerated Operation Transition Under the Impacts of Production Oversupply and Market Downturn

- Actively accelerated turnover to control inventory depreciation risks
- Increased proportion of provisional price settlement
- Built open frame supply-chain platform and acquired fixed profit share

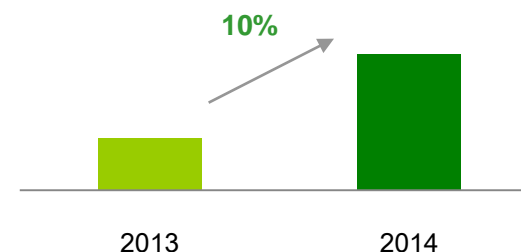
Settlement Proportion of Nitrogen Provisional Price



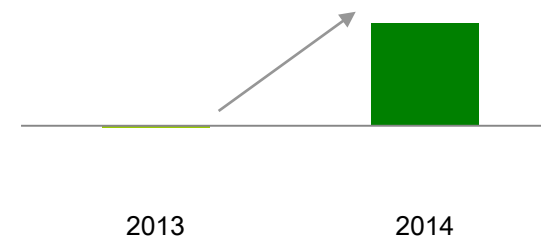
Turnover Days of Sulfur



Nitrogen Gross Profit



Sulfur Gross Profit



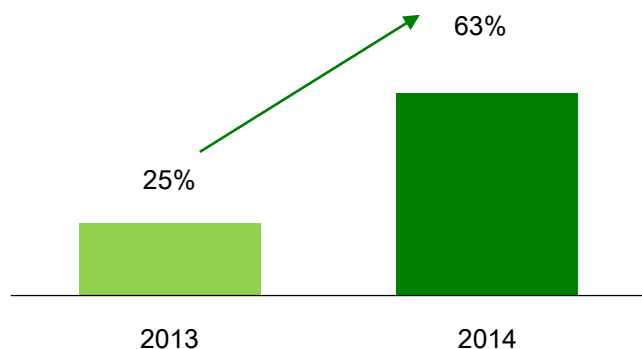
# Strictly Controlled Risk, Enhanced Transition and Stabilized Operation(2/6)

## Strengthened Potash Channel Marketing and Client Management

- Initiated pilot project of industrial potash K30 core clients and strengthened client stickiness
- The project of client sharing between potash and NPK in south China obtained progressive success

### → Shared Potash Channel and Expanded Clients Need

Proportion of Agricultural Potash Clients Purchasing NPK

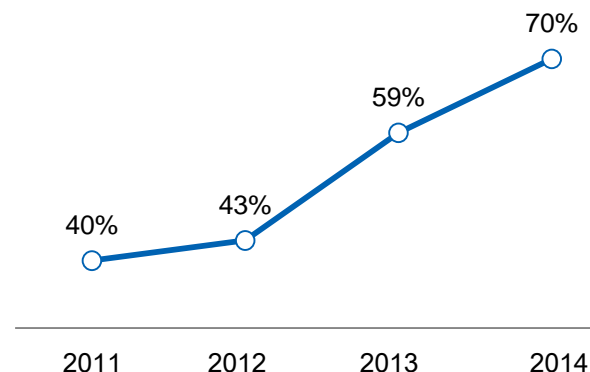


## Enhanced Phosphate Brand Management

- Steadily promoted the strategy of “One Brand with One Dealer in One County” and improved network marketing
- Enhanced promotion and brand management, and increased market share of owned and joint-owned brand

