growing population

higher protein diets

# global supply and demand fundamentals



**In 2000, we expanded our nitrogen business. The strongest fundamentals over the next three years are expected to be in nitrogen.**

## FEEDING THE WORLD

Population growth and improvements in diet drive global demand for grain. The U.S. Bureau of Census reported in 1999, that world population reached six billion and at current growth rates is projected to increase to nearly seven billion by 2010. Continually improving standards of living in developing countries also increase demand for higher protein diets including meat and dairy products. The Food and Agriculture Policy Research Institute (FAPRI) estimated that world **grain production will have to increase by approximately 15 percent** by 2010 to keep pace with demand growth B. Due to **increasing urbanization and already limited arable land,** we believe additional grain production can only be achieved through improved crop yields C.

In some parts of the world, the necessary agricultural infrastructure and agronomic expertise are available to promote balanced nutrient replacement practices. In many developing countries, however, growers are continually depleting the soil of existing nutrients. It is in these parts of the world that the greatest growth in demand for crop nutrient inputs is anticipated. A balanced plant nutrition approach will enable growers in these countries to increase grain production and help meet the expected growth in world grain demand.

## SUPPLYING THE NUTRIENTS

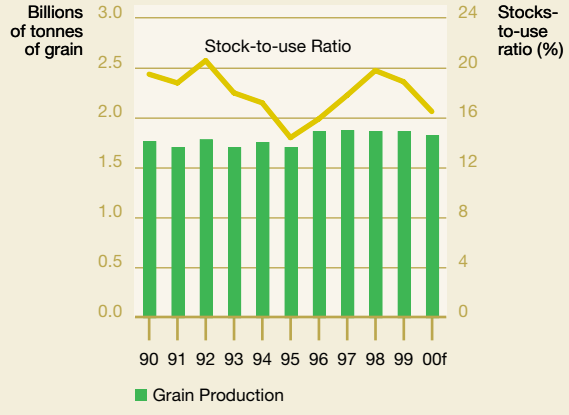
Nutrients are a key factor in sustaining and increasing world grain production. Plants naturally take up nutrients from the soil through growth; therefore, the soil requires balanced nutrient replacement to ensure future healthy growth and improved yields.

World demand for nutrients typically grows at predictable rates and tends to correspond to growth in grain production. However, growth in production capacity is much more sporadic due to a number of factors:

- New production capacity tends to be initiated during periods of high product prices when financing is more easily obtained;
- There is significant lead time from conception to completion of a new facility;
- Government intervention may support or create inefficient local production;
- Changes in raw material costs can result in existing production being curtailed.

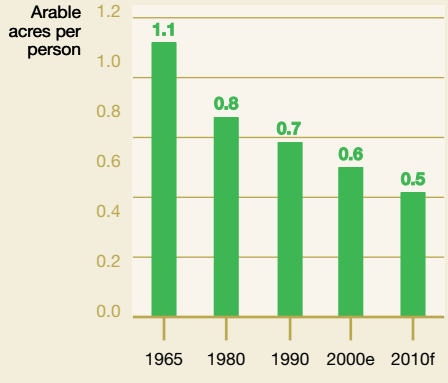


**B World Grain Production and Inventories**




*Source: USDA*

**C Limited Land**




*Sources: FAO, U.S. Government*

reliable distribution

global exports



# global supply and demand fundamentals



## NITROGEN

The International Fertilizer Association (IFA) states that nitrogen accounts for approximately two-thirds of the world's total fertilizer consumption. While nitrogen demand growth continues at relatively stable rates, weak nitrogen prices in the late 1990's resulted in a reduction in new nitrogen plant proposals. Consequently, there will be a **drop in additions to world nitrogen capacity between 2000 and 2004** D**.** As a result, during this period demand growth is expected to outpace supply growth.

Two other factors have affected nitrogen supply recently. First, government support for domestic production has kept uneconomic plants running in India and created an over-supply situation in China. Second, rising energy costs in many regions of the world forced temporary and permanent plant closures at various times during 2000, which has restricted supply and provided additional support for nitrogen prices. In North America an estimated 50 percent of nitrogen capacity was suspended late in 2000. Over the next few years India may choose to close a significant portion of their nitrogen facilities to comply with World Trade Organization (WTO) rules and due to the high costs of imported raw materials. China was a net exporter of urea in 2000, but could again become an importer in a more competitive environment and with improved domestic demand for nitrogen.

## PHOSPHATE

Phosphate capacity additions in India and Australia have recently resulted in pricing pressures. The addition of two world-scale facilities has had a more significant effect on the phosphate market than it would have had on the nitrogen market due to the relative size of these markets. The impact of this additional capacity is expected to continue throughout 2001 and perhaps longer, until demand growth catches up.

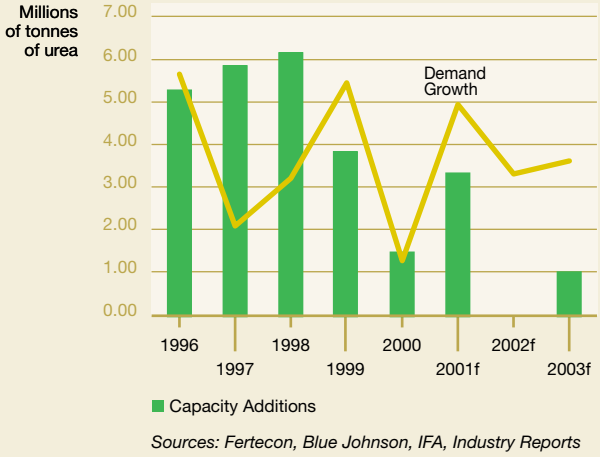
## POTASH

Potash producers in Saskatchewan, Canada, the largest producing region in the world, have adequate reserves and production capacity to match global demand for the foreseeable future.

## SULPHUR

Sulphur is a key input in the production of both phosphate fertilizers and ammonium sulphate. It is a by-product of oil and gas production and an abundant, low-cost raw material at our phosphate and ammonium sulphate production sites at Redwater, Alberta, and Conda, Idaho. Ammonium sulphate is a particularly important fertilizer for certain crops, including canola, alfalfa and forages.

