



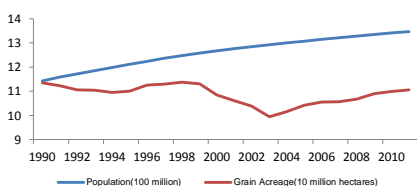
Serving Chinese Farmers —Sinofert's Experience



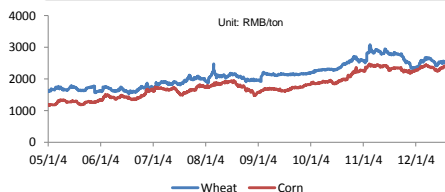
October, 2012

China's Fertilizer Industry Has Good Prospect in the Mid-and-Long Term

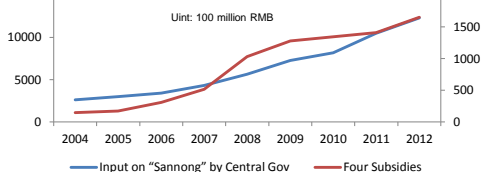
China's Population and Grain Acreage



Price of China's Main Grains Futures



Input on "Sannong" by Central Government



Notes: Sannong refers to agriculture, rural areas and farmers; Four Subsidies refer to subsidy policies for direct food, direct agricultural material, selective seed and farm machinery purchase

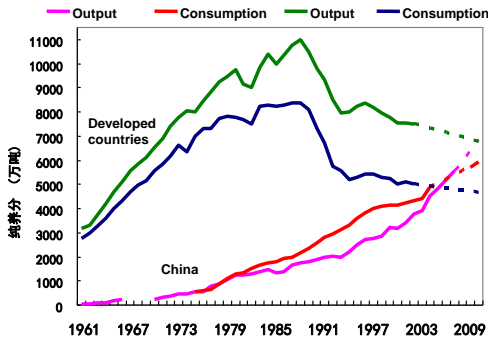
- China's population keeps increasing with net increase of more than 6 million and natural growth rate of more than 5% (estimated to reach 1.39 billion in 2015), but the grain acreage is stable with a slight decline. The gap between the two indicators mentioned above becomes larger and larger, which leads to the tight balance of food supply. Meanwhile the central government requires to secure 95% (and above) self-sufficiency in China's grains, thus the issue of food security becoming more acute
- In the long run, the price of China's main grains futures keeps the trend of increasing, which helps to improve the planting earnings for farmers
- Input on "Sannong" by central government increases year by year, with compound annual growth rate (CAGR) of 18.70% for total input, and CAGR of 31.01% for "Four Subsidies"

Fertilizer demand keeps increasing

Agriculture enjoys unique strategic position in China, and continuous support from the price of crops, the area of arable land as well as the policies of government leads to good prospect for China's fertilizer industry in the long run

Structure Adjustment of China's Fertilizer Industry Is Imperative

China has become the biggest fertilizer production and consumption country



Total fertilizer output in China increased from 12.321 million tons (by nutrient) to 65.991 million tons in 2009, with compound annual growth rate of 5.42%. In 2010, total fertilizer output in China is 66.198 million tons, increasing 2.52% year on year

China has become the biggest fertilizer production and consumption country; by the end of 2015, the capacity of nitrogen and phosphate will still be excessive with excess ratio of 122% and 165% respectively, while self-sufficiency ratio of potash will be above 75%. Therefore, structure adjustment of nitrogen and phosphate is imperative, and the capacity will be gathered into enterprises with technology advantage or scale advantage, or next to the location of resources

Supply and demand of nitrogen in China by the end of 2015(unit: 10,000 tons)

	2010 (by nutrient)	2015 (by nutrient)
Capacity	4700	4800
Output	3710	4430
Domestic consumption	3270	3930
Excess ratio by capacity	1430	970
Excess ratio by output	990	470

Supply and demand of phosphate in China by the end of 2015(unit: 10,000 tons)

	2010 (by nutrient)	2015 (by nutrient)
Capacity	2000	2150
Output	1582	1600
Domestic consumption	1200	1300
Excess ratio by capacity	800	850
Excess ratio by output	382	300

Development Phases of China's Fertilizer Distribution System

Since 1950, China's fertilizer distribution system has generally experienced the following 3 phases: phase of fully planned management, phase of combination of planning and market management, phase of market resource allocation