### → Increased Brand Perception

Sales Share of Owned and Joint-owned Brand of DAP





# Strictly Controlled Risk, Enhanced Transition and Stabilized Operation(3/6)

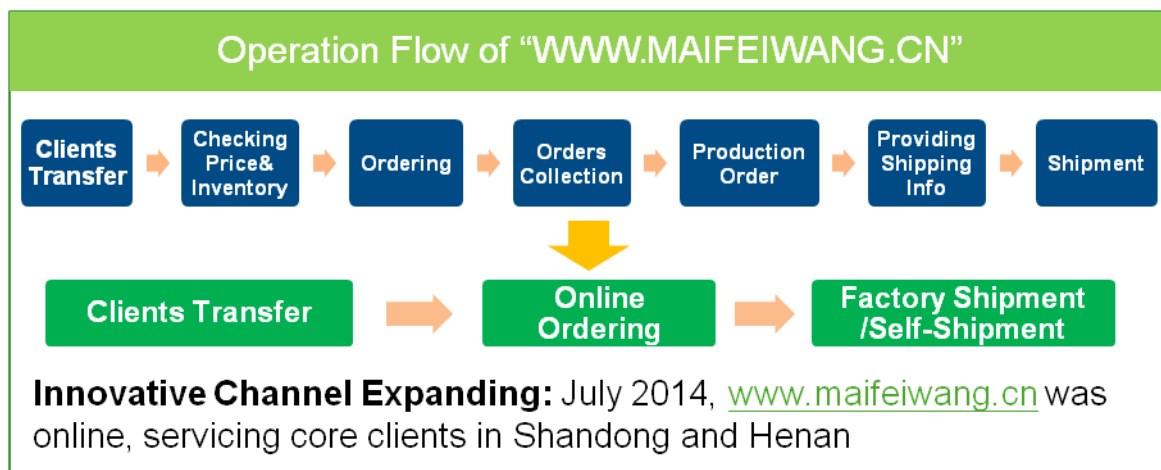
## NPK Business Explored Integrated Marketing Mode and E-Commerce Platform Assisted Marketing Transition



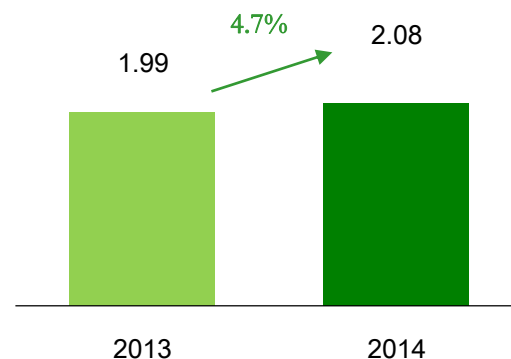
Terminal channel construction  
( 4,226 core stores )



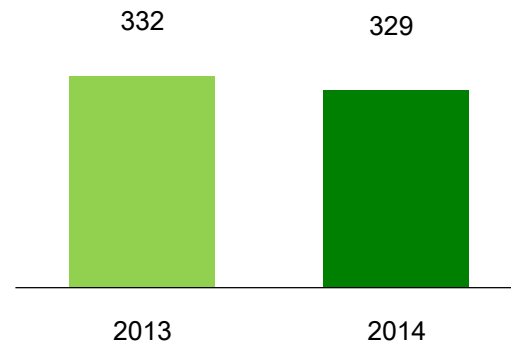
Marketing campaign  
(14,828 times)



NPK Sales Volume  
(Million Tons)

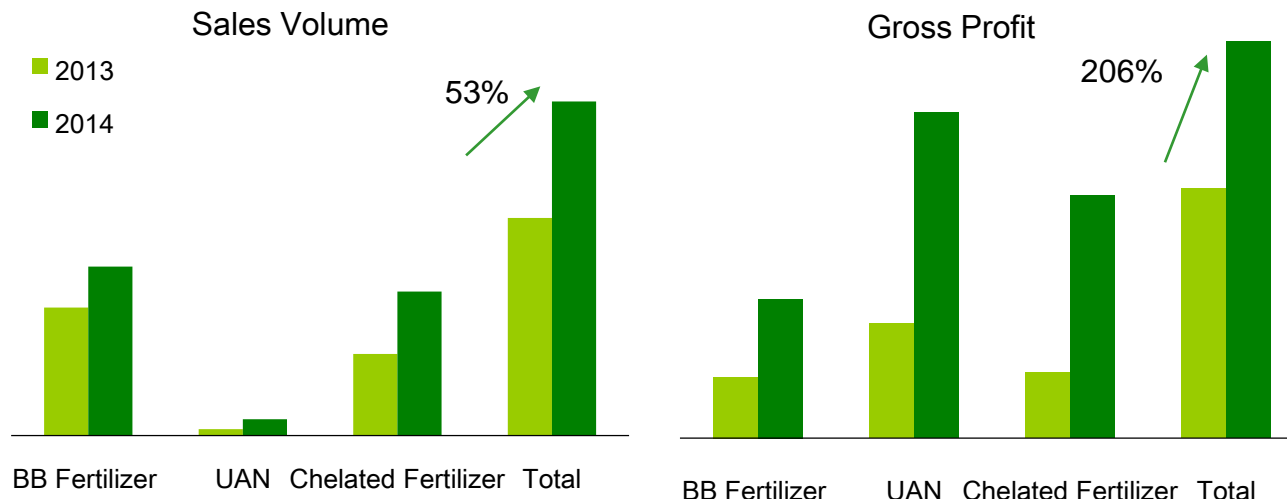


NPK Gross Profit  
(RMB Million)