D **Change in World Nitrogen Capacity and Demand (Urea)**




*Sources: Fertecon, Blue Johnson, IFA, Industry Reports*

strong foundation

feeding the world



# our history: taking advantage of opportunity

**We have grown from a small North American fertilizer operation in 1993 into a global company specializing in agricultural products and services.**

Since going public in 1993, we have grown annual revenue from approximately $290-million to approximately $1.9-billion in 2000, a 32 percent compound annual growth rate. In 2001, we expect revenues to be $2.6-billion. This **growth was accomplished through a disciplined investment approach,** counter-cyclic acquisitions and continual emphasis on our core business of agricultural products and services E. We have leveraged off our North American asset base to invest globally in projects that support our vision. Significant investments included:

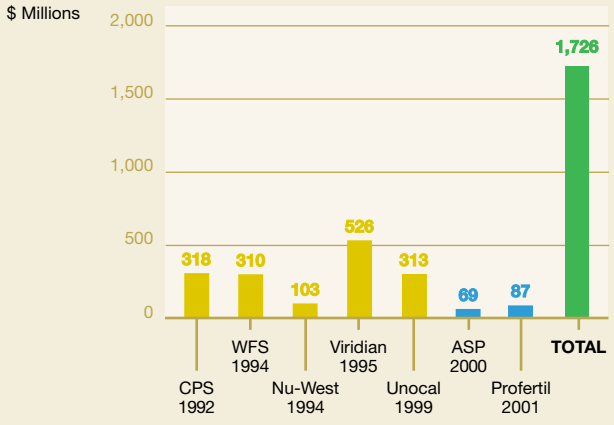
| | |
|---|---|
| **1989 – 1995** | Acquisition of Crop Production Services Inc., adding retail revenues of $318-million |
| **1995** | Acquisition of Western Farm Service Inc., adding retail revenues of $310-million |
| **1995** | Acquisition of Nu-West Industries Inc., adding phosphate revenues of $103-million |
| **1995 – 1997** | Establishment of 18 farm centres in Argentina, contributing revenues of $69-million in 2000 |
| **1996** | Merger with Viridian Inc., adding nitrogen and phosphate revenues of $526-million |
| **1998 – 2000** | Construction of the Profertil nitrogen facility in Argentina with production capacity of 1.1 million tonnes (gross) of urea |
| **1998 – 2000** | Development of Kapuskasing facility in Canada with production capacity of one-million tonnes of phosphate rock |
| **2000** | Acquisition of The Unocal Fertilizer Assets, adding nitrogen revenues of $313-million |

*(Revenue of acquired companies in year prior to acquisition.)*

In September 2000, we completed the acquisition of the fertilizer assets of Union Oil Company of California (The Unocal Fertilizer Assets). The purchase price of $321-million, including working capital, was financed through existing cash balances, the issuance of $50-million in six percent convertible preferred securities, $25-million of common shares and $200-million of short-term financing. We also agreed to an earn-out arrangement (Earn-out) with Union Oil Company of California (Unocal) as described on page 16. Concurrent with the purchase, we sold certain storage assets for proceeds of $16-million. The Unocal Fertilizer Assets include two world-scale nitrogen plants in Kenai, Alaska, with annual production capacity of 670,000 tonnes of net ammonia and one million tonnes of urea. Other assets include plants at Kennewick and Finley, Washington, and Sacramento, California, which produce ammonium nitrate and nitrogen solutions.



E **Growth Through Investment**




Revenue of investment in year prior to addition (excluding Profertil and ASP).

# the present: delivering results

**Led by the nitrogen market, the year 2000 represented a turnaround from our trough earnings in 1999.**

Our operations are divided geographically and then by functional area into five reportable segments. The four operating segments are North America Wholesale, North America Retail, South America Wholesale and South America Retail. The fifth segment, Other, includes non-operating functions of our Corporate office together with inter-segment eliminations.

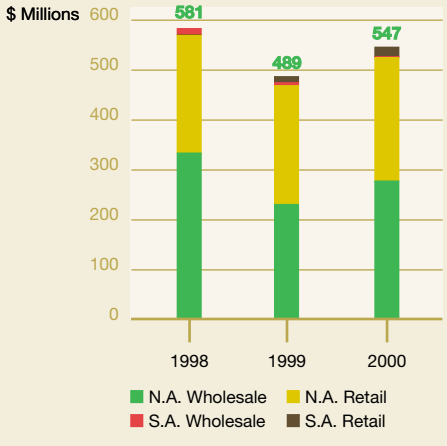
Market conditions were difficult in 1999 as nitrogen prices were at multi-year lows and phosphate prices were also declining. In late 1999 and during 2000, the improvement in nitrogen prices signalled a recovery in the nitrogen sector, though phosphate has yet to show significant improvement. Potash prices remained stable throughout this period.

Net earnings for the year 2000 were $82-million ($0.65 per share) compared to $62-million ($0.47 per share) in 1999 and $119-million ($0.94 per share) in 1998. Significant factors affecting the results were:

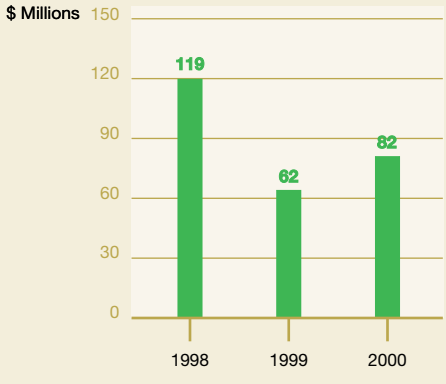
- Net sales in 2000 increased from 1999 and 1998 levels, due mainly to improving nitrogen fundamentals and the acquisition of The Unocal Fertilizer Assets;
- Cost of product sold for 2000 increased from 1999 and 1998 levels as a result of increased sales volumes, The Unocal Fertilizer Asset acquisition and significant increases in natural gas costs. These increases in gas costs were mitigated by hedging gains of approximately $75-million before taxes;
- Selling, general and administrative costs (S,G&A) for 2000 increased over 1999 levels primarily due to expansion and increased fuel costs in our retail operations, offsetting synergies realized from the 1999 S,G&A review. The decline in 1999 from 1998 was due to the 1999 S,G&A cost reduction initiative, which resulted in closure of our Saskatoon and Spokane offices and a reduction of 162 employees;
- Depreciation, depletion and amortization for 2000 has increased over 1999 and 1998 levels due to the acquisition of The Unocal Fertilizer Assets, a full year of operations at our Kapuskasing phosphate facility, and accelerated depreciation at our Conda phosphate facility;
- Other expense in 2000 increased over 1999 due to: lower interest income on lower cash balances; higher potash profit taxes; increased environmental provisions and higher provisions for doubtful receivables in South America. A restructuring charge of $11-million in 1999 resulted in the increase over 1998;
- Interest expense in 2000 and 1999 is lower than 1998 as a result of interest capitalized on Profertil in 1999 and 2000 and Kapuskasing in 1999.



