fertilizers europe

Adapting to Disruptive Forces

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Fertilizer Industry Round Table (FIRT)

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Partnership for growth
Sustainable agriculture in Europe

About Orascom Construction Industries

Orascom Construction Industries

- OCI is a leading fertilizer producer and construction contractor based in Egypt
- The Sawiris family collectively owns 55% of the ordinary outstanding shares
- The largest company listed on the Egyptian Exchange, with GDRs listed on the London Stock Exchange and ADRs listed on the US Over-the-Counter market
- Market capitalization of US$ 9.5 billion as at 2 September 2012
- Currently employs over 72,000 people worldwide

Fertilizer Group

EFC · EBIC · OCI NITROGEN · OCI BEAUMONT · SORFERT

- Top 5 global nitrogen-based fertilizer producer with production capacity approaching 7.0 mtpa by the end of 2012
- Owns and operates production facilities in Egypt, Algeria, the Netherlands and the United States
- Controls a global distribution platform spanning Africa, Europe, Latin America and North America

Construction Group

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- OCI Construction Group is one of the largest contractors in the MEA region
- The group specializes in infrastructure, industrial and high-end commercial projects
- 31 March 2012 Construction backlog: US$ 6.49 billion

The Fertilizer Group Profile

OCI Fertilizer Group Overview

- Five production assets in North Africa (Egypt, Algeria), Europe (the Netherlands) and the USA (Beaumont, Texas) have a combined capacity of c.7.0 million metric tons per annum (mtpa) of nitrogen-based fertilizer
- Fertilizers produced include ammonia, urea, calcium ammonium nitrate (CAN), urea ammonium nitrate (UAN) and other intermediary products; also resells ammonium sulphate[1] out of the Netherlands
- OCI is also the largest melamine (urea derivative) producer in the world with 250 thousands metric tons capacity and production plants in the Netherlands, Indonesia and China
- OCI's North African facilities are among the lowest-cost producers in the world
- OCI has a global distribution network with a strong presence in Europe and strategic joint ventures in Brazil and the U.S.

Production Capacities - ktpa[2]

Plant	Ammonia Gross	Ammonia Net	Urea	UAN	CAN	Fertilizer tons for sale	Methanol	Melamine
Egyptian Fertilizers Co[3]	800	-	1,550	325	-	**1,875**	-	-
Egypt Basic Industries Co	700	700	-	-	-	**700**	-	-
OCI Nitrogen	1,130	450	-	200	1,350	**2,000**	-	250
Sorfert	1,600	800	1,200	-	-	**2,000**	-	-
OCI Beaumont[4]	250	250	-	-	-	**250**	750	-
Total	**4,480**	**2,200**	**2,750**	**525**	**1,350**	**6,825**	**750**	**250**

Note: All tonnage is metric

[1] Distribution agreement with DSM comprising 750 ktpa

[2] Table not adjusted for OCI's stake in considered plant

[3] UAN line constructed to capitalize on seasonal UAN price premiums over urea and will produce UAN only when margins are favourable to urea (swing capacity)

[4] OCI Beaumont is also known as Pandora Methanol LLC

OCI Fertilizer Group is the 3rd largest nitrogen fertilizer producer globally with production capacity of approximately 7.0 mtpa of fertilizer

Production Facilities

- OCI is the world's third largest nitrogen-based fertilizer producer by capacity
- EFC is expanding lines I and II by about 20% to 1.55 mtpa
- OCI Nitrogen is increasing CAN capacity by about 20% to 1.35 mtpa
- OCI is currently developing Greenfields in Brazil and North America

OCI Beaumont (100%)