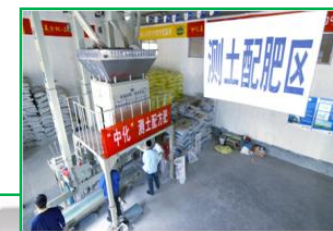
# Strictly Controlled Risk, Enhanced Transition and Stabilized Operation(4/6)

**With Marketing System for Differentiate Products, Both Sales Volume and Gross Profits Significantly Increased**



## Package Service

- Promoted regional recipe fertilizer and explored fertilizer station alliance
- Explored innovative operation of package including seeds, fertilizers and pesticides



# Strictly Controlled Risk, Enhanced Transition and Stabilized Operation (5/6)

## Agriculture Service

1,223

Demonstrative Fields

19

Demonstration Counties of Scientific Fertilization

2,064

Soil Testing & Formula Planning Services

2,048

Anti-Counterfeit Campaigns

178

Field Schools for Farmers

Over 0.62 Million

Benefited Farmers



## Scientific Fertilization

Corn Test Field



Rice Test Field



Average yield of corn in Northeastern region: 7.5-13.5 Tons per ha.

Yield on Sinofert corn test field: over 18 Tons per ha.

## Rural Financial Service

Acquired Agricultural-Related Petty Loan Commitments



RMB 10 Billion



RMB 2 Billion

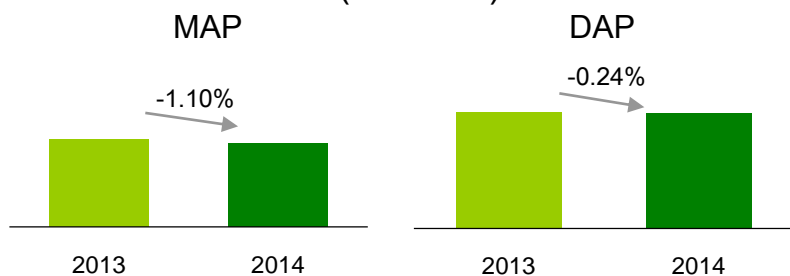


RMB 1.8 Billion

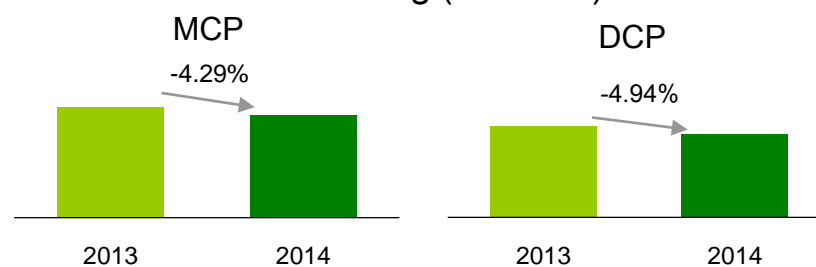
# Strictly Controlled Risk, Enhanced Transition and Stabilized Operation(6/6)

## Strengthened Process Control and Reduced Production Consumption Steadily

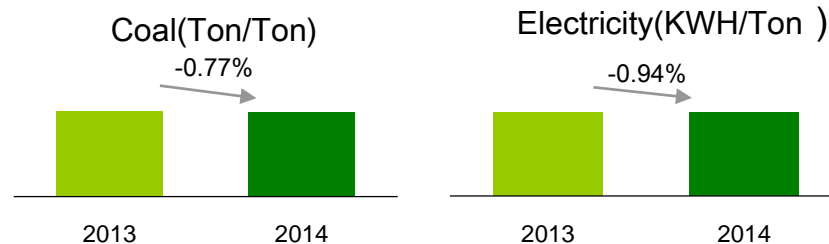
Acid Consumption of M/DAP in Sinochem Fuling (Ton/Ton)



Mine Consumption Of M/DCP in Sinochem Yunlong (Ton/Ton)



