

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

A green combine harvester is shown in the process of harvesting a golden wheat field. The harvester is moving from left to right, with its large front-mounted header cutting through the wheat. The sky is a clear, deep blue, and the overall scene is bright and sunny. The harvester has a glass-enclosed operator's cab and several large rollers on its side.

# 2015 Interim Performance Report

August 27<sup>th</sup>, 2015

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 Sinochem Holdings (“Sinochem”) 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. Sinochem’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, Sinochem makes the forward-looking statements referred to herein as of today and undertakes no obligation to update these statements.

## I. Financial Performance

## II. Operational Review

## III. Operational Outlook

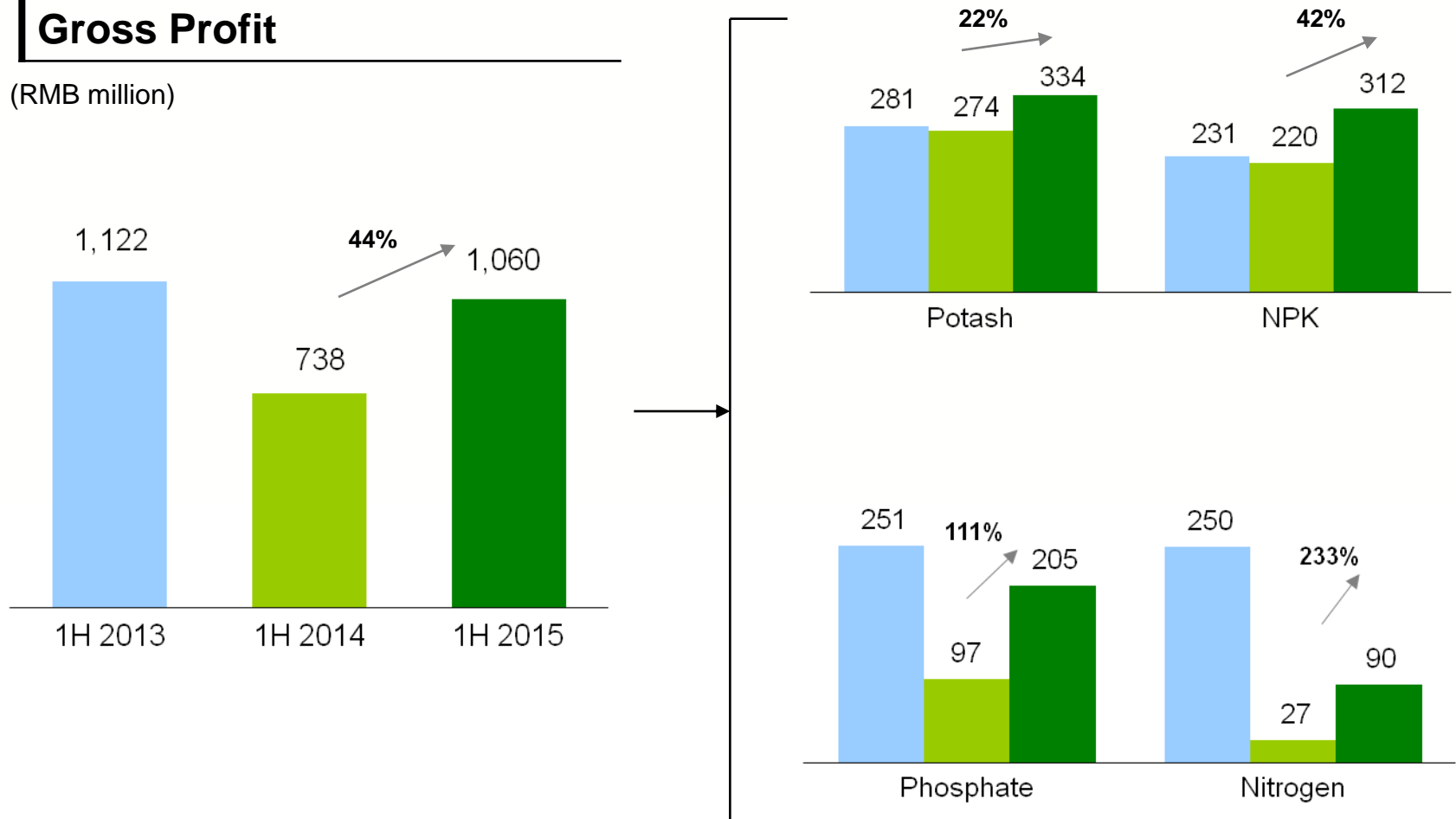
# KPI: Profit Increased with Fertilizer Prices Recovery & Operation Improvement

Unit: million tons, million RMB

Year	1H 2013	1H 2014	1H 2015	PoP
<b>Sales Volume</b>	9.14	8.25	8.12	-2%
<b>Revenue</b>	20,580	15,881	16,701	5%
<b>Profit Attributable to Shareholders of Company</b>	352	138	342	148%

## Gross Profit

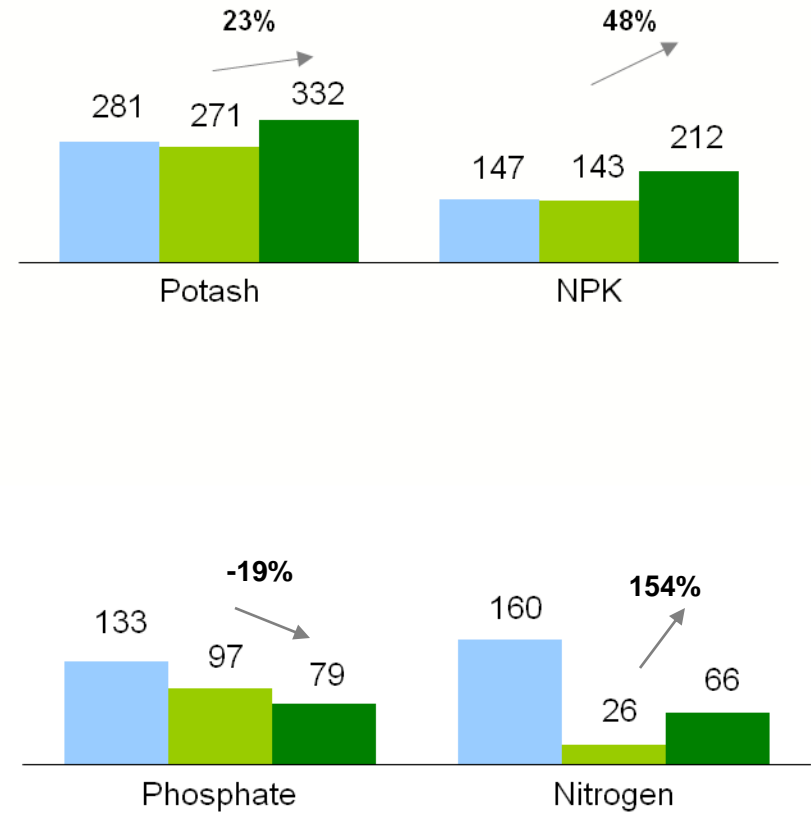
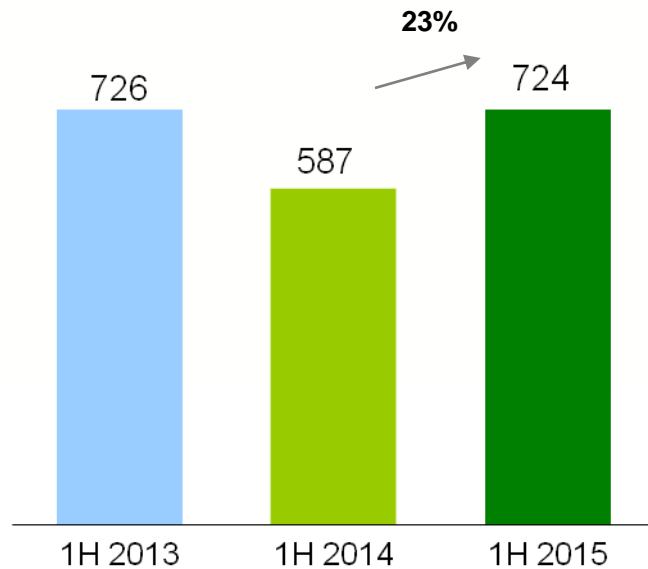
(RMB million)