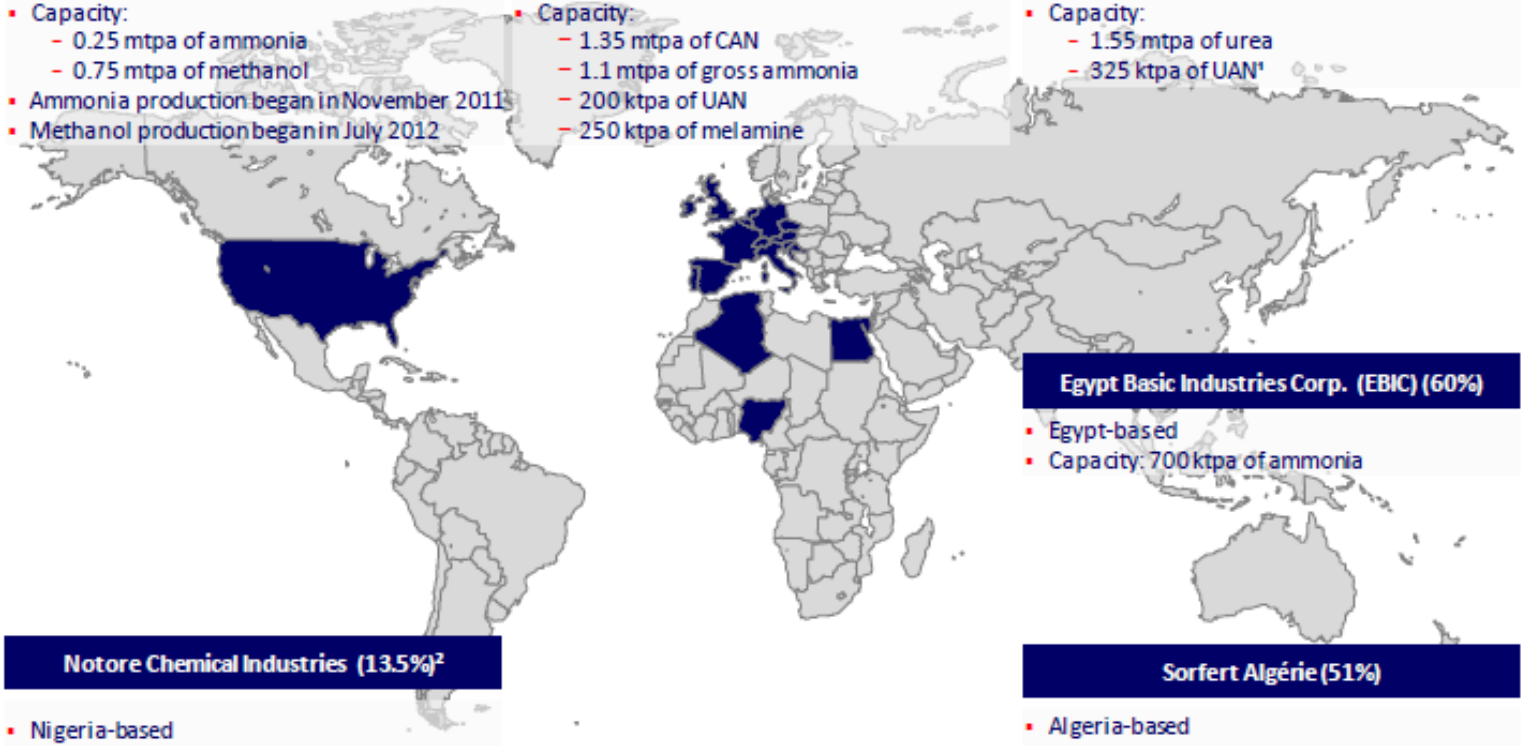
- USA-based
- Capacity:
  - 0.25 mtpa of ammonia
  - 0.75 mtpa of methanol
- Ammonia production began in November 2011
- Methanol production began in July 2012

OCI Nitrogen (100%)

- Netherlands-based
- Capacity:
  - 1.35 mtpa of CAN
  - 1.1 mtpa of gross ammonia
  - 200 ktpa of UAN
  - 250 ktpa of melamine

Egyptian Fertilizers Company (EFC) (100%)

- Egypt-based
- Capacity:
  - 1.55 mtpa of urea
  - 325 ktpa of UAN[1]



Egypt Basic Industries Corp. (EBIC) (60%)

- Egypt-based
- Capacity: 700 ktpa of ammonia

Notore Chemical Industries (13.5%)[2]

- Nigeria-based
- A minority stake in the only fertilizer producer in Nigeria
- Capacity:
  - 500 ktpa of urea
  - 800 ktpa NPK blending unit

Sorfert Algérie (51%)

- Algeria-based
- Capacity:
  - 800 ktpa of ammonia
  - 1.2 mtpa of urea
- Line I production began in May 2012

ORASCOM CONSTRUCTION INDUSTRIES

1 UAN will be produced at Fertilizer Group's discretion subject to market conditions. Product capacities are swing capacities based on the product mix produced.
2 OCI has secured a put option for its 13.5% stake in Notore for a value of US$ 65 million executable after December 2012.