Fully Planned Management (1952-1982)

- Based on domestic production, fertilizer was in short supply and classified as material instead of commodity
- The government implemented strict planning management on the production and sales of fertilizer to unify the plan, purchase, allocation and price
- As the exclusive distributor, the supply and marketing co-ops comprised of four-tiered wholesale and single-tiered retail distribution system

Combination of Planning and Market Management (1983-1998)

- Fertilizer was still in short supply, and the flaws of fully planned management gradually emerged
- The government adopted the way of combination of planning and market management
- Distribution system changed from exclusive operation to: the supply and marketing co-ops as the main channel, 3 stations of agriculture and manufacturing enterprises as the supplementary channel

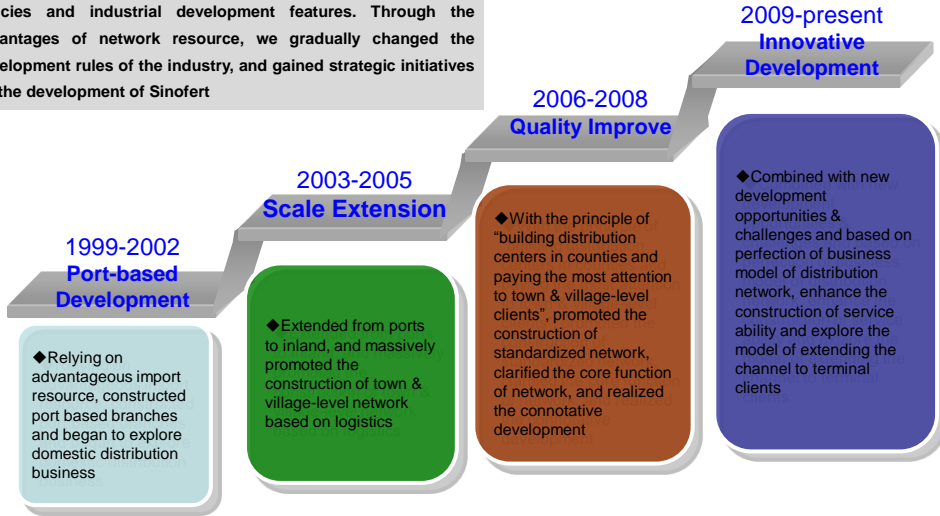
Market Resource Allocation (1998 to present)

- Fertilizer was gradually oversupply
- Indirect planning replaced direct planning, and market allocation began to work
- The fertilizer market began to open gradually, with more abundant business models and more fierce market competition

Notes: As the basic-level agricultural service sector set by the government, 3 stations of agriculture represents Agricultural Plant Protection Station, Soil Testing Station, and Agricultural Technology Promotion Station.

Development Phase of Distribution Channel

In every historical period, Sinofert seized the opportunity to make up targeted network development strategy, combined with macro policies and industrial development features. Through the advantages of network resource, we gradually changed the development rules of the industry, and gained strategic initiatives for the development of Sinofert

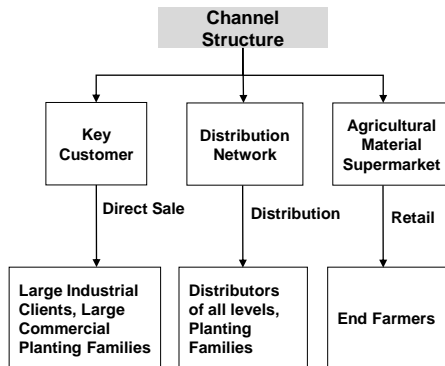


Introduction on Fertilizer Distribution System

Trend on the Development of Sinofert's Distribution System

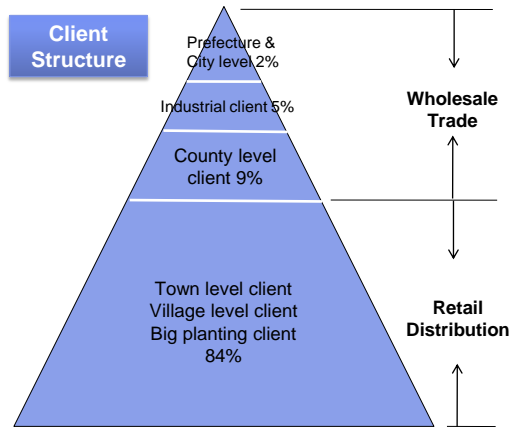
Combined with internal and external environment, the objective of Sinofert's distribution system is to focus on end customers, and become the leading enterprise in the agricultural material circulation field of China through building the channel with profession, technology, facility, and end-customers