# Profitability: Gross Profit of Marketing Segment Increased Remarkably

## Gross Profit of Marketing Segment

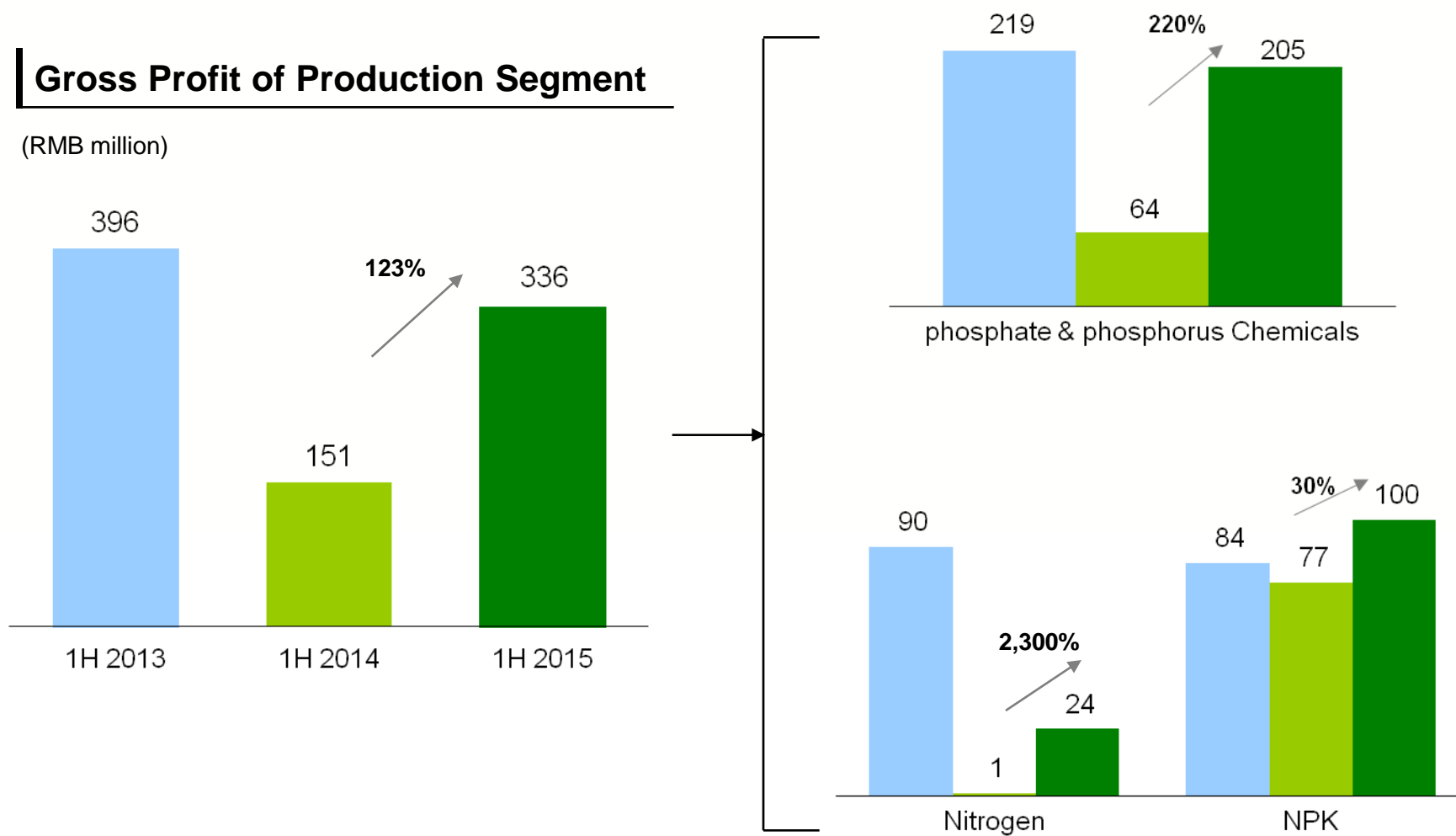
(RMB million)



# Profitability: Gross Profit of Production Segment Increased Significantly by Strict Cost Control

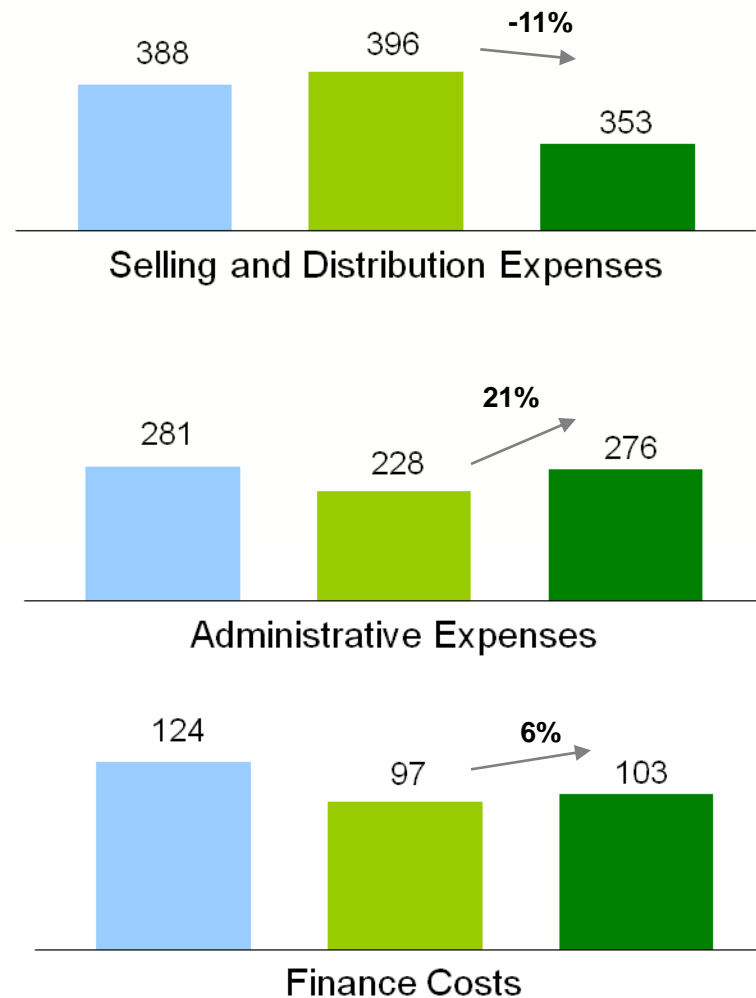
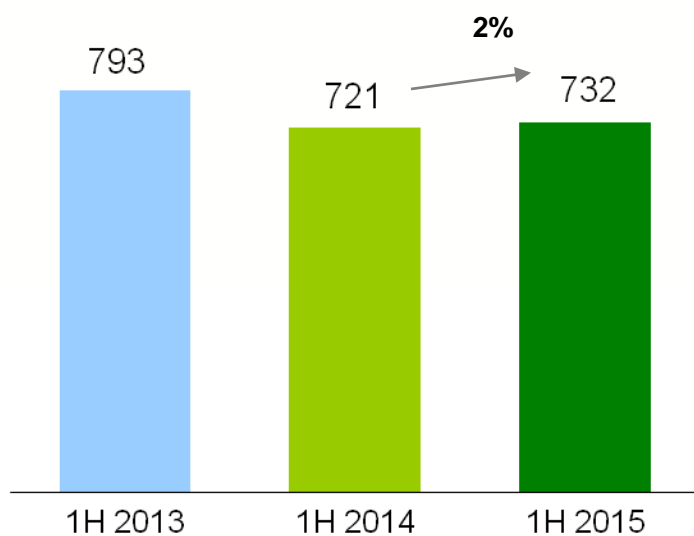
## Gross Profit of Production Segment

(RMB million)



## Period Expenses

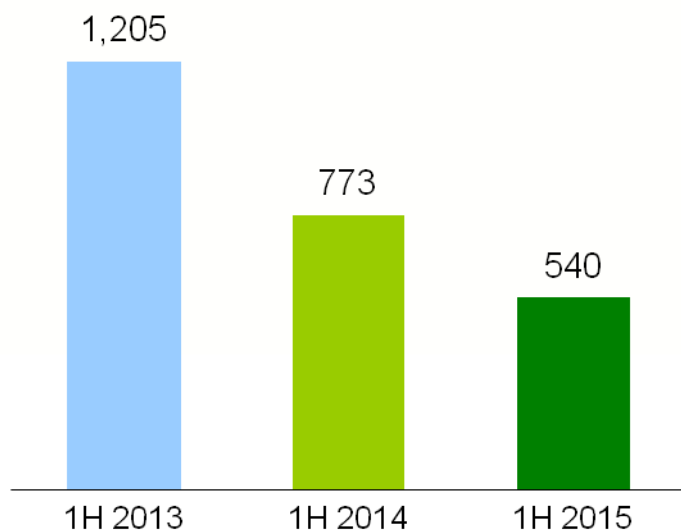
(RMB million)



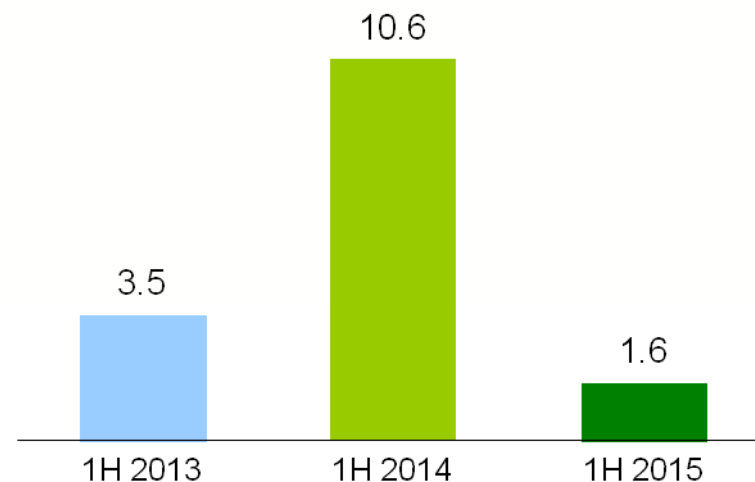


## Net Operating Cash Inflow

(RMB million)