Ramp-Up of Fertilizer Group Capacity

- OCI first entered the fertilizer industry as a specialized contractor by constructing both EFC and EBIC while investing in a 30% stake in EBIC at par value
- OCI expects a 60% increase in fertilizer group capacity by 2013

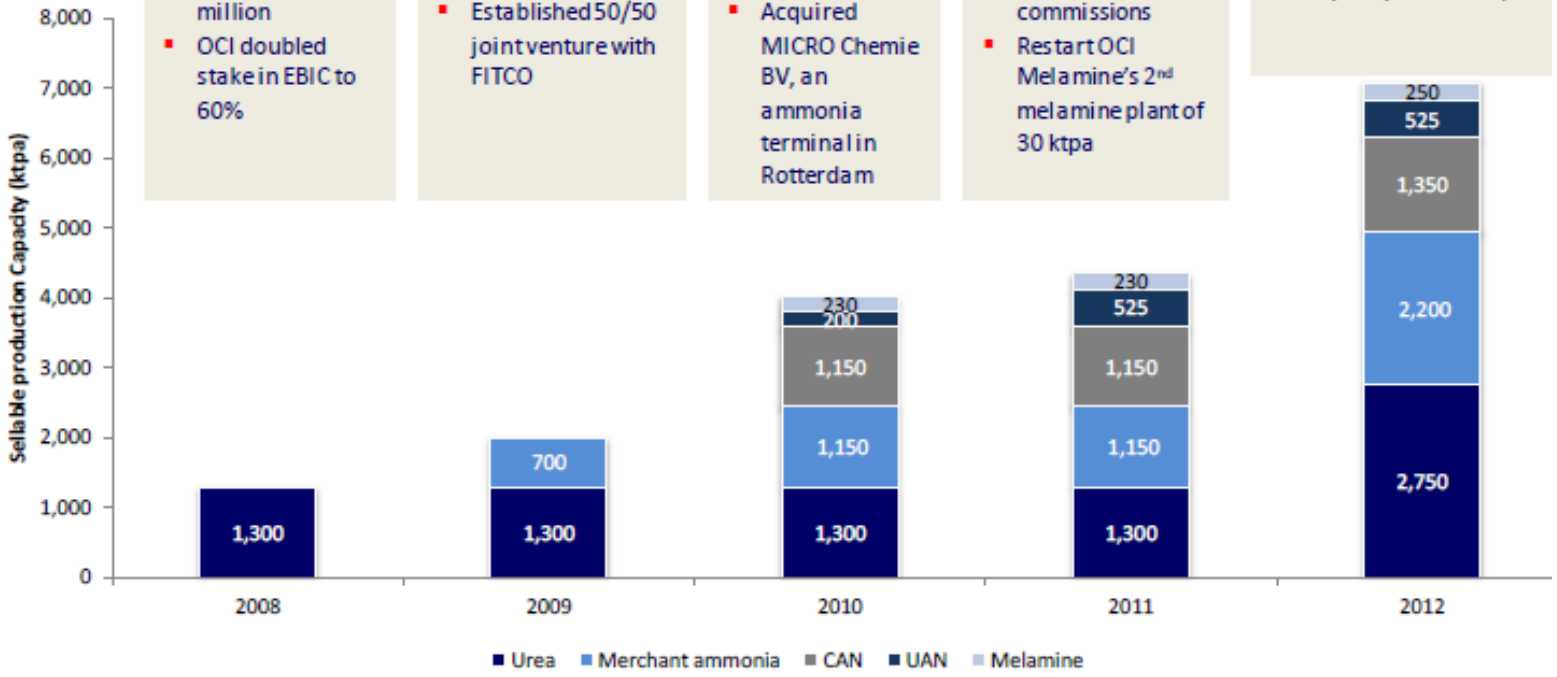
- Acquired EFC and 20% of Notore from Abraaj Capital for US$ 2.6 BN
- Acquired 18.1% of Gavilon Group for US$ 340 million
- OCI doubled stake in EBIC to 60%

- Announced expansion of EFC product portfolio with UAN lines and urea revamp to 1.6 mtpa by 2012
- EBIC commissioned in May 2009
- Established 50/50 joint venture with FITCO

- Acquired Royal DSM BV's fertilizer and melamine businesses to form OCI Nitrogen for € 310 million
- Acquired MICRO Chemie BV, an ammonia terminal in Rotterdam