Production Consumption of Urea in Sinochem Changshan





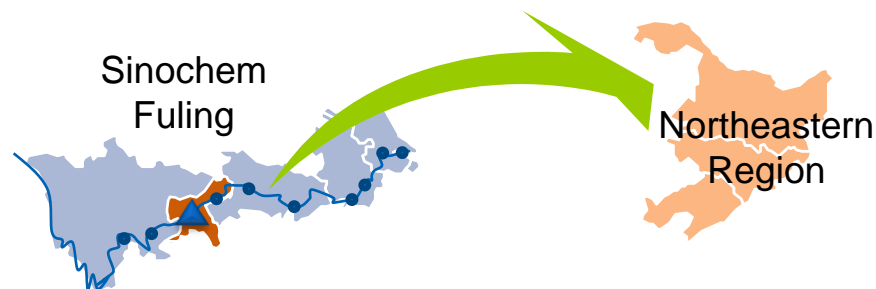
# Internal Lean Management Increased Endogenous Benefits (1/3)

## Operation Performance Elevated by The Act of Cost-Reduction & Efficiency-Improvement

- ✓ Sinochem Shandong self researched and developed patented iron tray device for stacking and forklift loading
- ✓ Sinochem Changshan implemented the energy-saving reform technology of "HAS" hydrogen sulfide complete oxidation

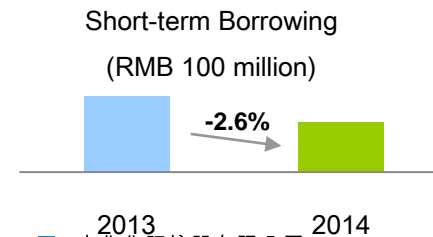
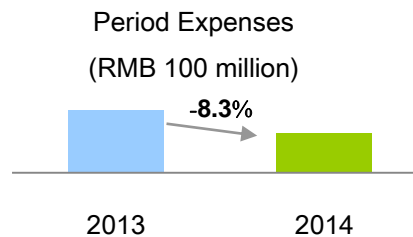
### Logistics Optimization:

- ✓ Sinochem Fuling reduced 27% transportation expenses by water-land transshipment

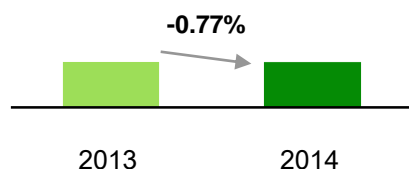


### Strict Expenses Control

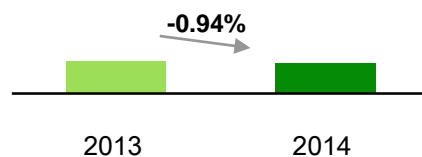
- ✓ By enhancing management of operation funds scale, period expenses of production business reduced 8.3% on Y-o-Y bases



Coal Consumption of Urea (Ton/Ton)



Electricity Consumption of Urea (KWH/Ton)



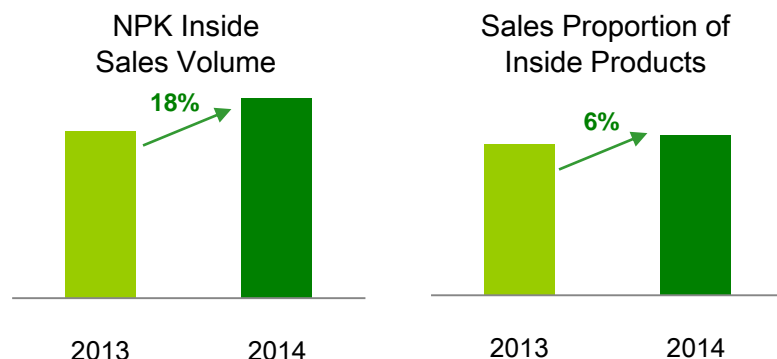
Reform of Gas Purification and Desulfurization System in Sinochem Changshan



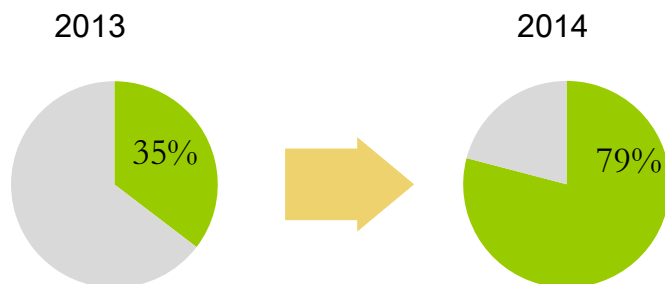
# Internal Lean Management Increased Endogenous Benefits (2/3)