**Gross Profit by Business Segment**




**Net Earnings**



reliable delivery

customer success



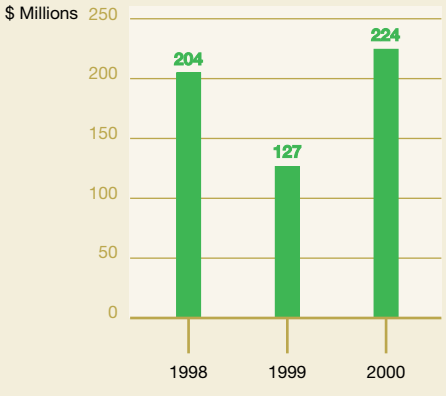


As described in Note 2 of the consolidated financial statements, we have adopted the new provisions relating to the recognition of employee future benefits that were introduced by the Canadian Institute of Chartered Accountants (CICA) in 2000. This adoption is the latest effort by the CICA to harmonize accounting standards between Canada and the U.S. In 2001, we will also be adopting the new earnings per share section, which requires use of the treasury stock method for the calculation of dilutive earnings per share. The impact of these changes has been disclosed in Note 15 to the consolidated financial statements.

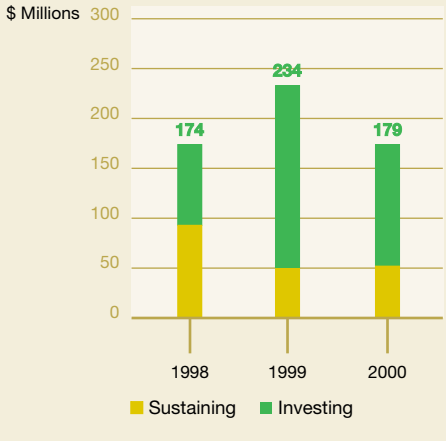
Cash at the end of 2000 declined from 1999 and 1998 levels due to use of surplus cash in the purchase of The Unocal Fertilizer Assets and working capital requirements. Significant items affecting cash resources were:

- Cash flow from operations, before changes in non-cash working capital, increased to $224-million from $127-million in 1999 and $204-million in 1998 due largely to improved earnings after current taxes;
- The net change in non-cash working capital reflects the deferral of approximately $75-million of hedging gains, realized in December 2000. These gains, which were offset by other working capital changes, will reduce natural gas costs in 2001;
- Capital asset additions of $179-million have declined from $234-million in 1999, which included capital for the construction of the Profertil facility and the Kapuskasing phosphate mine. Capital expenditures in 1998 were similar to 2000, reflecting lower levels of activity on these major projects;
- Bank indebtedness increased in 2000 as a result of The Unocal Fertilizer Asset purchase and, in 1999, increased due to the bridge financing for Profertil;
- Common share repurchases in 1999 and 1998 were a result of normal course issuer bids initiated in each of 1997 and 1998 to purchase up to five percent of the outstanding common shares on the open market within one year of the announcement. The 1997 program was increased in April 1998 to 10 percent. Under these programs, over 15 million shares were repurchased at an average price of $12.21 per share. A second normal course issuer bid was initiated in September 1999 but no shares were purchased under this program, which expired in September 2000. These repurchases were financed out of operating cash flows and the issuance in 1998 of $175-million ($171-million net of after tax issuance costs) eight percent unsecured preferred securities due on June 30, 2047.

**Cash Flow from Operations**




**Capital Expenditures**




reliable supply


customer support



# the present: delivering results



Our working capital requirements are driven by the **seasonal nature of the fertilizer business** F. Sales are concentrated in the spring and fall planting seasons and cash collections generally occur after planting. In some areas such as Argentina, collections occur only after harvest. To ensure there is adequate cash in periods when we are building inventory for the planting seasons, we maintain a number of short-term borrowing facilities for both Canadian and U.S. operations. In Canada, we have a $125-million unsecured term facility and in the U.S. we have a $75-million unsecured revolving credit facility and an accounts receivable securitization program of up to $125-million. The securitization program was increased in December 2000 from $75-million to $125-million and now includes both our U.S. retail and wholesale trade receivables.

The acquisition of The Unocal Fertilizer Assets and the start-up of the Profertil facility in Argentina are expected to provide stability to our cash flow. The production from the Kenai, Alaska, facility is sold on world markets and provides a more regular cash flow stream due to reduced seasonality in sales volumes. Profertil's cash flow from domestic sales will normally peak in the Argentine spring season, which coincides with the North American fall season. Initially, Profertil will sell significant volumes into the world market in order to supplement domestic sales.

The purchase price for The Unocal Fertilizer Assets contains a contingent purchase price clause referred to as the Earn-out. The terms of the agreement state that Unocal has the right to receive a payment in each of the six years following the closing of the acquisition based on an agreed-upon formula. The formula states that if industry-recognized price indices for ammonia and urea exceed specified levels, Unocal will be entitled to a payment equal to 35 percent of the difference based on production capacity of the Alaskan facility. In 2000, this amount was calculated for the fourth quarter only and totalled $5-million and has been recorded as part of the purchase price for The Unocal Fertilizer Assets. Due to uncertainty in predicting forward ammonia and urea prices, it is not possible to estimate the amount of this payment in future periods.

We anticipate our capital expenditure requirements in 2001 to be approximately $175-million, excluding any payments for the Earn-out. The most significant capital projects will be the completion of the industrial phosphoric acid unit at our Conda phosphate operation, enhancement at the Kapuskasing phosphate facility and projects at our potash and nitrogen facilities.

**F Selected Quarterly Information – Seasonality of Earnings and Cash Flow**

| $ Millions | 2000 | | | | | 1999 | | | | | 1998 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Q1** | **Q2** | **Q3** | **Q4** | **Total** | Q1 | Q2 | Q3 | Q4 | Total | Q1 | Q2 | Q3 | Q4 | Total |
| Net Sales | **$ 310** | **$ 700** | **$378** | **$ 485** | **$1,873** | $ 289 | $ 675 | $ 355 | $ 397 | $1,716 | $ 295 | $ 732 | $ 389 | $ 389 | $1,805 |
| Net Earnings | **$ (4)** | **$ 51** | **$ 13** | **$ 22** | **$ 82** | $ – | $ 54 | $ 3 | $ 5 | $ 62 | $ 5 | $ 76 | $ 19 | $ 19 | $ 119 |
| Net Earnings per Share | | | | | | | | | | | | | | | |
| Basic | **$(0.06)** | **$0.44** | **$0.10** | **$0.17** | **$0.65** | $(0.01) | $0.46 | $0.01 | $0.02 | $0.47 | $0.04 | $0.60 | $0.14 | $0.14 | $0.94 |
| Fully Diluted | **$(0.06)** | **$0.42** | **$0.10** | **$0.16** | **$0.63** | $(0.01) | $0.44 | $0.01 | $0.02 | $0.46 | $0.04 | $0.58 | $0.14 | $0.14 | $0.92 |
| Cash Flow from Operations | **$ 21** | **$ 70** | **$ 54** | **$ 79** | **$ 224** | $ 19 | $ 70 | $ 14 | $ 24 | $127 | $ 22 | $ 82 | $ 60 | $ 40 | $ 204 |



Our debt-to-debt plus equity ratio at the end of 2000 was 48 percent, including short-term indebtedness. This includes $163-million of a $200-million short-term facility, maturing on April 30, 2001, and $143-million of bridge financing relating to Profertil. This latter facility will be replaced by project financing in 2001. In February 2001, we raised an additional $125-million of long-term financing which was used to retire a portion of short-term indebtedness. We do not anticipate any changes to our current debt rating levels and our present intention is to use excess cash flow from operations to reduce debt and support future strategic growth initiatives. We believe that current cash flows are adequate to meet capital expenditures, working capital and debt service requirements in 2001.