- Commissioning of Sorfert begins, with urea production expected in late 2011
- EFC's 325ktpa UAN blending unit commissions
- Restart OCI Melamine's 2nd melamine plant of 30 ktpa

- Ramp-up of Sorfert capacity
- Finalizing OCI Nitrogen's 200 ktpa CAN capacity increase
- Ramp-up of OCI Beaumont capacity
- Ramp-up of EFC's urea capacity to 1.55 mtpa



1 Urea capacity 2012 includes 1.55 mtpa from EFC and 1.2 mtpa from Sorfert
2 Ammonia capacity 2010 and 2011 include 700ktpa from EBIC and 450ktpa from OCI Nitrogen
3 Ammonia capacity in 2012 includes 800 ktpa from Sorfert and 250 ktpa from OCI Beaumont
4 Capacity does not include OCI Beaumont methanol capacity of 750 ktpa

Key messages

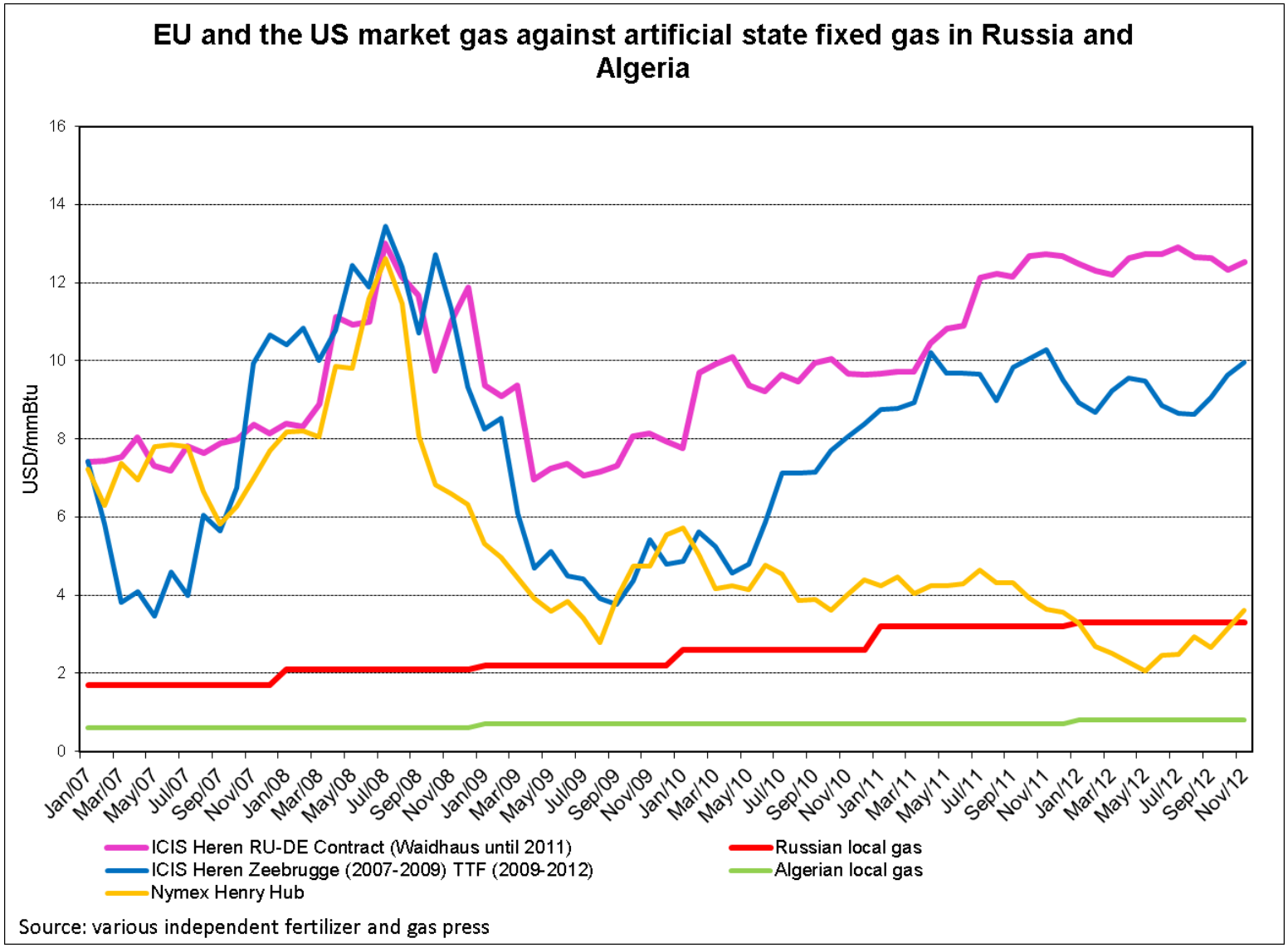
- European fertilizer production will
  - continue to be important
  - continue to grow slowly along with demand
  - become more integrated in the global fertilizer scene
  - increase net imports
  - consolidate further
  - not see investment in “new” capacities