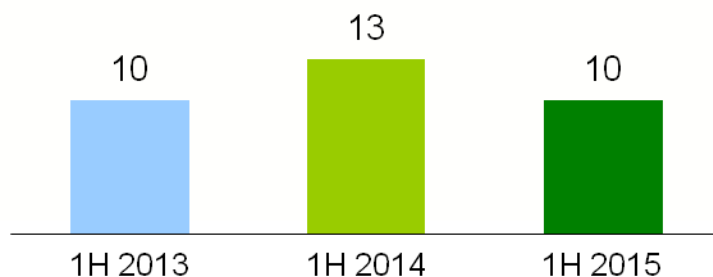
## Surplus Cash Coverage



Note: Surplus cash coverage = Net operating cash flow / Net profit

## Receivables Turnover Days

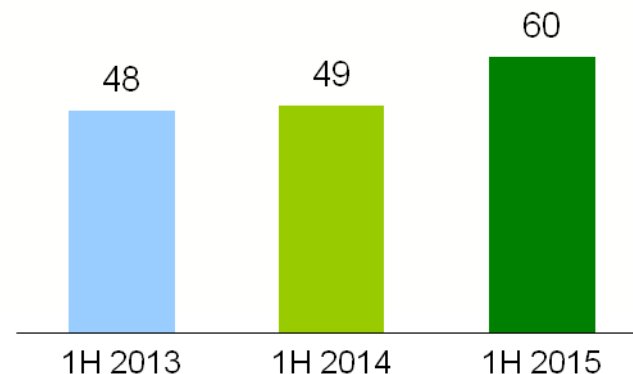
(Days)



Note: Receivables Turnover Days =  $180 / (\text{Sales Revenue} / \text{Average Balance of Receivables})$

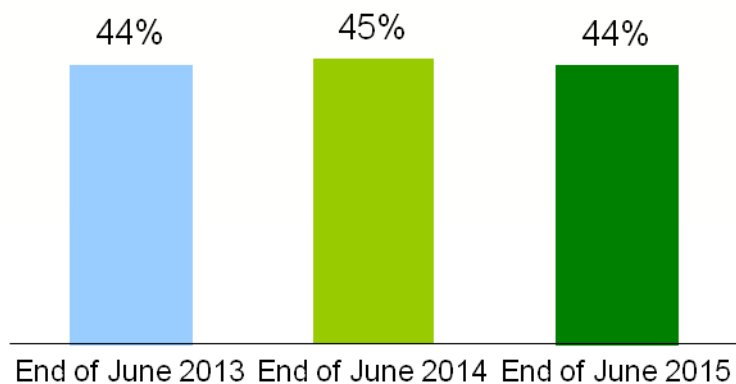
## Inventory Turnover Days

(Days)



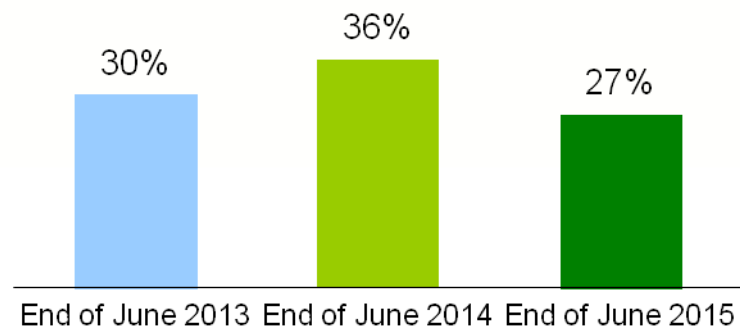
Note: Inventory Turnover Days =  $180 / (\text{Sales Cost} / \text{Average Balance of Inventory})$

## Liabilities to Assets ratio



Note: Liabilities to Assets ratio= Liabilities / Total Asset

## Loans-to-Equity Ratio



Note: Loans-to-Equity Ratio= interest bearing loans / Total Equity

**I. Financial Performance**

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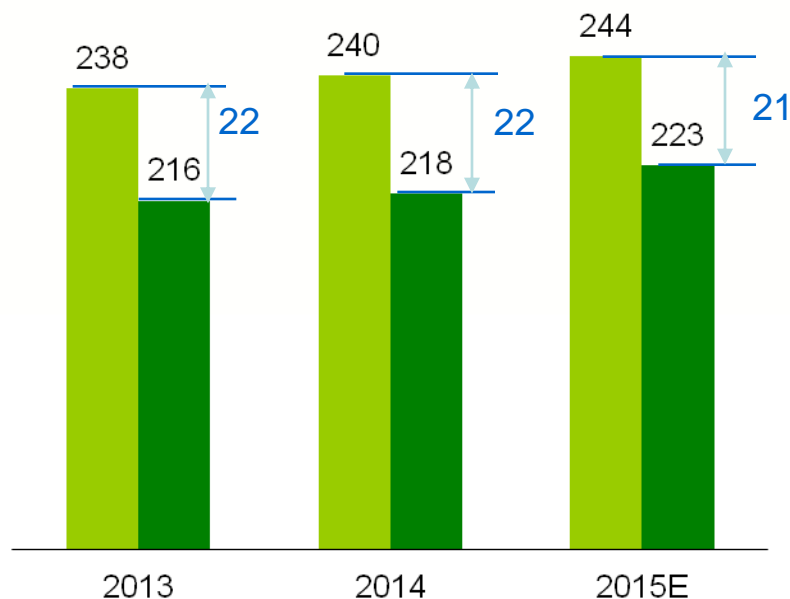
# 1. Market Environment: Fertilizer Market in Downward Trend and Price Fluctuated (1/4)

## Global Oversupply Kept Unchanged

Supply and Demand of Global Fertilizers

(million tons by nutrient)

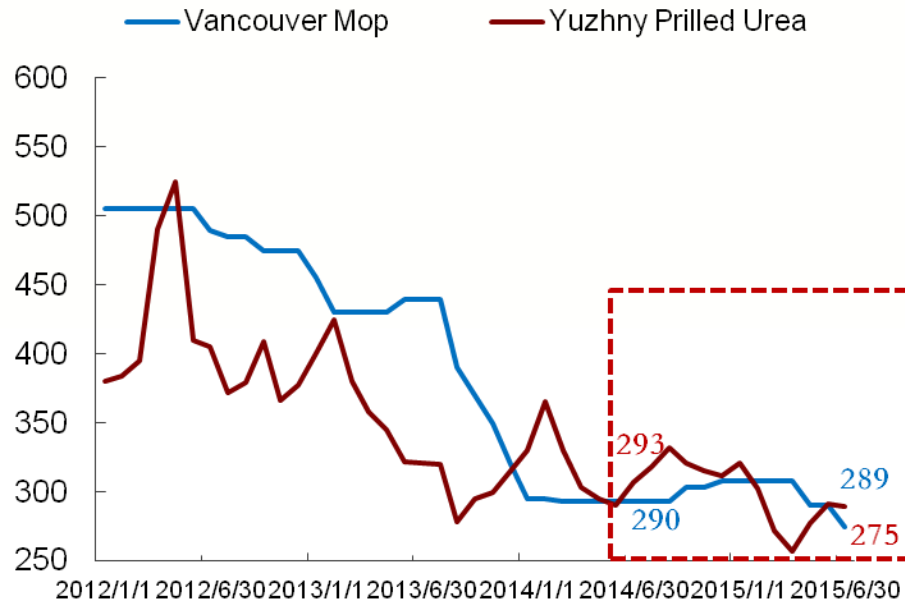
■ Supply ■ Demand



Source: IFA

## International Fertilizer Prices Dropped and Constantly Fluctuated

Price Trend for Global Fertilizers (US \$/t)



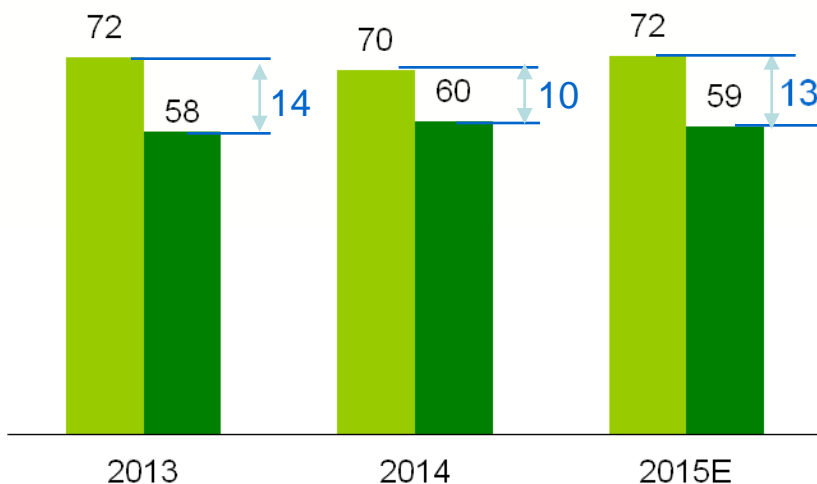
Source: Bai Info

# 1. Market Environment: Fertilizer Market in Downward Trend and Price Fluctuated (2/4)

## Domestic Oversupply Aggravated

Supply and Demand of Domestic Fertilizers  
(million tons by nutrient)