- **Profession:** Professional personnel, service, products, and operational system
- **Technology:** Based on connotative technology, create value for the long-term development of agriculture and farmers, and acquire the position in the industrial chain
- **Facility:** Logistics facility, service facility, office facility, R&D facility, information facility
- **End-customers:** Apart from enhancing the conventional market, constantly penetrate into end customers in order to seek a steady, sustainable market position and earnings



Distribution Channel—Client System

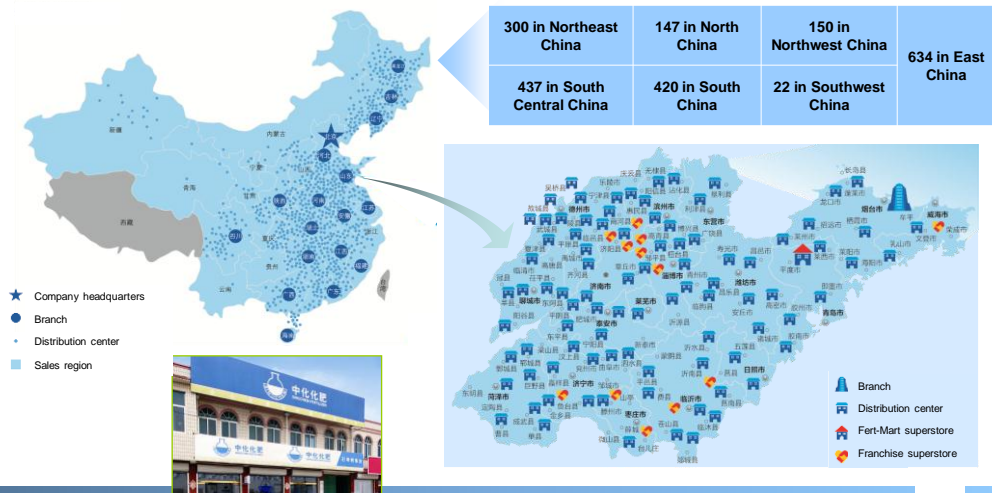
With the client system developing in the direction of diversification, terminalization, and sophistication, Sinofert has established client-oriented client developing and maintenance system. The growth rate of terminal clients has been 6% for many years, which leads to annual growth rate of 20% regarding to earnings. Sinofert has formed loyal core client groups based on “Sinochem” brand, which lays the foundation for building constant and stable profitability



- ◆ With client demand-oriented strategy, innovate marketing channel, lay a solid foundation for network, and build vertical and comprehensive retail distribution network with the model of “direct sale + distribution + retail sale”
- ◆ With retail distribution as the main channel, terminal clients of town & village level as well as big planting account for 84%
- ◆ The number of terminal clients increase year by year, and its contribution ability improves steadily regarding to sales volume and earnings, which strengthens its operational stability

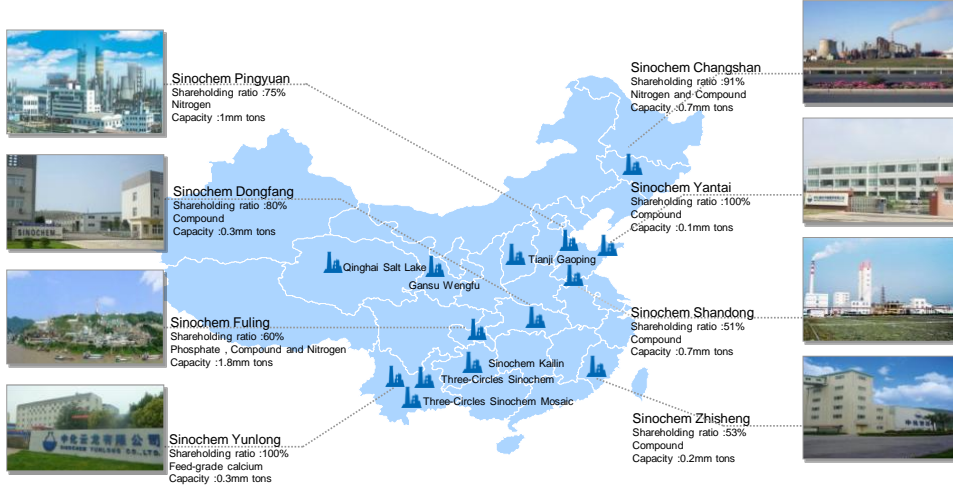
Distribution Channel—Distribution Network