The Unocal Fertilizer Asset acquisition and the Profertil facility have increased our total asset base to over $2-billion at the end of 2000. Other significant changes in our 2000 balance sheet compared to 1999 were:

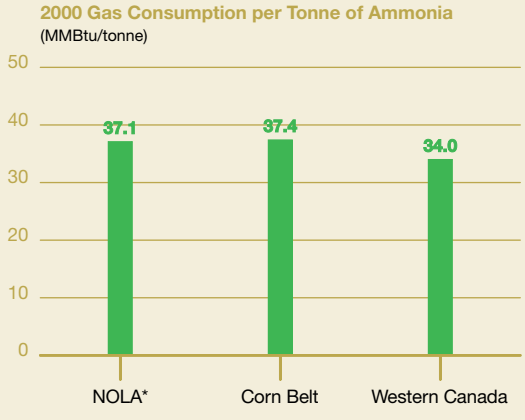
- Limited increases in our accounts receivable balances despite rising nitrogen prices and The Unocal Fertilizer Asset acquisition. This was due to the sale of an additional $27-million in trade receivables under our securitization program;
- An increase of $91-million in inventories due to the acquisition of The Unocal Fertilizer Assets and additional nitrogen inventories in our North America Retail operation in anticipation of rising prices for the 2001 North American spring season;
- The increase in other assets is mainly attributable to value-added taxes and other items related to the construction of the Profertil nitrogen facility;
- Increases in accounts payable are mainly due to the deferral of $75-million in hedging gains realized in December 2000 and increased raw material costs, primarily natural gas;
- Other liabilities have increased due to environmental and decommissioning provisions associated with The Unocal Fertilizer Asset acquisition;
- Increases in capital stock reflect the shares issued for a portion of the purchase price of The Unocal Fertilizer Assets.



**Summary of Year-to-Year Changes in Net Earnings**

| $ Millions | 2000 | 1999 | 1998 |
|---|---|---|---|
| Net earnings previous year | **$ 62** | $ 119 | $ 182 |
| North America Wholesale | | | |
| Nitrogen pricing | **108** | (55) | (133) |
| Nitrogen manufacturing costs | **(49)** | **(20)** | 8 |
| Phosphate | **(41)** | **(13)** | (8) |
| Potash | **4** | **(3)** | 18 |
| Unocal Fertilizer Asset acquisition | **22** | – | – |
| Depreciation | **(14)** | – | – |
| Restructuring costs | **–** | (11) | – |
| North America Retail EBIT | **4** | 7 | 1 |
| Other | **(3)** | 7 | 2 |
| Tax impact on variances | **(11)** | 31 | 42 |
| Change in effective tax rate | **–** | – | 7 |
| Net earnings current year | **$ 82** | $ 62 | $ 119 |

# Agrium is a highly efficient producer.




*New Orleans Louisiana

*Source: Blue Johnson*

## facts about our operations

- Agrium's facilities account for more than half of the production capacity in Western Canada.
- In 2000, Agrium averaged 97 percent on-stream ammonia operating rate.
- Agrium owns three of the six world-scale nitrogen plants built in North America since 1980. Newer plants use less natural gas to make a tonne of nitrogen fertilizer.
- Agrium is involved in every stage of the value-chain from raw materials to fertilizer application.

superior service

in-season supply



# north america wholesale

**Our wholesale strategy is to focus on our customers and to grow through optimizing our asset base.**

The location and efficiency of our facilities in North America positions us well to take advantage of the current North American fertilizer environment. During 2000, many North American nitrogen producers suspended production in response to high natural gas costs, which led to a tightened supply situation and increasing margins. We expect natural gas prices to remain higher than historical levels in 2001, which will maintain pressure on nitrogen product prices. Increases in grower input costs for fuel and nitrogen fertilizer may adversely impact demand for both phosphate and potash in the coming year as growers give priority to nitrogen fertilizer purchases. Unlike nitrogen, periodic deferral of potash and phosphate application can occur without a major short-term impact on yield.



## OUR CUSTOMERS, OUR COMMITMENT

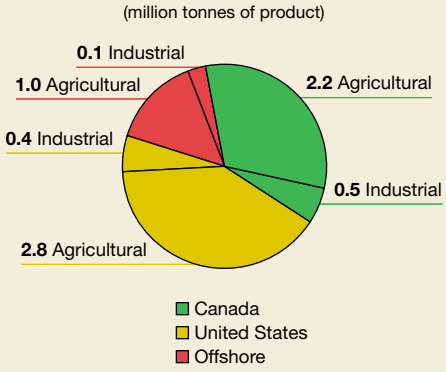
Improved commodity prices and increased global demand alone will not sustain long-term growth and our position within the industry. **We must also continue to focus on the success of our customers** G**.** In 2000, we embarked on an initiative to become the *Easiest Company to do Business With.* This campaign involves many elements, including Internet-based sales transactions and order tracking, 24-hour customer service and extended hours for order pick-up. We believe superior customer service will further differentiate us from our competitors.

In North America, we sell approximately 83 percent of our product to agricultural markets and the remainder to industrial customers. Our customers in the agricultural markets are primarily businesses that serve the input needs of growers. This includes our North America Retail business and other large fertilizer companies, grain companies, co-operatives and independent retailers. Consolidation has continued in the retail sector, resulting in fewer customers each year. As a result, our customers are becoming larger and have more sophisticated purchasing requirements. In 2000, our top ten North America Wholesale customers accounted for approximately 40 percent of our sales.

## INTEGRATED STORAGE AND DISTRIBUTION

Ensuring that product is in the right place at the right time is also important for customer satisfaction. **Our geographically diverse storage and distribution system** is designed to handle peak demand from agricultural customers in the narrow window of the spring and fall application seasons H. We utilize a combination of rail, truck, pipeline, ship and barge transportation to efficiently move over 13 million tonnes of raw material and finished product annually. The most common mode of transportation is rail.