■ Supply      ■ Demand

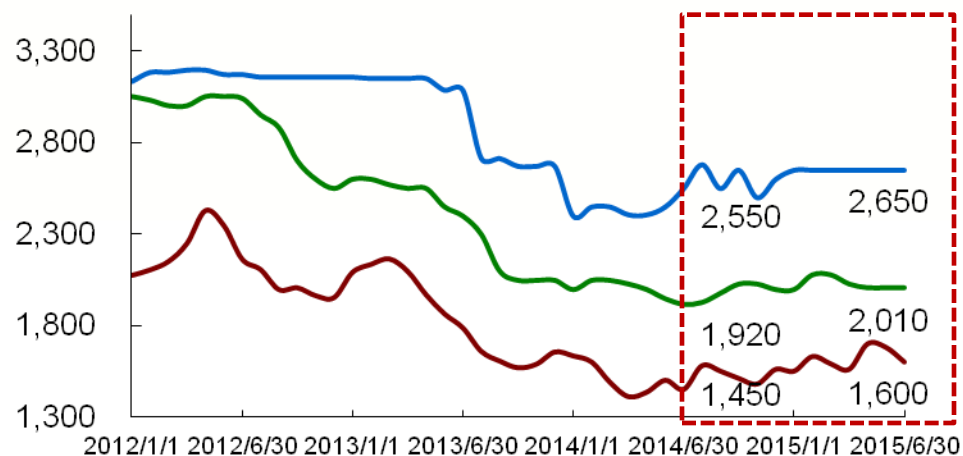


Source: Data of 2013-2014 from Wind; 2015E by Sinofert

## Domestic Fertilizer Prices Slightly Grew

Price Trend of Domestic Fertilizers  
(RMB/t)

— Ex-factory Price of DAP in Hubei  
— Port Price of Russian Pink Potash  
— Ex-factory Price of DAP in Shandong

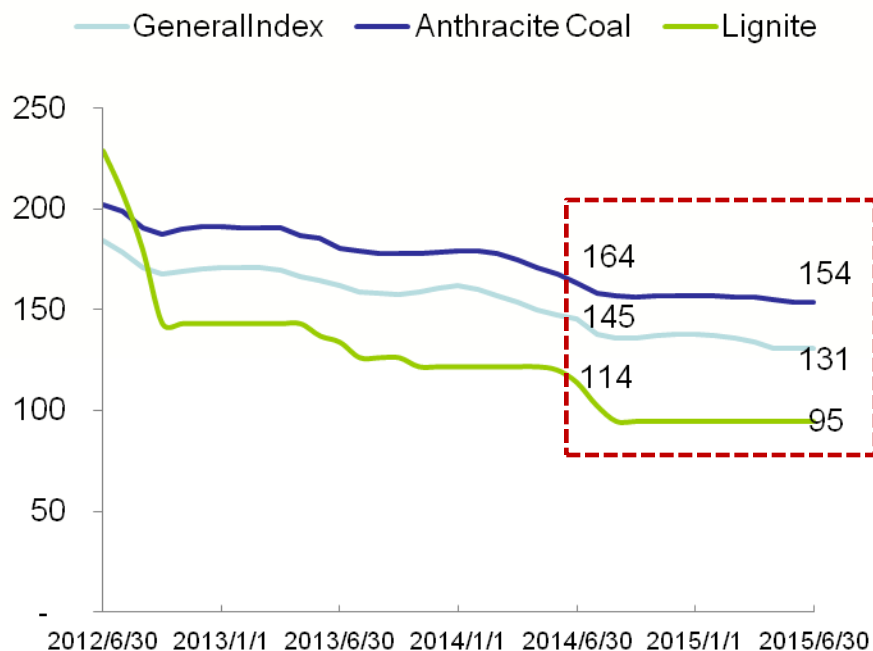


Source: Wind

# 1. Market Environment: Major Raw Material Price Affecting Industry Reviving(3/4)

## Overall Coal Price Index Slumped

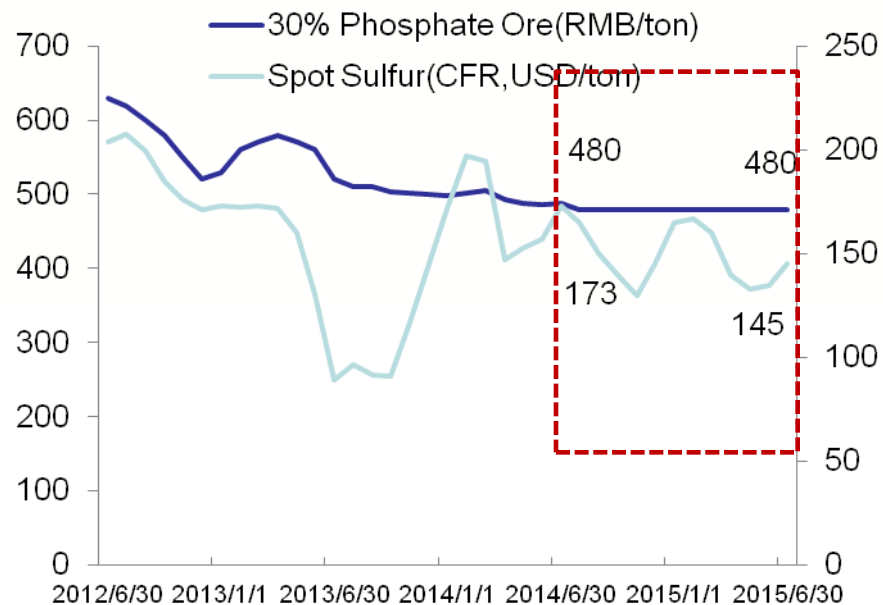
### China Coal Price Index



Source: Wind

## Sulfur Price Slightly Fluctuated, Phosphate Ore Price Maintained Stable

### China Sulfur and Phosphate Ore Price



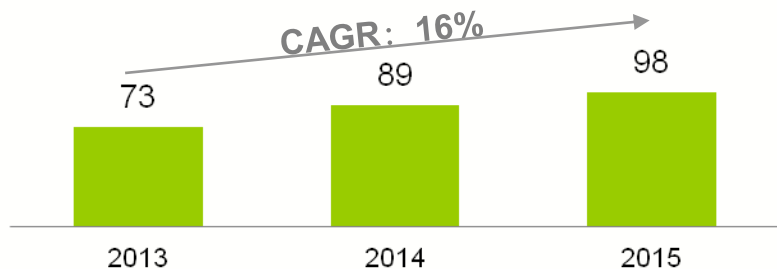
Source: Wind

# 1. Market Environment :Operating Pressures among Domestic Fertilizer Manufacturers (4/4)

## High Operating Pressures

- Rail Freight Price of Fertilizers Further Increased with Cancellation of Preferential Policies

(Unit: RMB / T \* Thousand Kilometers)



Source: Wind

- On Apr 1, 2015, gas price of fertilizers rose 0.2 RMB/M<sup>3</sup>
- On Apr 13, 2015, electricity price of fertilizers increased 0.1RMB/KWH: No.[2015]748 file of National Development and Reform Commission indicated that electricity price preference for fertilizers will be gradually cancelled and finally overall cancelled until April 20, 2016
- In 2015, the risk of RMB depreciation is aggravating and has a certain impact on the import business

## High Environmental Pressures

- On Jan 1, 2015, the New Environmental Protection Law enacted: 57 companies in Lin Yi, Shandong Province shut down, fertilizer industry is facing the test of environmental protection
- On Jan 22, 2015, the standard of pollutant discharge fees further increased, Ministry of Environmental Protection issued *Notice of the specific issues concerning the impletion of the standard policy on the adjustment of pollutant discharge fees* (Huan Ban[2015] No. 10)
- On Mar 18, 2015, Ministry of Agriculture proposed **Action plan: zero growth of fertilizer application amount till 2020**: from 2015 to 2019, gradually control the annual rate of growth of the fertilizer application amount within 1%; strive to achieve zero growth of the fertilizer application amount for main crops till 2020





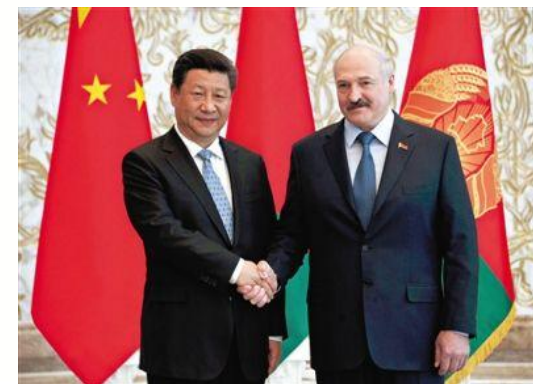
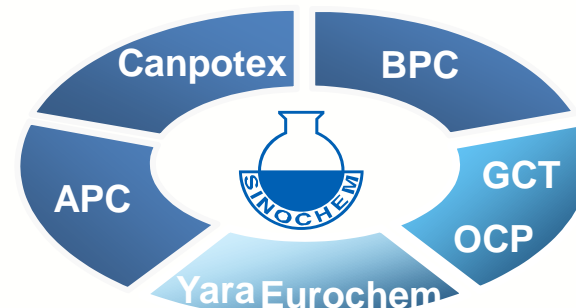
## 2. Trading and Marketing Business: Completed the Supply Chain Management System, Strengthen Strategic Cooperation with Global Suppliers (1/2)