Sinofert has set up 17 branches and more than 2100 distribution outlets, with business covering 28 agricultural provinces and more than 10 million tons of fertilizer distributed each year. Meanwhile, Sinofert is exploring the integrated supply of agricultural materials including pesticides and seeds



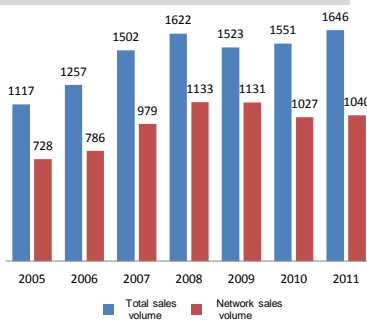
Distribution Channel—Sharing and Controlling Plants

By the end of 2011, Sinofert has 13 sharing and controlling manufacturing plants in total, located in 10 provinces such as Chongqing, Shandong, Jilin, Shanxi, Fujian, Hubei, Yunnan, Guizhou, Qinghai, and Gansu. With total annual production capacity of more than 11 million tons, Sinofert is one of the largest fertilizer producers in China, and has abundant products covering N, P, NPK, K, BB fertilizer and trace element fertilizer

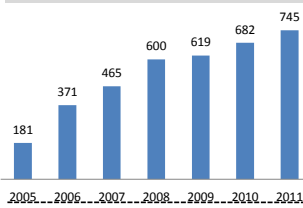


Volume of Sales and Distribution

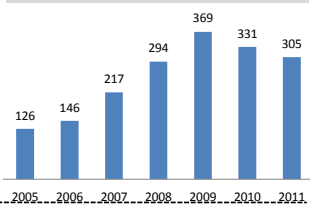
Volume of Total Sales and Network Sales (10,000 tons)



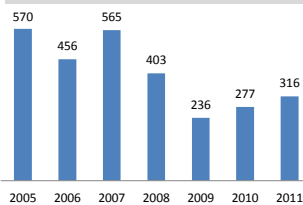
Nitrogen(10,000 tons)



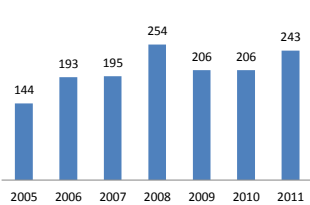
Phosphate(10,000 tons)



Potash(10,000 tons)



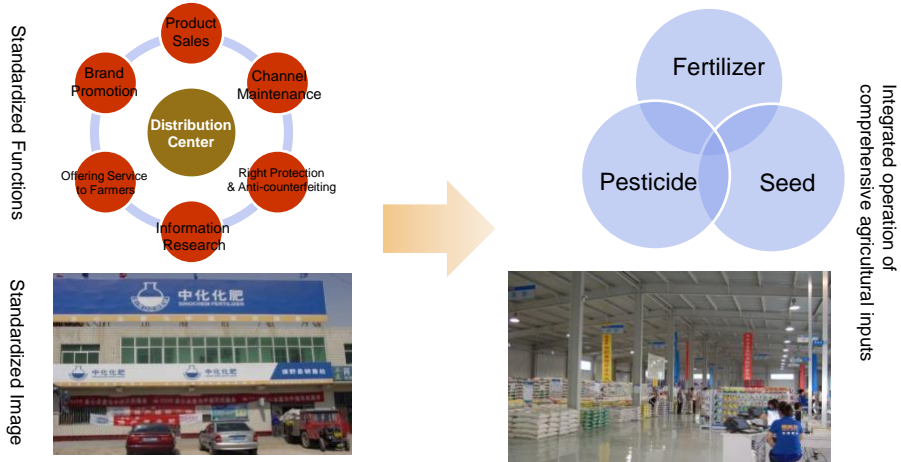
Compound Fertilizer(10,000 tons)