- European regulatory context will
  - continue to reflect 27 member states and not one country
  - continue to focus on environment and emissions
  - become more complicated and with more rules
  - continue to miss economic rational

Key Economic Figures

	EU 27		US
Population	503 millions		315 millions
Agricultural area in use	184 mha		373 mha
Application rates for corn (kg/ha)	**EU15** N: 148 P_2O_5: 45 K_2O: 37	**EU12** N: 76 P_2O_5: 13 K_2O: 10	N: 157 P_2O_5: 67 K_2O: 88
Nitrogen import as part of consumption (2010)	20%		36%
Natural gas cost $/mmBtu	7-10	9-14	3-5

Gas prices comparison



Source: various independent fertilizer and gas press

Europe should not be seen as one country

- Europe is EU's 27 Member States + Norway + Switzerland + Balkan countries
- EU is one economic zone, but "borders" do exist
  - More than 20 languages
  - Media is national, not EU-wide
  - Politics is national, not EU-wide
- Focus on national champions

Unequal European Integration

EU competence:

- Single Market
- Competition policy
- Farm support
- Emission Trading
- Climate Change
- Environment
- Health and Safety

National competence:

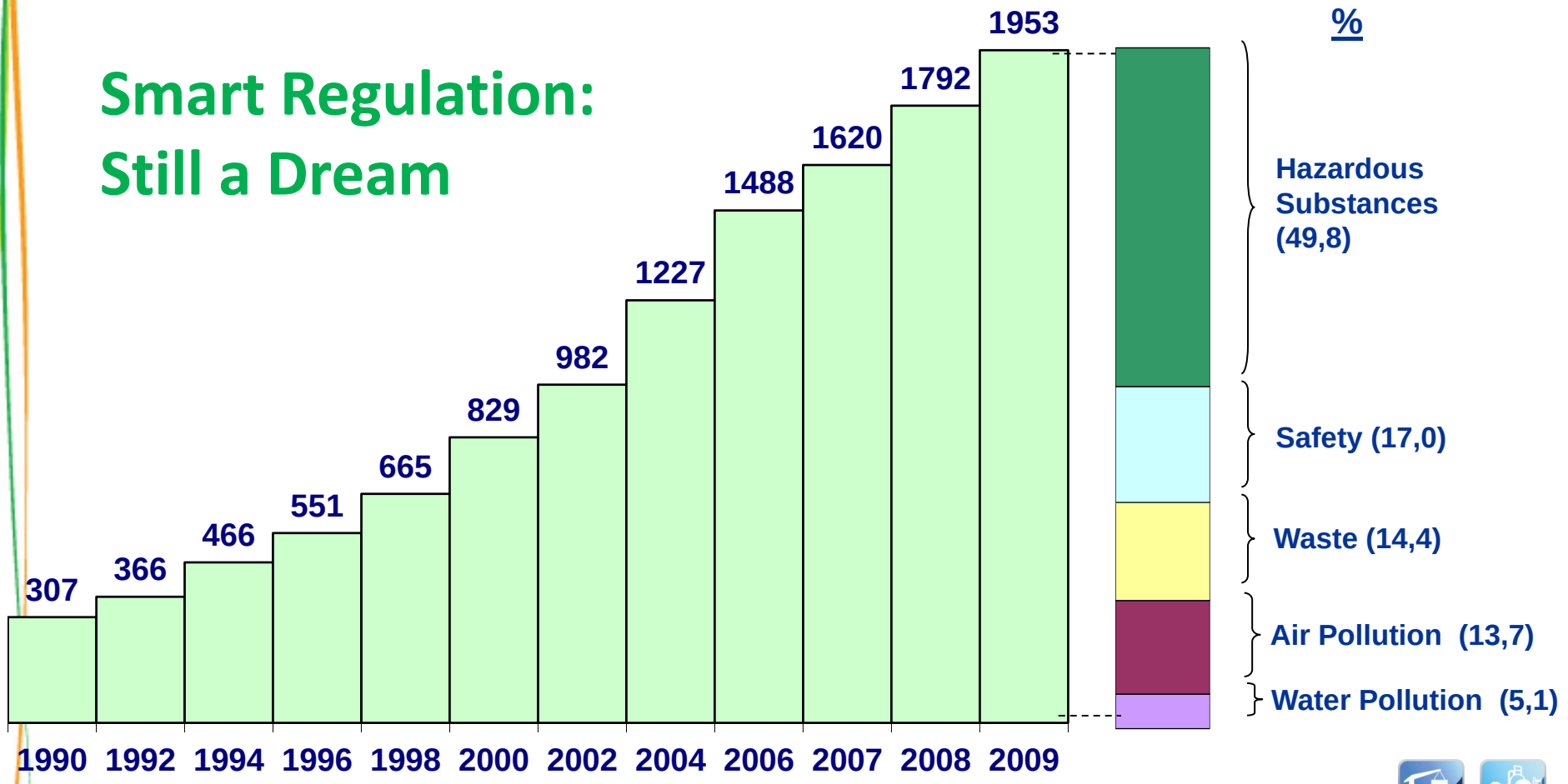
- Energy policy
- Fiscal policy
- Jobs/Labor market
- Education
- Security