### Strengthen Strategic Cooperations with Global Suppliers to Support the Obtainment of Superior Resources

- In March, we reached an agreement about 2015 joint negotiating for potash fertilizer, which continued to keep low price and dominance among world potash fertilizers; In May, President Xi Jinping and President Belarus Lukashenko, signed a five-year(2015-2019) Memorandum of Cooperation to strengthen the strategic cooperation with global potash fertilizer suppliers and laid a solid foundation for operation
- Consolidating a strategic partnership with Morocco OCP and Tunisia GCT to ensure the supply of superior imported phosphate fertilizer
- Keeping cooperative agent relationship with YARA and Eurochem to ensure the supply of superior imported NPK

### Build a Supply Chain Management System Matched with Corporation Strategies

- **Procurement Management:** control risks, lower costs, emphasize optimization process, normalize procurement management
- **Port Operation:** co-ordinate and optimize the port layout, implement delicate operations and promote the container business
- **Overall Logistics:** establish the optimal off-plants logistics mechanism, and prepare SRM system for logistics suppliers



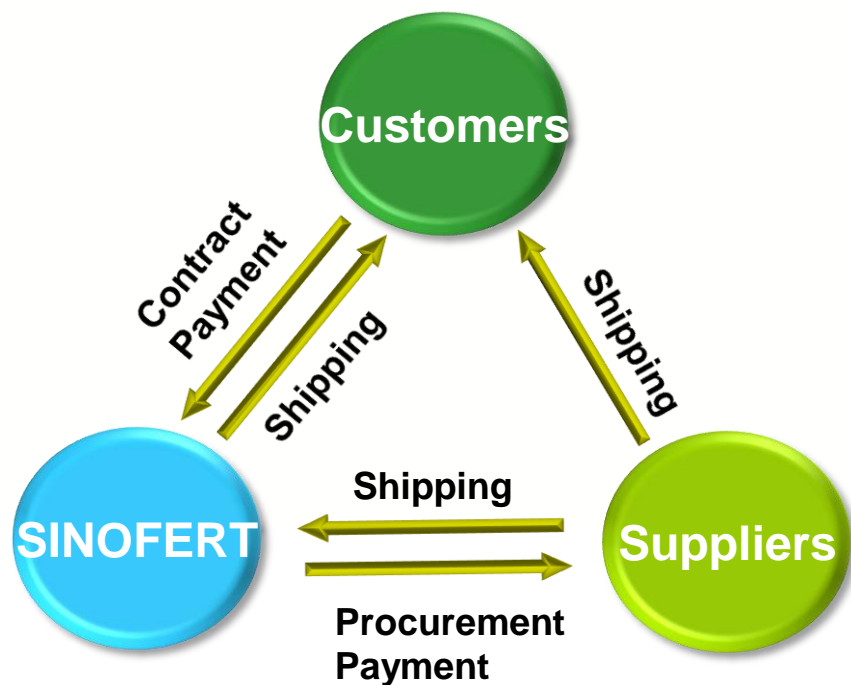
① President Xi Jinping met with President Belarus Lukashenko



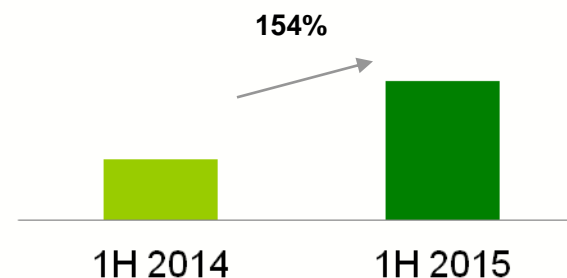
② Chairman Liu Deshu signed a Memorandum of Cooperation with Ms. Elena Kudryavets, the general manager of BPC

### 3. Trading and Marketing Business: Enhancing Integration of Upstream and Downstream, Controlling Risks and Pursuing Prudent Operation(2/2)

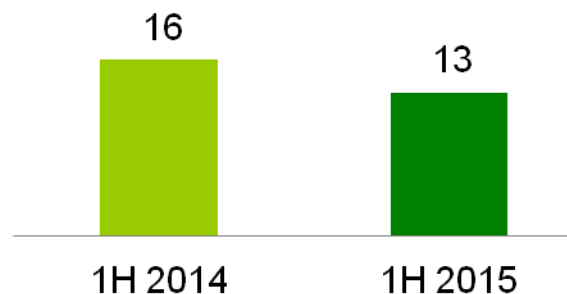
#### Procuring upon Confirmed Sales and Controlling Risks under Fluctuating Market Condition



Gross Profit of Nitrogenous (RMB million)



Inventory Turnover Days of Nitrogen ( Days)



- Adopted the strategy of “confirming the procurement upon the sales” to control the risks and realized profits under fluctuating market conditions
- Reduced the risk of inventory devaluation and accelerated the turnover of inventory

## Acquired and Developed Competitive Resources and Advanced Productivity

- SinoFert has been granted authorization from SASAC about acquiring share of Qinghai salt lake from Sinochem Corp. on June 30, 2015



- Based on its resources reserve, Sinochem Yunlong actively promoted phosphate mining in Dawan and deep mining projects in Mozushao
- ✓ Dawan phosphate ore mine has already been developed nomarly in 2015 and sold phosphate ore other than meeting self-consumption
- ✓ Feasible design and project approval of setting 0.6 million tons of Mozushao phosphate ore sustainable mining project has already been completed



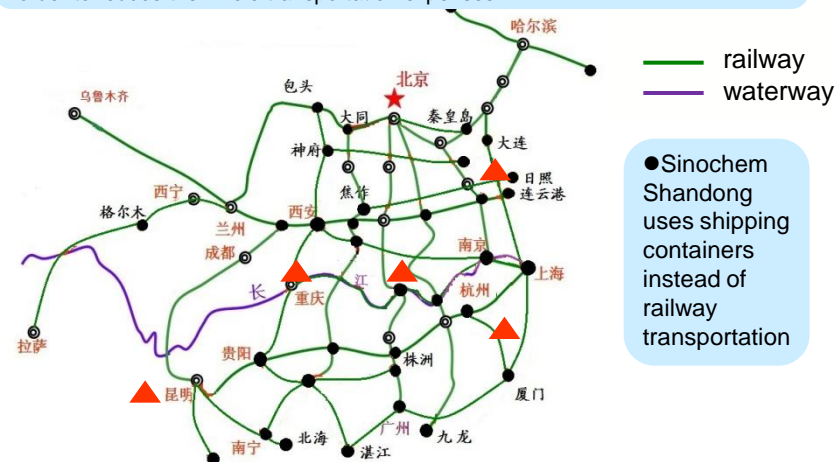
- Sinochem Changshan actively promoted 18-30 urea rebuilding and expending projects, adopted an advanced technique of raw coal gasification and conversion, reduced production cost significantly based on production enlargement

(2/2)

## Overall Optimize Resources Procurement and Supply Chain Management

- **Procurement Management:** Integrating procurement, expanding low price channels of bulk materials, controlling reasonable inventory, seeking alternative raw materials, strengthening market forecast and adjusting suppliers structure. The accumulative result of cost reduction is RMB 31.63 million in the first half of 2015
- **Supply Chain Management:** Enforcing cost reduction systematization and improving optimization ability of external transportation of holding companies. Key points are four aspects, contract transportation, railway containers, small goods express and multmodal transportation, the accumulative transportation expense reduction is RMB 9.06 million in the first half of 2015

● Sinochem Fuling takes advantage of cargo quantity, obtains privilege of railway station transportation expenses and service charge; diammonium that are sent to northeast China shipped by the Yangtze river waterway transportation in order to reduce the whole transportation expenses



● Sinochem Shandong uses shipping containers instead of railway transportation

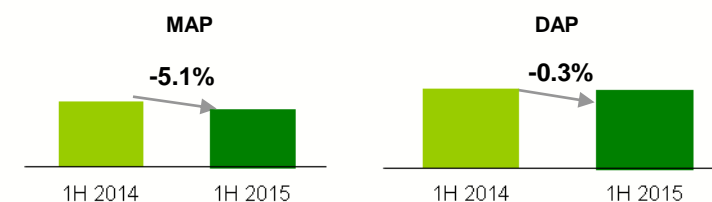
● Sinochem Yunlong increases quantity of shipments of full-car and container in Tangzi station, reduced average cost about 50 yuan/ton; improve the quantity of shipments of river-railway and railway-sea combined transportation

● Sinochem Zhisheng and Sinochem Oriental choose optimal railway bill separation

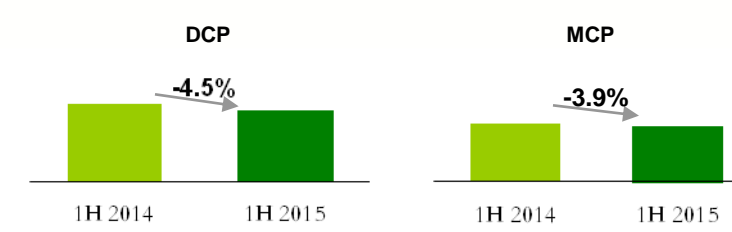
## Three Basic Tasks Improve Production Indexes Such as Material Consumption

- Continuously strengthening three basic management tasks, improving material and energy consumption, unplanned off-work and equipment management level, further improving the quality of products

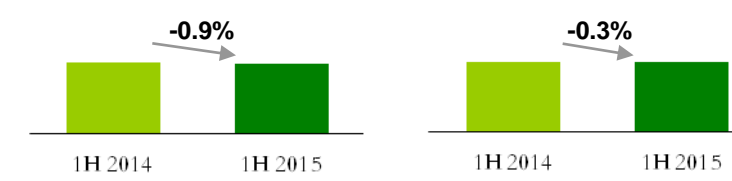
**Mine Consumption for Phosphate Of Sinochem Fuling (t/t)**