- Total sales volume keeps increasing steadily, with No. 1 market share in China for many consecutive years
- After the previous rapid expansion period, sales volume of distribution network becomes stable gradually, and the focus of network has been shifted from scale expansion to improvement of operating quality
- In general, sales volume of nitrogen, phosphate and compound fertilizer increases steadily. Although sales volume of potash decreases to some extent, potash is still the core product of Sinofert

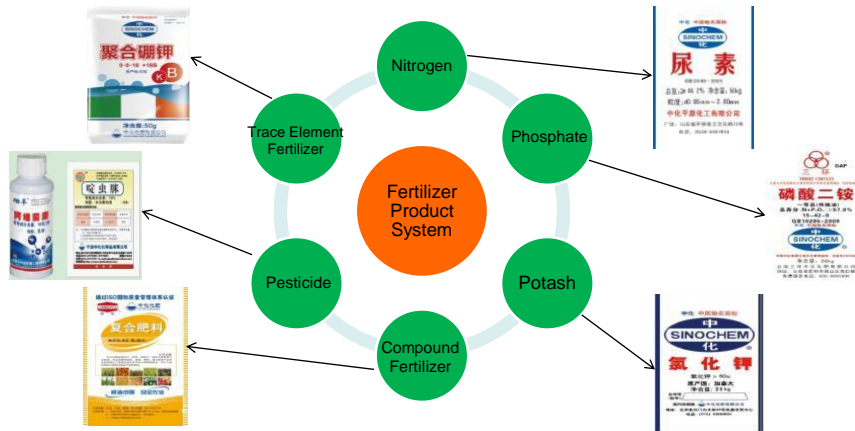
Distribution Channel—Integrated Platform

Strive to build an integrated operational platform of comprehensive agricultural inputs through promoting the standardization of sales network construction and its operation

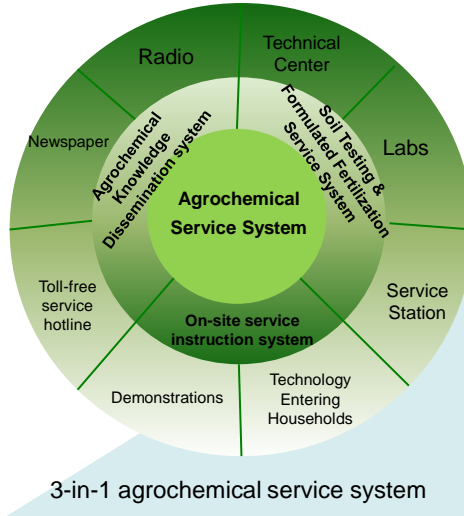


Distribution Channel—Fertilizer Products System

Sinofert has a full line of fertilizer products, covering nitrogen, phosphate, potash, compound fertilizer, BB fertilizer, trace element fertilizer and pesticide. With abundant brand system, Sinofert has registered 21 brands, forming a brand system mainly based on "Sinochem" brand and supplemented by the brand of "Qiuzhuang", "Meinong", "Liangyou", and "Haomiaozi"



Focusing on the “Customer-oriented marketing service strategy”, Sinofert forges to build a 3-in-1 agrochemical service system of knowledge dissemination, field instruction, soil testing and formulated fertilization



Sinofert has established the agrochemical service system including brand propaganda, knowledge dissemination, technology promotion, and demonstration guide, which formed unique competitive advantage for network