**G 2000 North America Wholesale Sales Volume**




**H Agrium Terminals**


skilled employees


state-of-the-art


continuous production





## PRODUCT FUNDAMENTALS

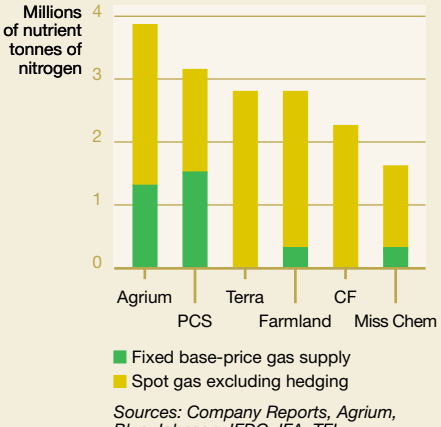
*Nitrogen*

As the **largest producer in North America,** we have significant leverage to upturns in the nitrogen commodity cycle I. From mid-1997 to the fall of 1999 nitrogen prices steadily weakened. This was due primarily to the over-supply caused by China's withdrawal from international nitrogen markets combined with new production coming on-stream. Low nitrogen prices experienced in the summer of 1999 resulted in significant plant closures for producers in North America and other regions of the world. This reduction in supply led to **improved prices which began in late 1999** and continued through the winter and spring of 2000 as a result of strong international demand J. Throughout the latter half of 2000, higher natural gas prices in North America led to supply restrictions and further increases in nitrogen prices. Between December 1999 and December 2000, the North American benchmark New Orleans Louisiana (NOLA) prices rose from $122 per tonne to $241 per tonne for ammonia and from $118 per tonne to $170 per tonne for urea.

The major cost component of nitrogen fertilizer is natural gas, which can account for up to 90 percent of ammonia production costs based on recent North American gas prices. The North American benchmark price for natural gas, New York Mercantile Exchange (NYMEX) three-day average, increased from an average of $2.27 per MMBtu in 1999 to $3.91 per MMBtu in 2000. Much of the increase was in the latter half of 2000, with a NYMEX settlement price of $6.32 per MMBtu in December 2000. Prices in January 2001 reached record highs, settling at $9.79 per MMBtu, but have moderated somewhat to settle at $5.09 per MMBtu for March 2001. Production cutbacks by a number of North American producers were a response to this increase in natural gas prices. We decided to shut down approximately 20 percent of our nitrogen production temporarily as our distribution assets provided us the opportunity to purchase product on world markets at prices below the cost of production utilizing unhedged gas. Most of our production was restarted in February 2001. Other North American producers also restarted many of their plants due to lower natural gas prices and increased seasonal demand.

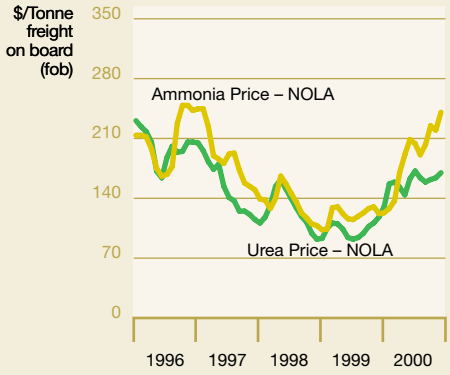
Our natural gas hedging program substantially mitigated the increase in our natural gas costs throughout 2000. In the last quarter of 2000 we also benefitted from the impact of a long-term, reserve-based, fixed base-price gas contract (adjusted for ammonia pricing) at our Kenai, Alaska, nitrogen facility (The Kenai Gas Contract). Additionally, most of our North American production is in Alberta, which has a price advantage over NYMEX based largely on transportation costs of Western Canadian natural gas to the U.S.

**I Nitrogen Capacity for North American Producers (2000)**




*Sources: Company Reports, Agrium, Blue Johnson, IFDC, IFA, TFI*

**J Ammonia/Urea Price History**




*Sources: Blue Johnson, Green Markets*

healthy crops

fully integrated in phosphate



# north america wholesale

## Agrium operates world scale, highly efficient production facilities in North America.

Our operations in Alberta, which consume approximately 110 megawatts per hour of electricity, are also being affected by higher power costs as Alberta deregulates the power industry. Government action has been taken to mitigate power cost increases in the near-term, but significant reductions in future power costs will be dependent on lower natural gas prices and increased power generation capacity. In response to the deregulation and anticipation of power cost increases, we entered into a power purchase agreement in June 2000, which will result in the construction by a third party of a co-generation power facility at our Carseland plant. Our share of the power from this facility, which we expect to be on stream in the fall of 2001, will meet 55 percent of our Alberta power requirements, and result in significantly reduced power costs going forward. In 2002, this power, together with power secured through an electricity auction, will meet 80 percent of our Alberta power requirements.

The net result of higher nitrogen prices, offset by increasing natural gas costs and rising power costs, has been an improvement in gross margin from $25 per tonne in 1999 to $41 per tonne in 2000. This compares to a gross margin of $46 per tonne in 1998. We expect additional margin improvement in 2001, based primarily on continued strength in nitrogen pricing and the benefit of our Kenai Gas Contract.

*Phosphate*

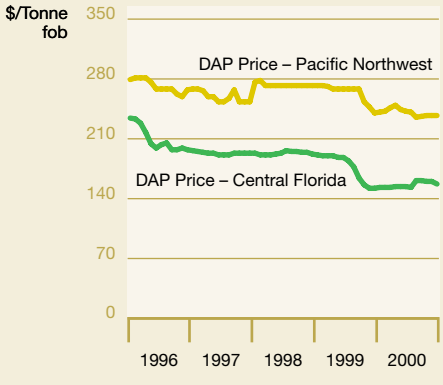
We expect phosphate margins to improve in 2001 as we realize cost efficiencies from capital projects at our facilities. Although phosphate prices were weak throughout 2000, prices strengthened late in 2000 as a number of North American producers curtailed production in response to **low product prices and rising ammonia input costs**K**.**

The primary cost components in phosphate production are phosphate rock, ammonia and sulphur. We have a cost advantage in sulphur costs because our facilities are located near vast quantities of sulphur from oil and gas production in Alberta and Utah. Historically, production at Redwater, Alberta, had a cost disadvantage resulting from importing phosphate rock from Africa. As a result, we commenced construction in 1997 of a new phosphate rock facility in Kapuskasing, Ontario, with the objective of significantly lowering the cost of phosphate rock delivered to Redwater.

The Kapuskasing facility started up in mid-1999 and encountered a number of operational challenges in meeting volume and efficiency targets. In 2000, the major capital projects were completed to address the original design deficiencies and other minor projects are scheduled in the first half of 2001. The operation

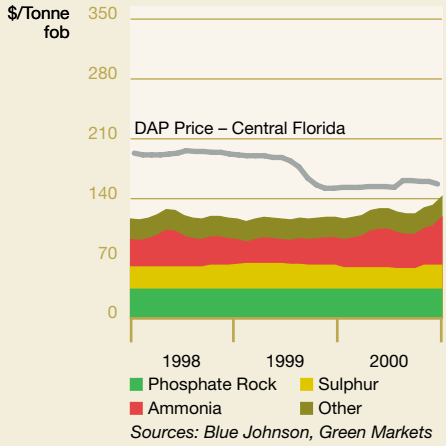


K **Phosphate Price History**




*Sources: Blue Johnson, Green Markets*

K **Phosphate Costs for Florida Producers**




*Sources: Blue Johnson, Green Markets*

resource development

teamwork



attained 80 percent of design capacity by year end and it is now expected to average 90 percent throughout 2001, achieving full production by mid-year 2001.