**Mine Consumption for MCP/DCP of Sinochem Yunlong (t/t)**



**Energy Consumption for Urea of Sinochem Changshan**  
Coal (t/t) and Electricity (kwh/t)



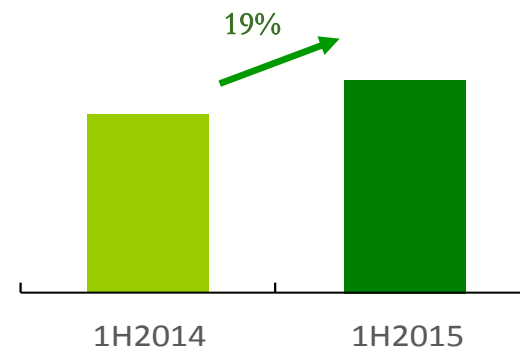
# 4. Integrated Collaboration Initially Succeed(1/2)

For NPK, gradually built an integrated mechanism of coordination of production and marketing, scale of operation is increasing PoP, further released productivity

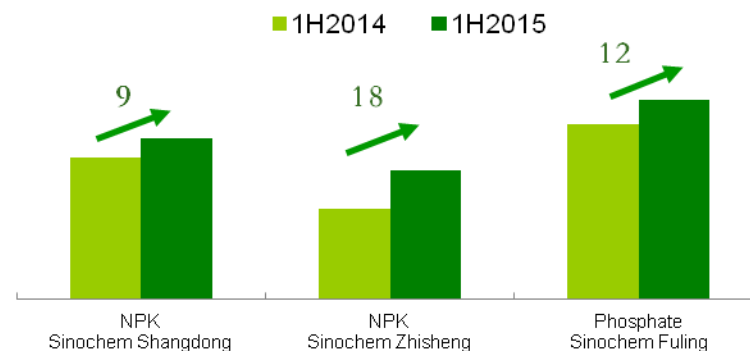
- Continuously promoting NPK business integration, building a centralized business units operation system, transforming from channel marketing to collaboration of production and marketing
- Strengthening promotion in Point-of-Sale terminal, the scale and profit of NPK rose significantly PoP
- Sales volume of inside products rose largely PoP, forced the factories further release productivity



### NPK Sales Volume of Integrated Collaboration (10,000 Tons)



### Productivity Usage of Inside Factories increasing YoY (percent)



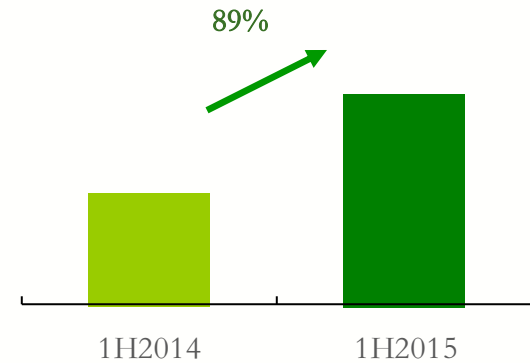
# 4. Integrated Collaboration Initially Succeed(2/2)

## Phosphate: Promoted integration steadily, business volume increased significantly PoP

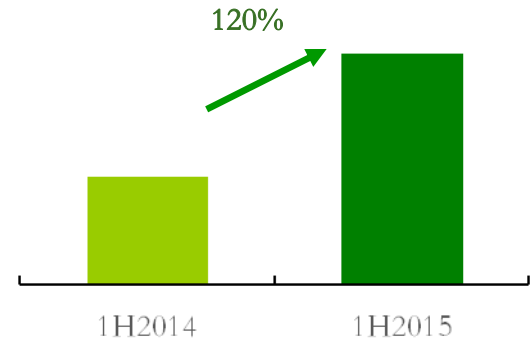
- Strengthening phosphate strategic and exclusive distribution, achieving fully manufacturing and sale
- Using advantage of export integration, ensuring product supplying
- Controlling risks by directly delivering and directly selling, fully using the advantages of logistics



Phosphate Sales Volume of Integrated Collaboration (10,000 Tons)

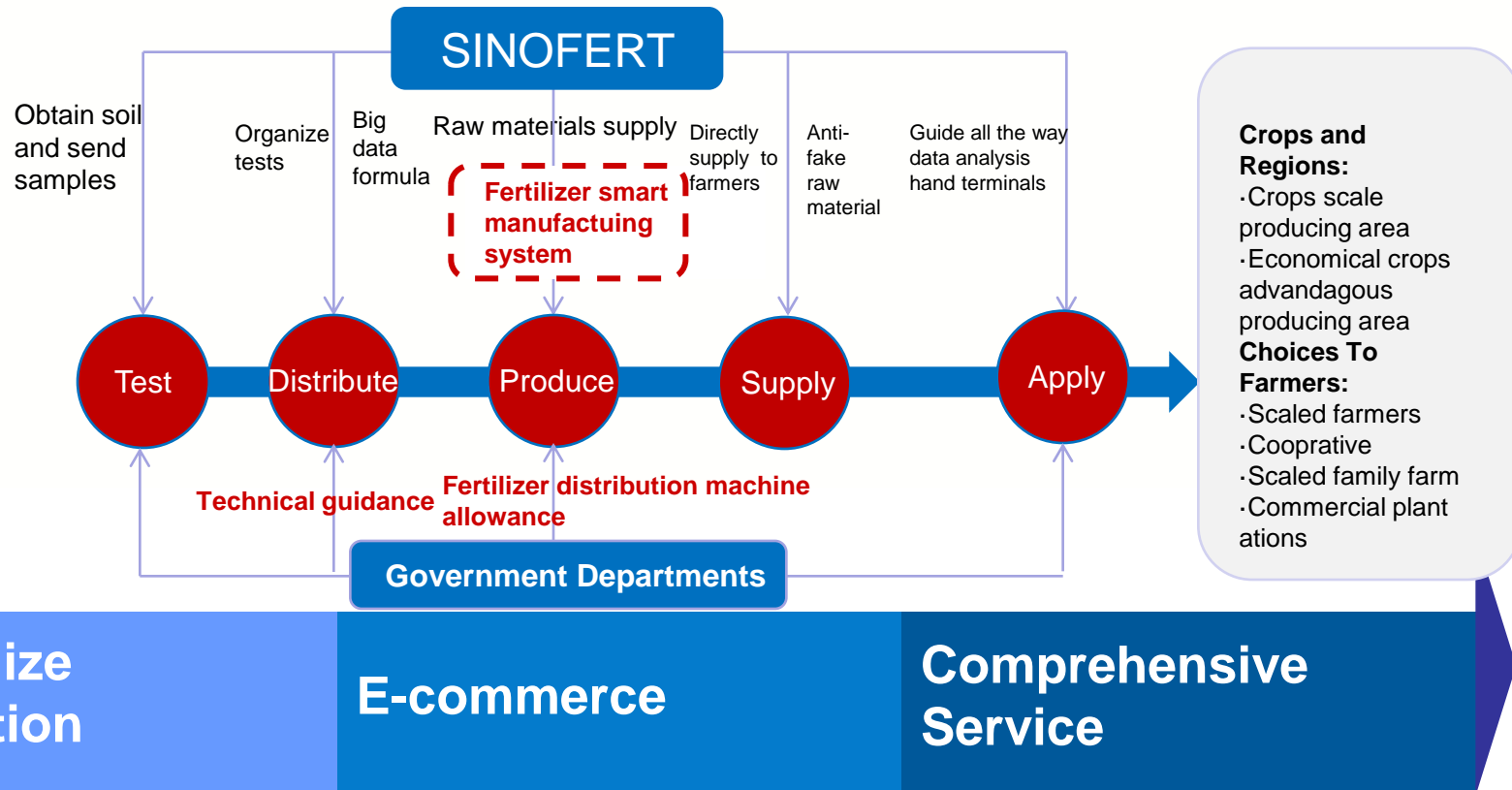


Export Phosphate Sales Volume (10,000 Tons)



## 5. New Business Exploration Obtained Interim Achievements (1/4)

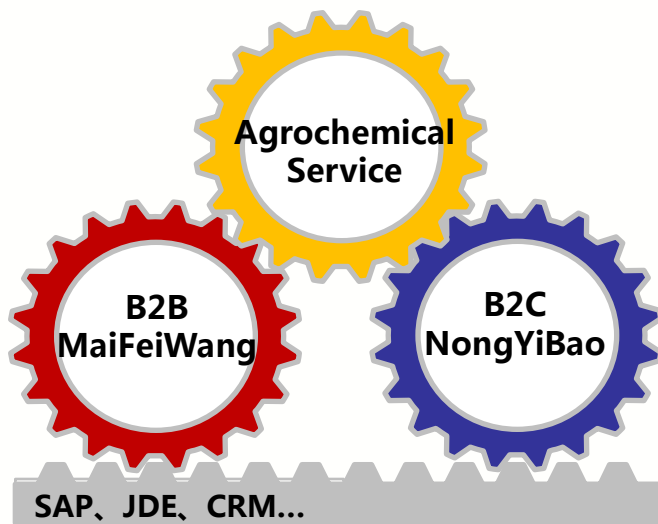
To face fertilizer application "zero growth", based on traditional soil test and fertilizer application, regard smart fertilizer application machine as the core node, build a smart fertilizer manufacture system that combines customized production, e-commerce and comprehensive service, use information technologies such as cloud calculating, Internet of things and big data, optimize five links of "test, distribute, produce, supply and apply" of soil test and fertilizer application, achieve "fertilizer manufacture 2025"