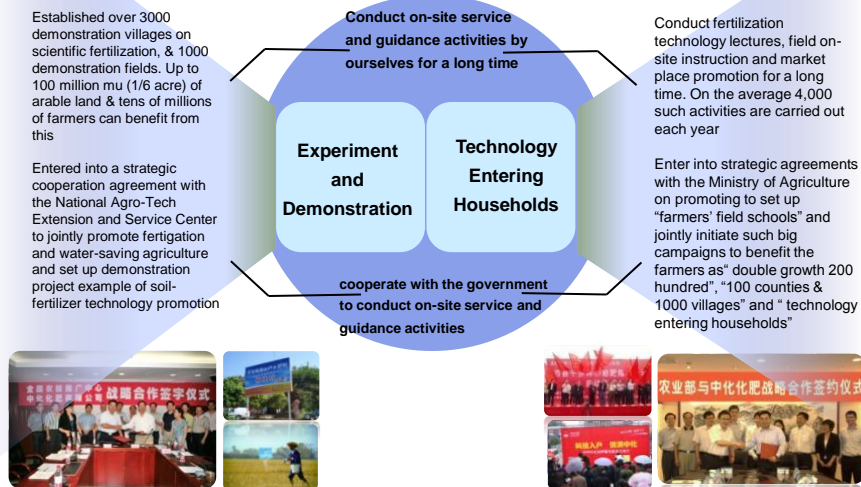
Before Sales	During Sales	After Sales
Agrochemical lectures	Fair propaganda	Field demonstration, Harvest day, Client review
Soil testing	Store promotion	
Large promotion activities		
TV and wall advertisement, promotional items		
"Sinochem agriculture square", demonstration village, service for big planting farmers		



Agrochemical Knowledge Dissemination System

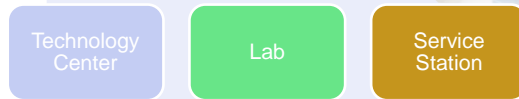


On-site service instruction system



Soil testing and formulated fertilization service system

Since 2006, integrated with the experts and lab equipment from CASS, labs from the company's holding plants and the service strength of over 2100 distribution centers, we have gradually established a 3-level soil testing & formulated fertilization service system of "technology center-lab-service station (established within the distribution centers)" and a service procedure of "service people collect soil samples on site—soil get tested in the labs and technology centers—experts provide formulas on fertilization based on the testing result and growing needs"



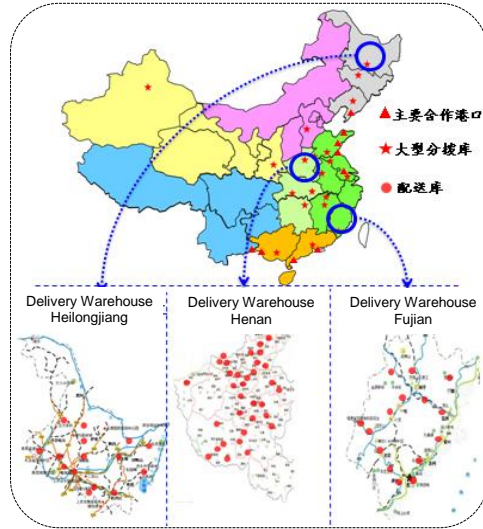
3-level service system of soil testing and formulated fertilization

Through enhancing the cooperation with universities & colleges, and the integration of scientific research resource, Sinofert has built corresponding scientific research system matching the network at different levels, and formed our unique technological capability, which lay the foundation for the company to create core competitiveness, and promote technological innovation and value-added service

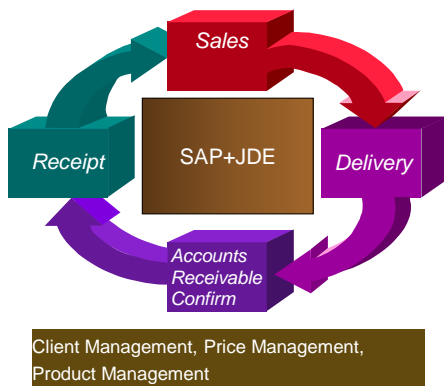


Differential Storage Network

Formed differential storage network with "port logistics center, large inland dispatch warehouse, regional delivery warehouse"; had more than 570 delivery warehouses in major delivery hubs around the country; the static storage capability at port and inland is 1.4 million tons and 2.6 million tons respectively; 20 large dispatch warehouses are to be built, with the storage capability of 0.55 million tons



With high efficient information platform, duly reflect the operational conditions of distribution outlets at all levels, thus improving the management efficiency of goods, capital and information



- The SAP and JDE greatly improve the efficiency of product purchase, inventory management, logistics, and sales management
- JDE connects every distribution outlet, duly reflecting the front end sales information; SAP connects upstream production and downstream distribution, thus reasonably allocating production and inventory
- Information system guarantees the timely communication of sales and production, providing important basis for the company's operational decision

Thank You!

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