## Enhanced Collaboration Between Production and Marketing

- NPK and phosphate sales proportion of inside products steadily increased

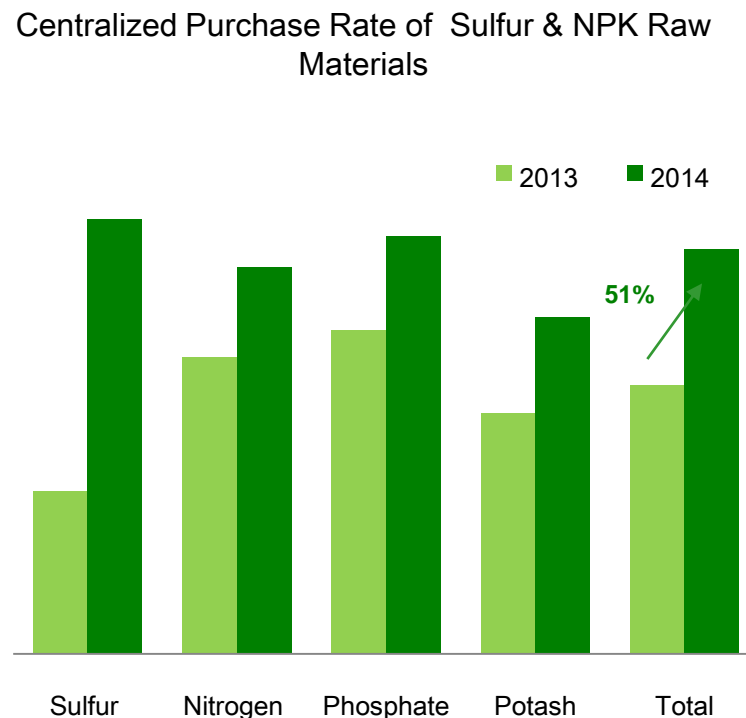


Internal sales proportion of Sinochem Fuling



## Raw Material Centralized Purchase Rate Significantly Increased

- Sulfur and NPK raw materials centralized purchase rate significantly increased in production business



# Internal Lean Management Increased Endogenous Benefits (3/3)

## Strengthened Management of Joint-Control Enterprises and Further Optimization of These Assets

### 1 Qinghai Salt Lake :

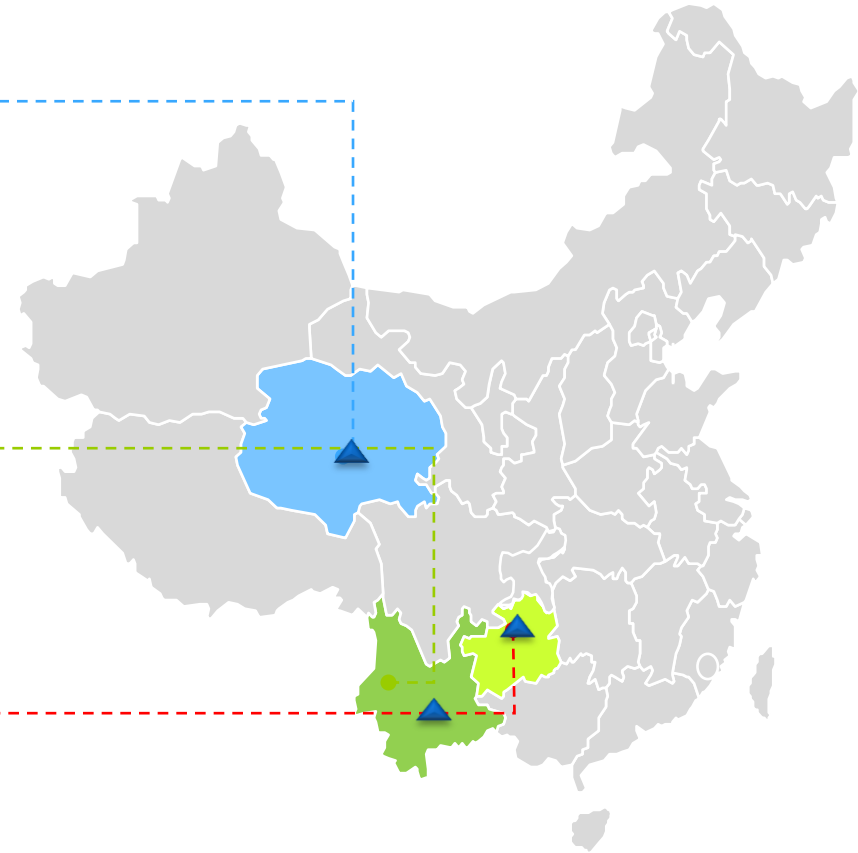
- Exercising the option of acquisition of 15.01% equity interest in QingHai Salt Lake from Sinochem Corporation