Growing tensions on supply and pricing of gas to Europe

- Threats to EU gas supply
  - Russia/Ukraine gas disputes – Winter period 2006 and 2009
  - Russia/ Belarus – Winter period 2006/2007
- Gas price discrimination
  - Russia $ 3 mmBtu for the domestic market
  - Belarus $5 mmBtu
  - Waidhaus $12 mmBtu
  - Lithuania $12 mmBtu
- EU institutions investigate Gazprom September 2012
  - Gazprom may have divided gas markets by hindering the free flow of gas across Member States, may have prevented the diversification of supply of gas and may have imposed unfair prices on its customers.

Pieces of legislation* on environment and safety issued by EU

Smart Regulation: Still a Dream



* Directives, Decisions and Regulations

Emission Trading Scheme

- Goal for EU as a whole
  - emission reduction by 14% compared to 2005
- ETS – cap and trade system
  - power stations, oil refineries, iron and steel plants, cement, petrochemicals, ammonia and nitric acid sectors are covered by ETS
  - free emissions up to a benchmark, i.e. 10% best for each industry
  - above the benchmark the allowances need to be bought on the market
  - ETS sectors must reduce emissions by 21% compared to 2005

    (50% more burden)

Impact of ETS

Benchmarks (average of best 10%)

1.619 t CO_2 / t ammonia

0.97 kg N_2O / t nitric acid

2010 averages

1.97 t CO_2 / t ammonia

1.6 kg N_2O / t nitric acid

- above benchmark you pay for the emissions

Price for emission allowance (7 - 30 €/ t CO2)

Cost to EU fertilizer industry : 100 – 450 million €

In 2012 emission allowance traded at 7 € / t CO2

EU institutions are trying to increase the price by:

- reducing new allowances
- eliminating certain credits

Revision of EU fertilizer regulation

- The new regulation will cover, for the first time, all product types whatever the origin (mineral or organic)
- There will be a full EU harmonization and no more national fertilizer legislations
- Organic fertilizer will grow in importance
- Re-cycling especially of phosphates will grow in importance
- Heavy metals, like Cd, will become an issue

EU farm support

- EU Farm Support is decoupled
- EU Farm Support under discussion; some budget reduction foreseen
- The new proposal emphasizes the need for more "greening":
  - 30% of direct aid to be contingent on performing environmentally friendly farming practices
  - Possible re-introduction of set-aside land (7%) for biodiversity
- If the outcome is much more "greening" there could be an impact in the European fertilizer sector

New development on Biofuels

Background:

- EU had a plan for a 10% biofuels by 2020

New proposal:

- Biofuels derived from crops should not be more than 5% of the final consumption of energy in transport in 2020
- EC will cut all public subsidies for biofuels produced from crops by 2020
- From 2020 only 2nd generation biofuels

Conclusion:

- No major changes for EU fertilizer consumption because food crops will be grown instead of the energy crops supporting biofuel

Fertilizer security

- Strict rules and regulations for certain types of fertilizers can discourage sales.
- Accidents and terrorist acts can lead to new rules, and is therefore a potential disrupter in both EU and US.
- In general, EU rules are strict and will vary per country, but the fertilizer industry can work with them. The industry itself has introduced a Product Stewardship Program which contains sensible security measures.