In early 2000, we started a capital expansion project at our Conda, Idaho, facility to add an industrial grade phosphoric acid unit. The unit is being built by a third party and once completed we will lease and operate the unit and sell the output under a long-term supply contract. The project is expected to come on stream in mid-2001 and will open up a new industrial market for Conda. In October 2000, a failure in one of three existing digester acid tanks at our Conda facility resulted in a plant outage of nine weeks. These digesters were scheduled for replacement in 2001 as part of the capital expansion project. In mid-December, the plant resumed production and we expect the facility to operate in excess of 80 percent of capacity until it achieves full production rates with the completion of the industrial grade phosphoric acid project in mid-2001.

The net result of operational problems at Conda and Kapuskasing combined with softening prices was an overall decline in phosphate margins to $21 per tonne in 2000 from $55 per tonne in 1999 and $71 per tonne in 1998. Due to the market conditions and operational issues, we also experienced reduced sales volumes from 1.1 million tonnes in both 1998 and 1999 to 0.9 million tonnes in 2000. While improving, we are forecasting phosphate prices to remain low throughout 2001 as international markets will still be adjusting to the new production in Australia and India.

*Potash*

The world's largest potash deposit is located in the province of Saskatchewan, Canada, the lowest cost production region in the world. Our Vanscoy facility is located on this deposit with a reserve estimate in excess of 100 years; as a result, we rank as one of the lowest cost potash producers in the world.

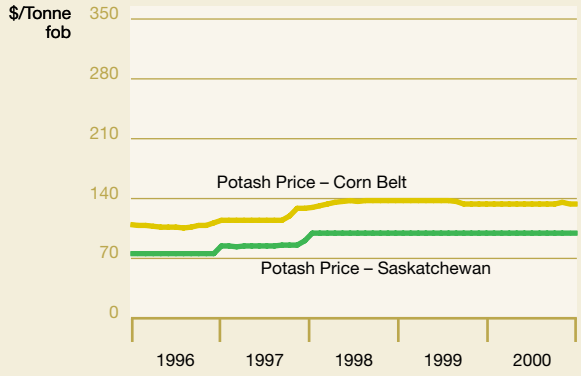
Sales volumes and **margins remained relatively consistent** from 1998 to 2000 L. Potash margins were $47, $45 and $46 per tonne respectively for 2000, 1999 and 1998.

*Sulphur and Other Products*

We also produce and sell other products, including ammonium sulphate and micronutrients. These products are required for specific crops and demand can vary depending on the product and the number of acres planted. The most common sulphur product is ammonium sulphate, which has a significant nitrogen component.



L **Potash Price History**




*Sources: Blue Johnson, Green Markets*

natural ore body

robust crops



# north america wholesale

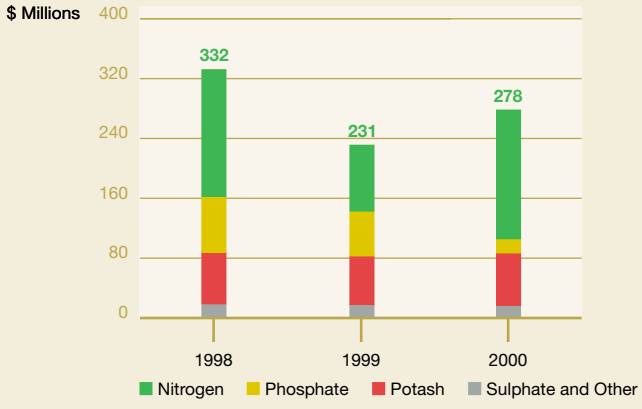


## THE RESULTS

North America Wholesale earnings before interest expense and income taxes (EBIT) were $166-million in 2000, compared to $128-million in 1999 and $226-million in 1998. Significant factors affecting EBIT were:

- The gross profit increase of $47-million in 2000 was the result of both The Unocal Fertilizer Asset acquisition, which contributed $22-million in the last quarter of the year, and the year-over-year improvement in nitrogen margins. This improvement followed a decline in nitrogen margins in 1999 due to depressed fertilizer prices, the result of China's absence from international urea markets, the advent of new supply and high export volumes from producers in the former Soviet Union. Stronger nitrogen margins were partly offset by weaker phosphate gross profit, which decreased $41-million from 1999 due to operational problems at both Kapuskasing and Conda, and to softening in prices;
- Selling, general and administrative costs in 2000 declined from 1999 and 1998 levels, a result of the corporate S,G&A reorganization and restructuring which we completed in mid-1999;
- Depreciation, depletion and amortization in 2000 increased from 1999 and 1998 levels due to: The Unocal Fertilizer Asset acquisition; amortization of the Kapuskasing phosphate facility and accelerated depreciation of the Conda phosphate facility relating to assets which will be replaced by the industrial phosphoric acid project;
- Other expense for 2000 and 1999 has increased from 1998 levels due to increased potash resource taxes.

**North America Wholesale Gross Profit**




high-value crops


value-added service

reliable



# north america retail

## Retail provides an ear to the producer to identify opportunities for growth.

We strive to create a collaborative relationship with our customers by offering value-added services that enhance our customers' success. We provide a full range of agricultural inputs including fertilizers, chemicals, seed, custom application and agronomic consulting.

Our retail organization, in concert with our wholesale marketing group, assists in the optimization of our production and distribution assets. The direct link to the end user provides feedback relative to preferred products and application techniques.

**We serve U.S. markets in the northwest, northeast, midwest and California**M**.** The geographic diversity somewhat insulates the business from unfavorable crop prices or adverse weather conditions in any one particular region. Crops vary from high-value vegetables, fruits, nuts, grapes and cotton grown in California to basic commodities such as corn and soybeans grown in the Midwest and northeast. The northwest is balanced between these two markets with the major crops being potatoes, wheat and grass seed. Almost one half of our sales are generated in California.