- The project "fertilizer smart manufacture and agricultural comprehensive service system", regard as the core system, was chosen as one of 2015 smart manufacture pilot demonstration projects of the Ministry of Industry and Information Technology, become the only selected project in agricultural materials industry



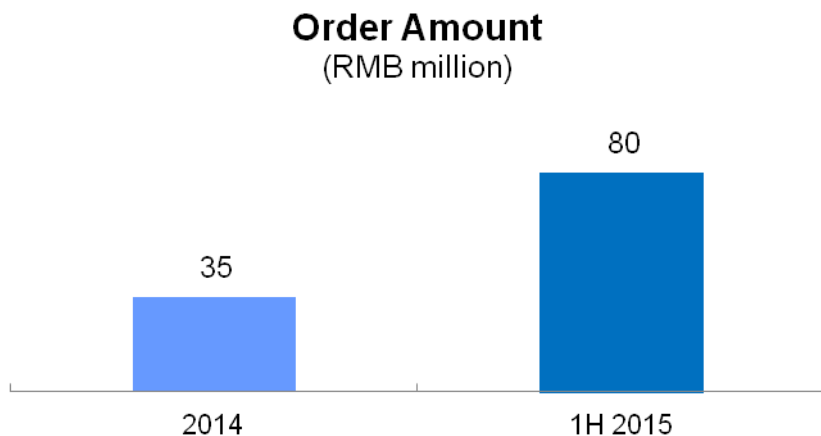
## 5. New Business Exploration Obtained Interim Achievements (2/4)



The company further promoted “Internet+Agriculture” integrated ecosystem construction work. The results were as follows:

- **B2B-MaiFeiWang**: According to operation strategies, Shandong and Henan involved in this internet platform, the distribution efficiency of Sinochem Shandong optimized
- **B2C-NongYiBao**: Currently, three outlets in Henan province are preparing to operate this internet platform, Guangxi, Hubei, Hainan and etc. will promote it later in this year
- **Agrochemical Service**: Bound with NongYiBao for *Agricultural Service Assistant*, which could send information to farmers about weather reports, soil, weather disasters and fertilizer prices. Cooperated with financial institutions and insurance companies to explore agriculture service mode

### The sales volume of B2B-MaiFeiWang obviously increased in 1H 2015



- B2C-NongYiBao supported mobile phone users to buy agricultural products through APP and also provided shop experiences. This platform involved various modes of online distribution channels, such as online retailer distribution, group-buying and established internet promotion system by sorts of credits and coupons. NongYiBao achieved a win-win situation with distributors





# 5. New Business Exploration Obtained Interim Achievements (3/4)

Distribution networks combine market demand, actively explores and makes some progress in business model innovation

**Northwest Region:**  
Strengthening the pattern of direct selling to key clients, joining agricultural cooperative organizations, organizing seminars and training sessions about key crops for professional farmers according to customer demand, accelerating direct selling



**Northeast Region:** Demonstrating scientific fertilizer application scheme and providing agrichemical service, Achieving profitability by fertilizer supply and charging fees by acreage for technical service

**South China:** Providing fertilizer application scheme of using liquid fertilizer, making demonstration and promotion, actively developing marketing channel for new products

## 5. New Business Exploration Obtained Interim Achievements (4/4)

### Scientific Fertilization

➤ The pattern of Heilongjiang fertilizer station operation union has already formed, try to use this pattern in Liaoning, Jilin, Gansu, northwest Ningxia and so on

### New Professional Farmers Cultivation

➤ Carrying out regional new professional farmers training, cultivating more than 350 scaled farmers  
 ➤ Participating in the project “Modern young farmer plan” of Department of science and technology of Agriculture, cultivating more than 300 young farmers and providing cultivating tracking service

### Rural Finance

➤ By means of cooperation with financial institutions such as Postal Savings Bank, China Minsheng Bank, China Guangfa Bank, China CITIC Bank, providing customers credit extension loan 210 million yuan in total, stimulating current sales 110 million yuan

Soil testing  
and fertilizing  
activities  
1,285 times



Field  
guidance  
2,342 times



Agrochemical  
lectures  
631 times



Farmers'  
meeting  
468 times



764  
Experimental  
demonstration  
in fields



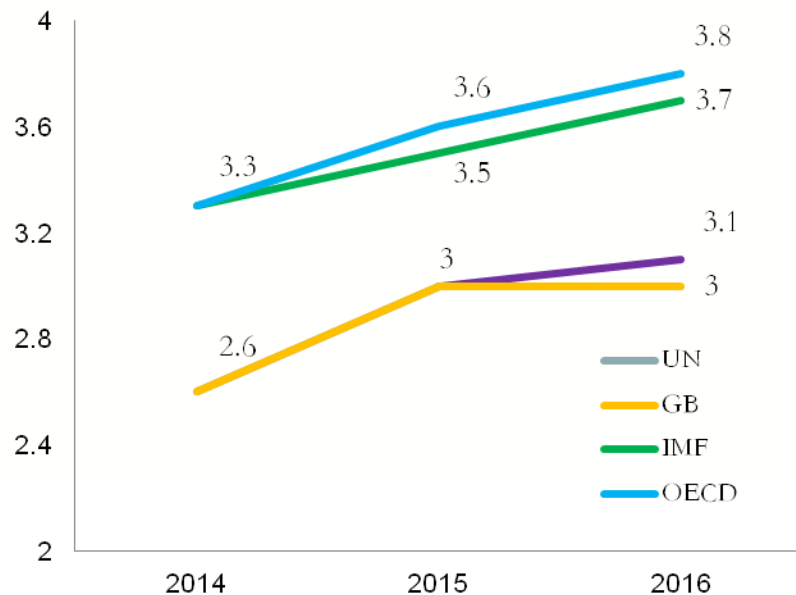
**I. Financial Performance**

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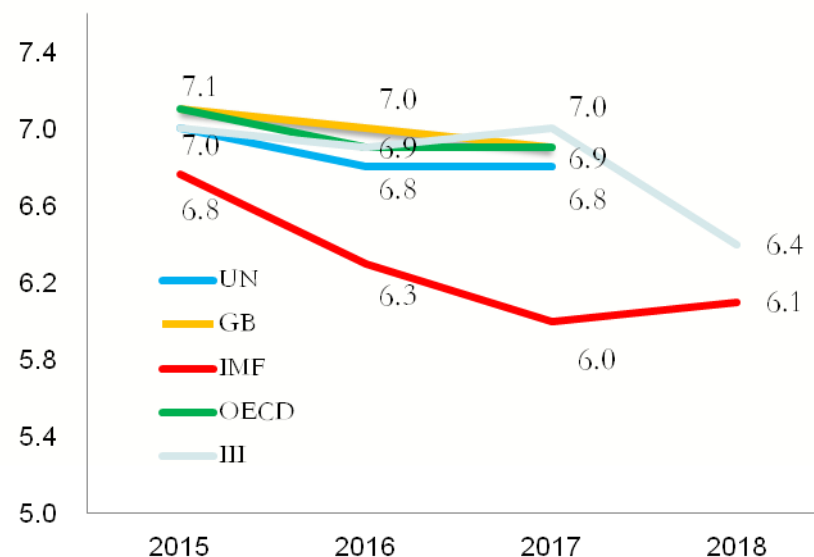
# Macro-economy: Chinese Economic Development Will Enter a New Normal Period

## Prospects of Global GDP(%)



- **Global:** Global economics is on a rough road to recover. In prospect period, global economics will be increasing at a low speed. The subsequent effects of global financial crisis and european debt crisis are still not absolutely eliminated. Global economics still lack of recovering motives

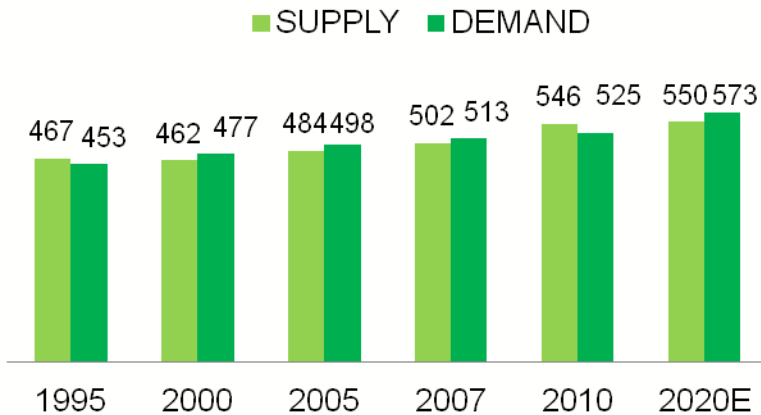
## Prospects of Chinese GDP(%)