Opportunities for Fertilizer Industry in Europe

- Production: Well-maintained and efficient plants
  Investments have been depreciated
  Competences in quality and re-cycling

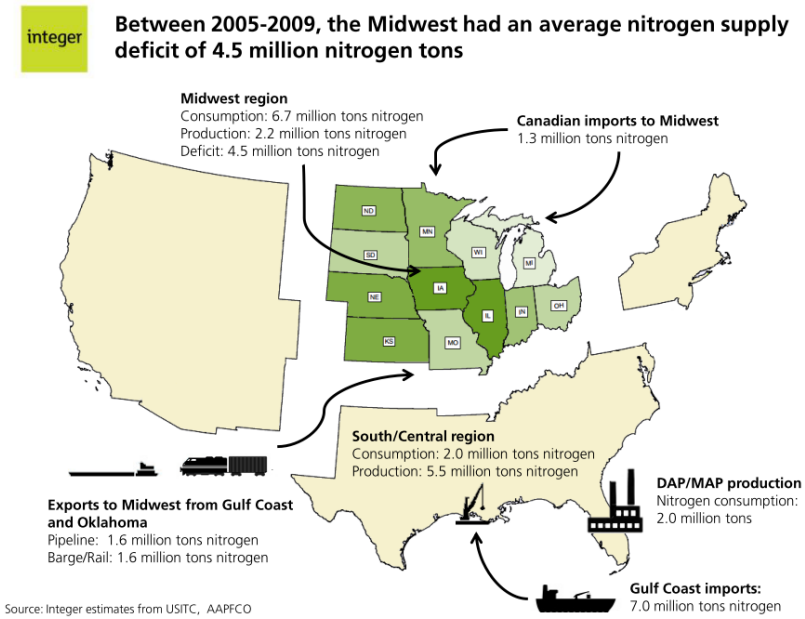
- Market: Modern and competitive agriculture
  Potential growth in Central + Eastern Europe
  Nearby local production in stable market environment

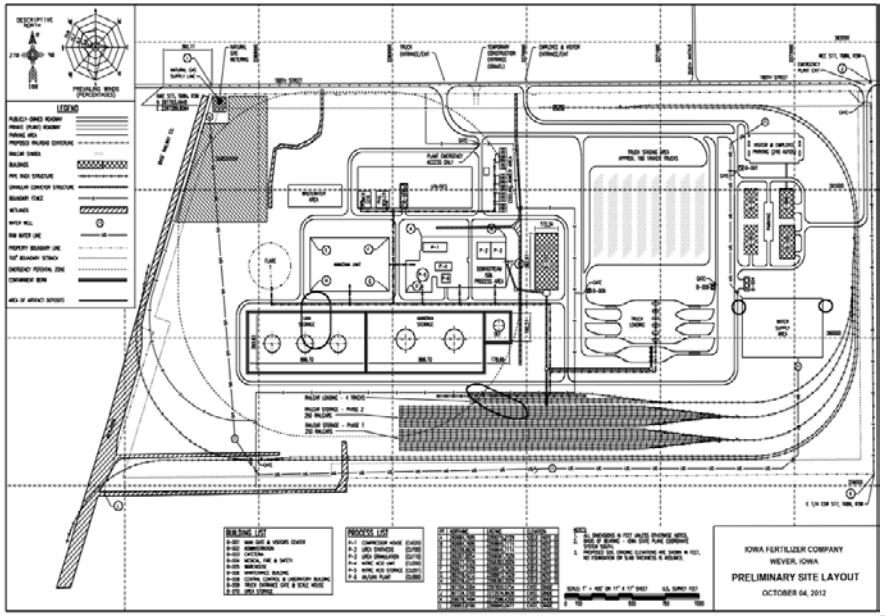
“If I can make it there ….

… I can make it anywhere … “

……. and OCI is building in Iowa

- IFCo
  - Integrated fertilizer production: Ammonia/Urea/UAN/DEF
  - World scale ammonia
  - Flexible world scale UAN, having capabilities to follow market trends
  - Granulated urea to offer maximum flexibility during off-season for ammonia/UAN
  - Dedicated production of DEF for nearby large consumer area (Chicago)





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