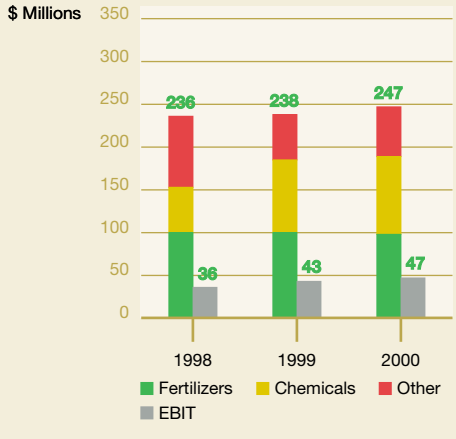
In recent years, we have made a major commitment to increasing our seed business. In 2000, our seed revenues increased 74 percent over 1997 levels. The commercialization of genetically modified seed has created both the opportunity and the necessity for this business direction. The opportunity arises from the technology of more complex seed choices, which benefit from recommendations by agronomic professionals. This business direction was also motivated by declining chemical revenue resulting from the new seed genetics. Up to now, the primary benefits from genetically modified seed have been related to crop input traits. Since crop inputs do not have significant appeal to the general public, the risks and benefits of seed genetics have been the subject of numerous debates on a global scale. As positive crop output traits are introduced, we believe public acceptance will occur.

Another technology receiving considerable attention is e-commerce. Retail's current focus in this area is business-to-business. This approach will enhance supplier relationships and reduce transactional expenses. The business-to-consumer market is being directed toward the delivery of agronomic and business information. Eventually, our 225 locations will facilitate the Company's full participation in this technology.

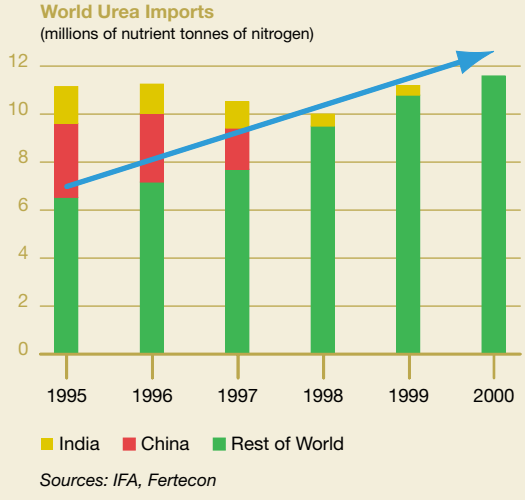
North America Retail set its **fourth consecutive record earnings before interest expense and income taxes** (EBIT) in 2000N. EBIT was $47-million, which was up 10 percent over the 1999 total of $43-million and 30 percent above 1998. These records have been achieved in spite of a general decline in prices for agricultural products and increasing fuel costs.

M **Strategic Retail Farm Centres**


N **North America Retail Gross Profit and EBIT**



# Agrium is expanding to support a growing world.




*Sources: IFA, Fertecon*

## facts about global business

- Agrium increased nitrogen production capacity by 60 percent in 2000.
- In 2001, Agrium expects to sell more than 2.5 million tonnes of product internationally.
- World cereal production is expected to increase more than 30 percent over the next 20 years to meet demand.


international expansion


training local staff


global distribution



# south america

**A key component of our strategy is to seek out opportunities in regions where significant increases in yields could occur from increased fertilizer usage.**

The southern cone of South America, and Argentina in particular, provides an attractive alternative to the mature agricultural markets in North America. Although the crop mixes and farm sizes are similar to the U.S., the application of fertilizers is much lower. The Argentine pampas were once rich in organic matter, but decades of agricultural production have mined these soils to the point that balanced fertilization is required to increase crop yields. One reason for the lower application rates is that the country lacks the necessary infrastructure for bulk fertilizer blending and application. Fertilizer application rates are currently approximately 20 percent of the U.S. average and consequently crop yields, such as corn, sorgham and wheat, are well below typical U.S. levels. Argentina also offers a climate which permits farmers in some regions to grow crops in all four seasons, unlike the northern hemisphere where typically crops are grown in two seasons.

Argentina is one of the **largest agricultural exporters in the world** with exports of agricultural products totalling over $10-billion O. The country is also one of the top four exporters of wheat, corn and soybeans in the world and is the largest exporter of soybean meal and oil. Approximately 60 to 70 percent of the corn and wheat produced is exported. **Agriculture contributed over five percent to the Argentine gross domestic product** in 1999 and by comparison, U.S. agriculture contributes approximately one percent P.

Our strategy in Argentina was to establish North American-style retail operations in the country, focusing on more cost-efficient and effective bulk blending and application practices and thereby growing the granular urea market. Once this market is established our strategy is to meet the increased demand with production from our world-scale nitrogen complex thereby replacing imported product.

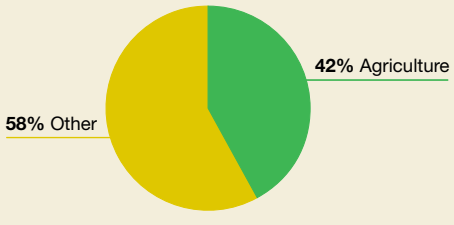
## RETAIL

Between 1995 and 1997 we built 18 North American-style farm centres. The importance of the retail farm centres was to introduce bulk blending and application equipment to a fertilizer industry which was previously largely focused on bagged, prilled and non-blended nitrogen. We also introduced the North American practice of providing agronomic services to help customers understand the benefits of soil testing, balanced fertilization and sound agricultural practices.

These efforts have made a significant contribution to the modernization of agriculture in Argentina. Our business model has been duplicated by a number of other retail companies in Argentina and should ultimately serve to enhance the consumption of fertilizer. Growers now have more opportunity to replenish the soil's

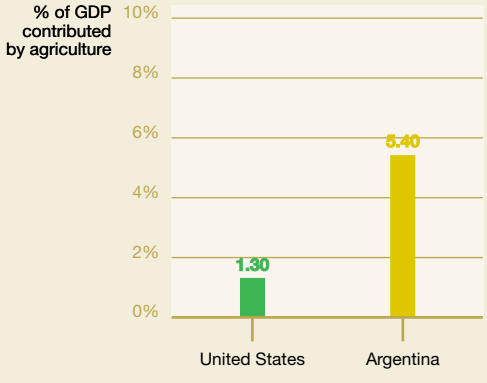


**O Percentage of Argentina's Exports by Sector (1998)**




*Source: Economist Intelligence Unit*

**P Agriculture's Contribution to GDP (1999)**




*Sources: Economist Intelligence Unit, U.S. Government*

product blending

grower success



nutrients, ensuring long-term sustainability and maximum yields. Our objective is to promote **increased rates of fertilization** which will benefit Argentine farmers and represent a significant growth opportunity for our Company Q.