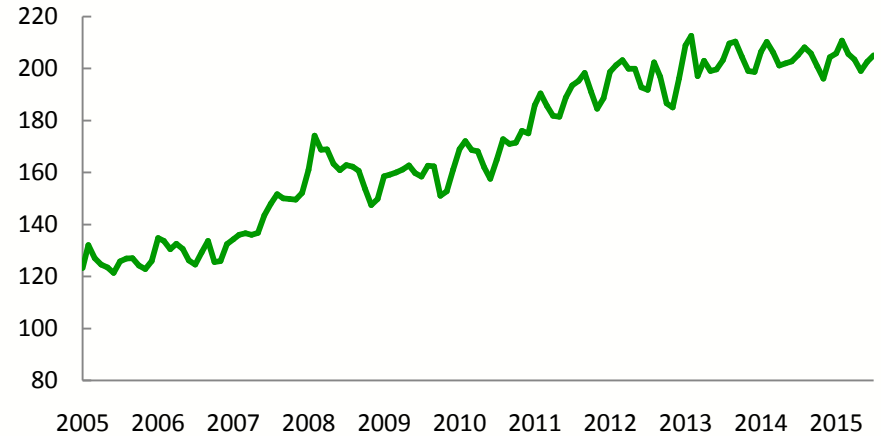
- **China:** Chinese economic enters into new normal, in process of turning from high speed growth to medium-high speed growth, get advantages for industrial structure adjustment including agriculture and economic growth transforming

# Agriculture: Heading Towards A Favorable Direction Over A Long Period Of Time

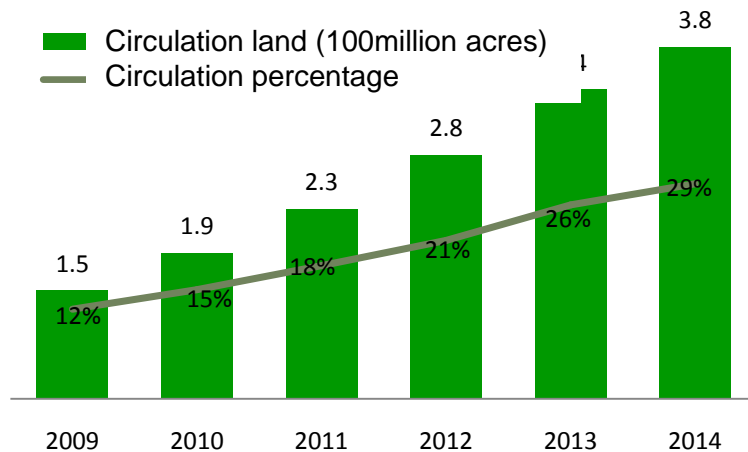
## Chinese Grain Supply and Demand is in a Tight Balance ( Million Ton)



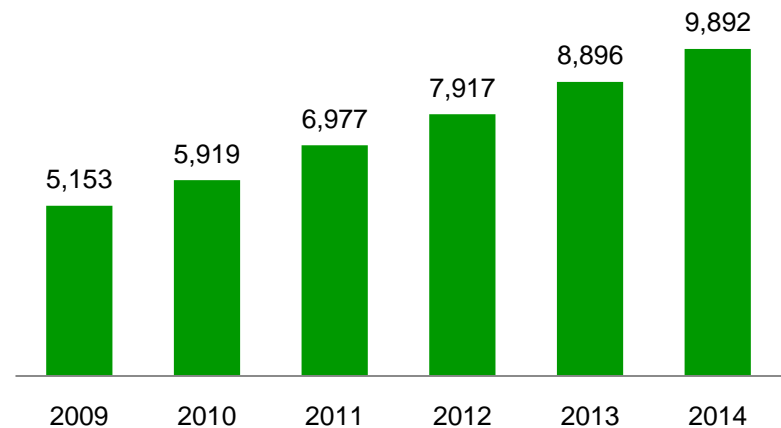
## General Index of Agricultural Products Wholesale Price is increasing steadily



## Chinese Land Circulation Continuously Accelerating

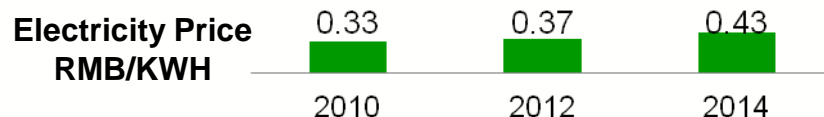
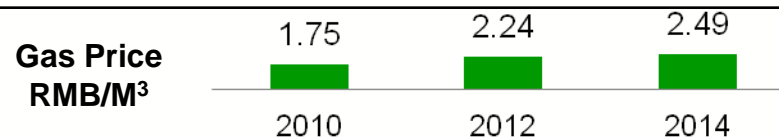
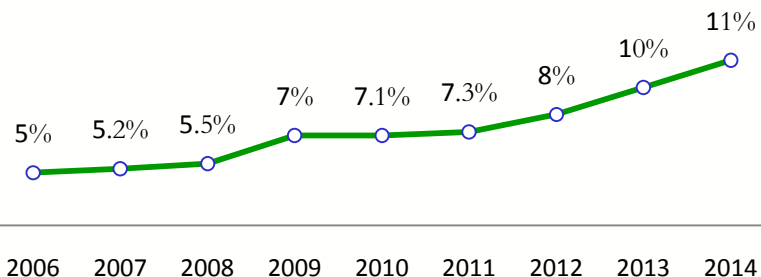


## Annual Net Income Per Capita of Rural Households Rising Year By Year (Yuan)



## Traditional Preferential Policies of Railway Freight, Electricity and Gas Prices are Gradually Cancelled

Railway Freight Rates Ratio of Agricultural Fertilizer in 2006-2014



## Fertilizer export tariff policy continues to loose

Product	2014	2015
Nitrogen	Peak Season (Jan to Jun, Nov, Dec): 15%+40RMB/ton	80RMB/ton
	Off-season (Jul to oct):40RMB/ton	
MAP DAP	Peak Season (Jan 1 to May 15, Oct 16 to Dec 31): 15%+50RMB/ton	100RMB/ton
	Off-season (May 16 to Oct 15): 50RMB/ton	
Potash Potassium	600RMB/ton	600RMB/ton

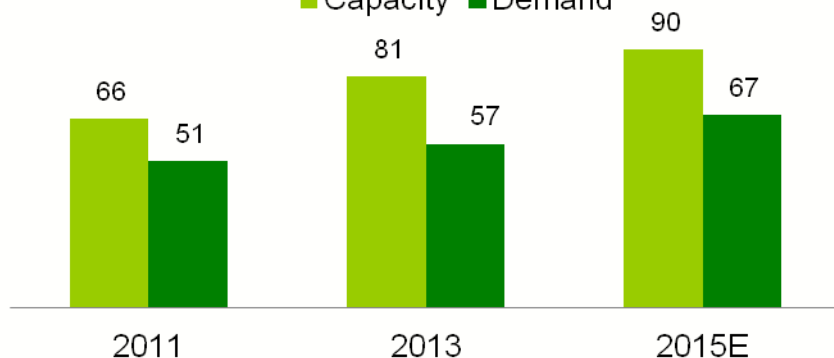
## VAT of Fertilizer is Restored

- In order to optimize the agricultural production structure and promote the sustainable development of agriculture, the VAT-exempt policy was ceased to implement by the approval of the State Council
- Since Sep 1, 2015, 13% VAT rate will be applied both on fertilizer sale and import. Meanwhile, tax refund policy of Potash will be ceased

## The Domestic Fertilizer Production Over-capacity is Difficult to Reverse in short-term

The Prediction of Domestic Nitrogen Supply (million tons)

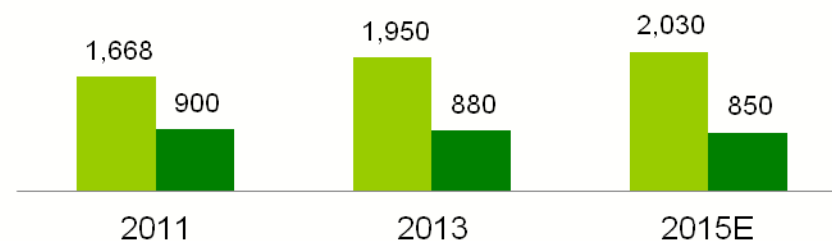
Capacity Demand



Source: Nitrogen Fertilizer Industry Association; 2015E by Sinofert

The Prediction of Domestic Phosphate Supply (million tons)

Capacity Demand



Source: Phosphate Fertilizer Industry Association; 2015E by Sinofert

## The Overall Plan by Government to Control Pollution



- The Ministry of agriculture requires to reduce the usage of fertilizers and pesticides to ensure that the utilization of fertilizers and pesticides reaches over 40% and the usage for main crops accomplishes to zero growth by 2020, along with great changes in fertilizer application structure

# Company: Comply with Industry Trends, Deepen Strategic Transformation

With the constant development of Chinese agriculture and fertilizer industry, the company generated a “123” development strategy to comply the trends, 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

## Industry Development Trend

- Agricultural modernization
- Fertilizer Marketization
- Fertilizer Demand Diversification

## “123” Development Strategy of the Company

### One Core

- **Transforming & Upgrading:** In recent years, 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

### 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

### 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





## Operation

- Seize the opportunity in the steady fertilizer market currently, accelerate the downstream marketing transformation, use the agricultural opportunity in autumn to ensure current operation results



## Management

- Further strengthen the basic management; Continue to promote the act of Cost-Reduction & Efficiency-Improvement



## Long-term Ability

- In the current market environment, pay close attentions to the opportunities of industry consolidation to accelerate the industrial layout of new products



**Nurturing China's Modern Agriculture!**

Thank you !