### 2 Three Circles Sinochem:

- Cooperation range both in products sales and raw material purchases

### 3 GUIZHOU KAILIN (GROUP):

- Participation in the reform and reorganization of Guizhou Kailin (Group) by exchange of 13.41% shares of the joint enterprise Sinochem Kailin





**I. Financial Performance**

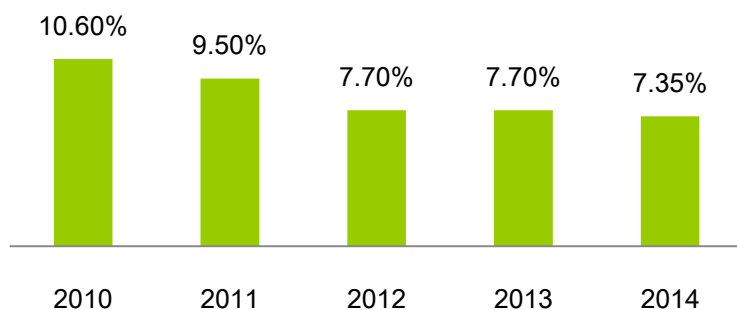
**II. Operation Review**

**III. Outlook**



# Macro-economy: China's Economy Enters into the New Normal of "Stabilizing Growth, Adjusting Structure"

## China's GDP Growth Rate (%)



## Contribution of the Three Main Industries to China's GDP



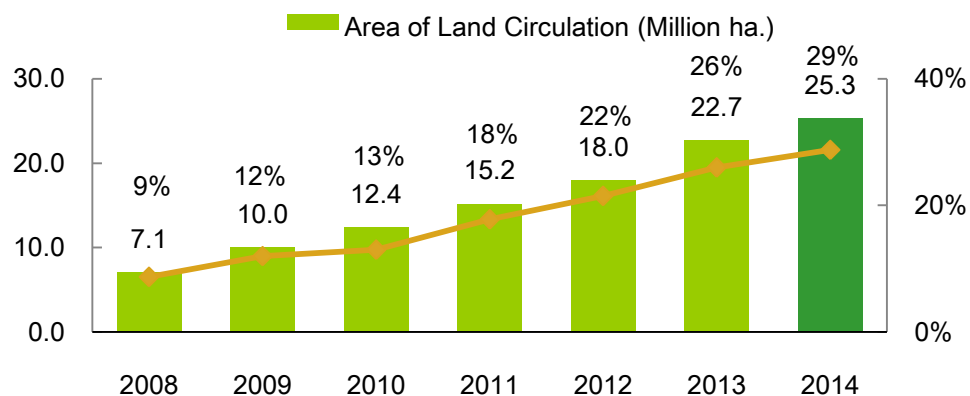
- **"Stabilizing Growth, Adjusting Structure" would be the new normal of China's economy**
  - ✓ It is estimated that China's economic growth rate would slow to around 7% in the medium term, and "Stabilizing Growth, Adjusting Structure" would be the new normal of China's economy
- **Agricultural modernization will play an important role in the adjustment and upgrading of China's economy**
  - ✓ In the three main industries, the primary industry grows slowly and contributes much less to China's GDP
  - ✓ China's industrialization has stepped into the middle and later period and China's urbanization is still in the period of rapid development. Compared to industrialization and urbanization, China's agricultural modernization is still in the preliminary stage
  - ✓ The 18th CPC National Congress put forward a new expression of "Four Modernizations Synchronization" which indicates the equally important and irreplaceable strategic position of agricultural modernization compared with other three modernizations

Source: IMF Estimate



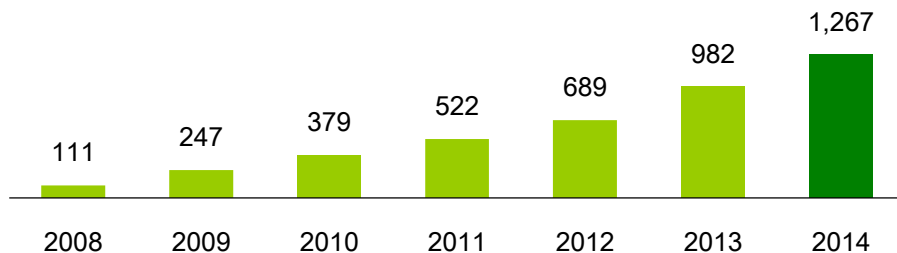
# Agriculture: China's Agricultural Modernization Is Accelerating Constantly

## Area of Land Circulation

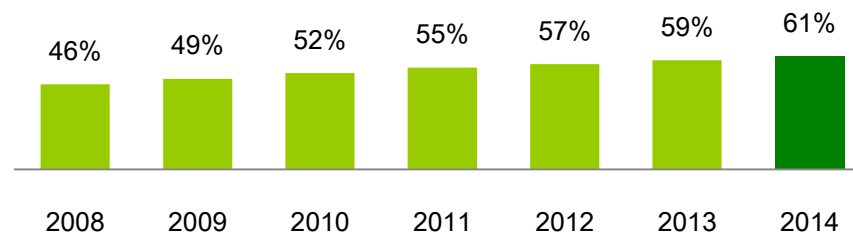


- In 2015, No. 1 Central Government Document has focused on three rural issues (agriculture, rural areas and farmers) for consecutive 12 years. China's government continues to intensify the basic position of agriculture, promote to increase farmers' income, and accelerate the building of "new countryside", thus facilitating the common prosperity between urban and rural areas
- Faced with the development of agricultural modernization and consequent changes during the development, the demand of fertilizer and agrochemical services would increase constantly

## Numbers of Specialized Farmers Cooperatives ('000)



## Comprehensive Mechanization Rate of Plowing, Sowing, and Harvesting

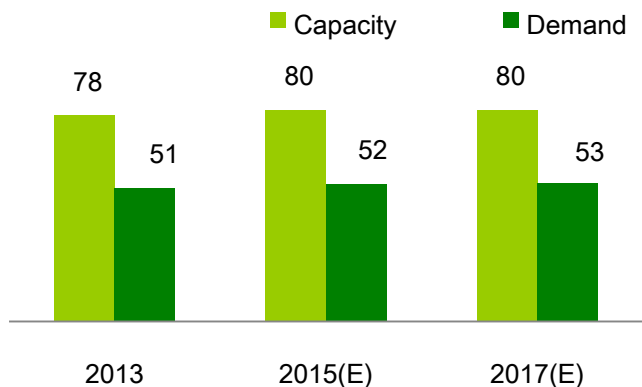


Source: Ministry of Agriculture of PRC

Source: State Administration for Industry and Commerce of PRC

# Fertilizer: Adjustment and Optimization of Fertilizer Industry Begins to Accelerate

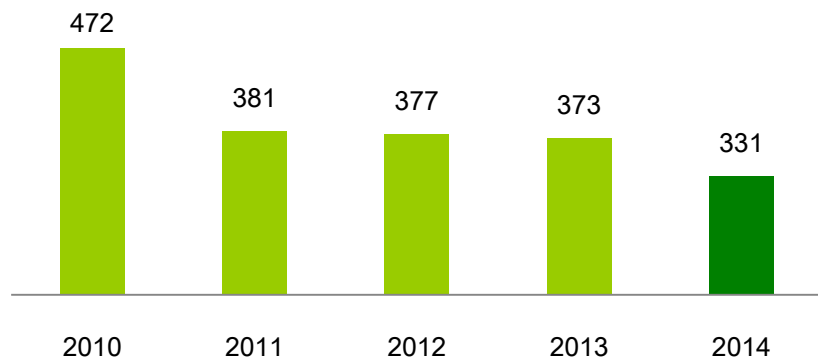
## Fertilizer Would Remain Oversupplied in the Short Term(N & P by nutrient, Million Tons)



Date source: :China Nitrogen Fertilizer Industry Association, China Phosphate Fertilizer Industry Association, Company Estimate

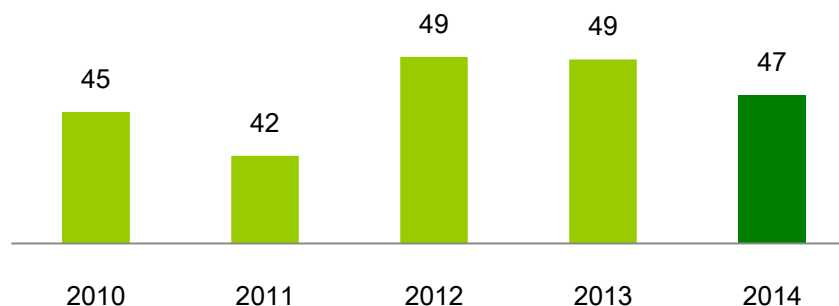
- In next few years, China's fertilizer industry would continue to be oversupplied, but the adjustment and optimization of the industry has begun to accelerate with the number of manufacturing enterprises continuously declining and fertilizer output starting to decrease
- The government enforces the fertilizer industry to transform and upgrade through more market-driven methods
- The government issues the new Environmental Protection Law, which is conducive to accelerate the elimination of less competitive capacity with more strict governance requirement and more rigid legal liability

## Numbers of Nitrogen Manufacturing Enterprises Keeps Decreasing



Source: Wind

## Output of Nitrogen Begins to Decrease(Million Tons, by nutrient)



Source: Wind

# Company: Future Development Strategy

Based on lean management and reform & innovation, the company would take root in modern agriculture and strive to transform and upgrade to an agricultural service enterprises providing high quality fertilizers and solutions

## “123” Development Strategy of the Company

Transformation  
&  
Upgrading

### One Core

- In recent years, competition in traditional fertilizer industry has been intensifying, while modern agriculture is developing very rapidly. As a company with the whole industrial chain, rooted in modern agriculture would be the core of Sinofert's transformation & upgrading

Lean  
Management

Reform &  
Innovation

### Two Footstones

- Lean Management: Perfect system construction, strengthen capability improvement, enrich “three basics” work
- Reform & Innovation: innovation on operational model, reform on incentives mechanism, reform on operational system

Straight  
Fertilizer

Compound  
Fertilizer

New  
Fertilizer

### Three Sections

- Straight Fertilizer: Strictly control operational risks, consolidate market position
- Compound Fertilizer: Focus on strategic products, enrich the channel resources, improve market status
- New Fertilizer: Accumulate technology and service resources, innovate business model



# Company: Operational Strategy

## R & D

Build the three-level scientific system based on production business, integrate the inside and outside resources and focus on technology advancement and product R & D

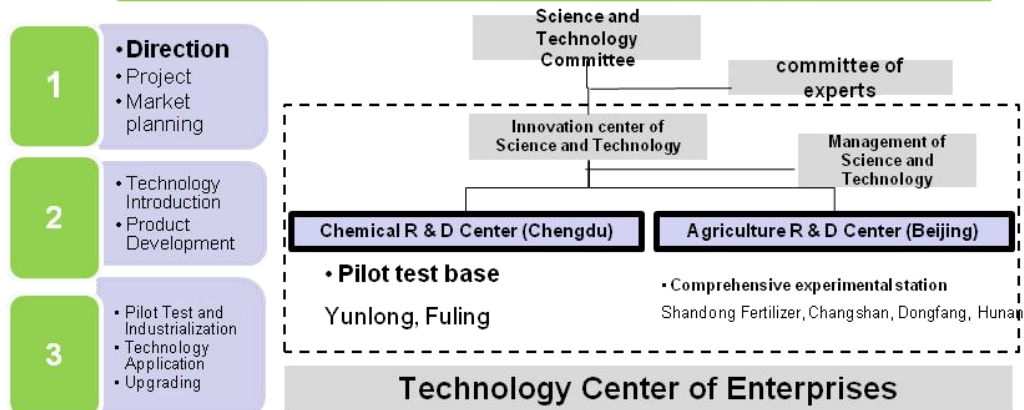
## Production

Enrich the core markets based on “three industrial base”, develop strategic products, reshape the existing layout of manufacturing enterprises and organize the industrial layout of new fertilizer

## Marketing and Service

Strengthen channel basis, explore diversified innovative model, consolidate the market position of traditional business, in the mean time focus on new fertilizers

## Three-Level Scientific System



## Industrial Base







**Nurturing China's Modern Agriculture!**

**Thank You**