## WHOLESALE

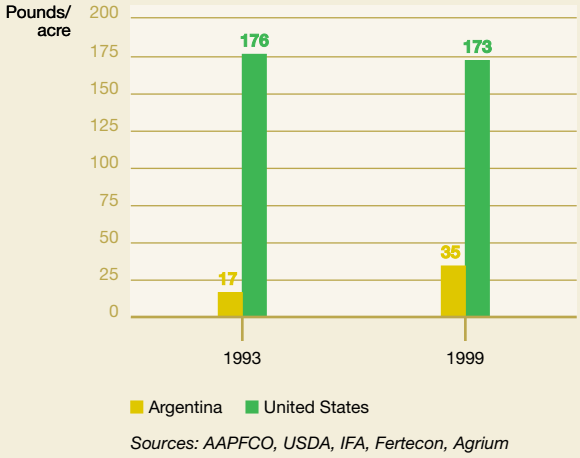
In May 1997 we announced we would participate in the Profertil project to build a world-scale nitrogen facility at Bahia Blanca, Argentina. The plant has the capacity to produce 1.1 million tonnes of urea and 70,000 tonnes of net ammonia annually. The natural gas supply for the facility is secured under three 12-year contracts at prices competitive with similar export-oriented facilities in Trinidad. It is the first facility of its kind in Argentina and is located on tide water with export capability. The export capability increases our potential earnings stability by providing access to less seasonal international markets. Over time, we expect the Profertil facility to replace current levels of imported product and satisfy Argentina's growing requirements for nitrogen fertilizer.

Commissioning of the urea plant was delayed until the contractor addressed a number of deficiencies which were leading to low-level ammonia releases. The major initiative to address this was the installation of an ammonia flare stack in the urea unit which was completed in December 2000.

In its first year of production, we expect that approximately half the product will be sold in Argentina and the remainder exported to countries in South America, Australia and elsewhere. Domestic sales are expected to increase and account for substantially all of Profertil's production by 2007. The South American market has had strong growth in demand for nitrogen products, which should facilitate placement of product into the market. In 1998, we also established an import terminal at San Nicholas, Argentina, to store Profertil product and other fertilizer products and to provide a distribution centre in the northern and central regions of Argentina. In early 1999, this import terminal was sold to Profertil S.A. to consolidate our production and wholesale business in Argentina. In 2000, our South America Wholesale results reflect only the activity of purchasing product for import to the San Nicholas terminal and the subsequent sale of this product to farm retailers in Argentina. All ammonia sales from pre-commercial production at Profertil were accounted for as a reduction in capital in 2000.



**Q Fertilizer Growth Potential in Argentina (total nutrient use per planted acre)**




*Sources: AAPFCO, USDA, IFA, Fertecon, Agrium*


low-cost production

grower relationships


improved yields



# south america

**Profertil achieved a one-day world record 3,250 tonnes of urea production for a single-train plant, in January 2001.**

## OUR SOUTH AMERICAN EXPERIENCE

We have gained a great deal of business experience in Argentina. The country has a number of cultural, fiscal, legal and regulatory risks and challenges. We are mitigating these risks by partnering with local companies, training and developing local employees and placing experienced expatriate employees in key positions. A specific challenge is the Argentine farm credit environment, which extends credit terms significantly in excess of those normally available in North America. Working capital levels reflect the extension of credit through the growing season and past harvest until the growers receive payment for their crops. We are addressing the risk associated with these extended credit terms through careful screening of customers and by obtaining appropriate security where we believe it is warranted.

## THE RESULTS

Over the past three years financial results for South America Retail reflect the start-up costs associated with developing a new market and have not yet achieved our targets. In 2000, however, results improved significantly from a loss in EBIT of $7-million to a loss of $1-million in 2000, reflecting rapid growth in the market.

The total fertilizer market has grown from approximately one million tonnes in 1995 to an estimated two million tonnes in 2000. From a market share of less than one percent in 1995 **our Retail operations now have more than 10 percent of the Argentine market** with a similar improvement in results R. In 1995, five percent of the market was bulk fertilizer, none of which was granular urea. In 2000, 40 percent of the market was for bulk granular urea.

Results from South America Wholesale in 2000 reflect the sale of the San Nicholas terminal in late 1999 to Profertil and a lower level of business activity. We have effectively retained 50 percent of this operation through our interest in Profertil. Selling, general and administrative costs have increased from 1999, reflecting the build-up of the infrastructure to run the Profertil business.

In 2001, gross profit for South America is forecast to increase significantly, reflecting sales from Profertil production. The added nitrogen production capacity from this facility is coming on-stream at what we believe is an optimal time in the nitrogen cycle.



R **Argentina Production Facilities and Farm Centres**

market opportunities

year-round delivery



## other

Our Other non-operating segment includes our corporate functions and inter-segment eliminations. Losses in 2000 have increased mainly due to lower interest income, reduced gains on disposal of non-core assets and eliminations of inter-divisional interest. The year-over-year increase in S,G&A in 2000 reflects the centralization of a number of functions in 1999 as part of the overall restructuring initiative and costs associated with the addition of The Unocal Fertilizer Assets in the fourth quarter. The increase in other expenses in 1999 over 1998 levels was a result of the $11-million charge against earnings for this restructuring.

## risks and uncertainties

In addition to the normal physical risks associated with operating our facilities and transporting our product, our financial results are subject to fluctuations in fertilizer prices, natural gas costs and foreign exchange rates over which we have limited control. We manage our exposure to fluctuating natural gas prices through the use of derivative commodity instruments and through longer-term fixed price natural gas supply contracts. The Kenai Gas Contract is a reserves-based contract which is subject to risks relating to the exploration, development and production of the reserves. Fixed price contracts now account for 38 percent of our natural gas requirements. Our natural gas requirements are purchased from a number of suppliers under contracts that contain mostly one-year terms with some longer-term contracts. Natural gas prices under these contracts are fixed or market indexed, with hedging employed to reduce the impact of natural gas price fluctuations. A significant increase in the price of natural gas that is not hedged and can not be recovered through an increase in nitrogen-based fertilizer prices could affect our nitrogen profitability significantly.

We manage our exposure to exchange rate fluctuations through the use of forward foreign exchange contracts and options. We regularly evaluate these programs to ensure an appropriate balance is maintained between underlying business risk and the cost of such programs.

Our operations and investments and any future international expansion by Agrium are subject to numerous risks, including fluctuations in foreign currency, exchange rates and controls, credit, expropriation and other economic, political and regulatory policies of local governments which could potentially lead to amendments to fiscal terms.

Our past and present operations are affected by extensive environmental regulation, including increasing requirements for future site decommissioning, restoration and reclamation. We manage our environmental risk through a program that monitors known issues and through environmental audits of our facilities. We make provisions for anticipated future reclamation costs each year.



### Sensitivity

*This table illustrates the effect of changes in key variables on our net earnings, and is based on actual levels of activity in 2000. It is not intended to be used to forecast results, as a change in one factor may compound or offset another and levels of activity in future years may differ from those in 2000. In addition, these sensitivities may only be valid within a limited range of values.*

| Impact Factor | Increase in Factor | Net Earnings Impact ($ millions) | Earnings Per Share* ($/share) |
|---|---|---|---|
| North America Wholesale | | | |
| Nitrogen | | | |
| Price of ammonia | $ 5.00/tonne | 5 | 0.04 |
| Price of urea | $ 5.00/tonne | 7 | 0.06 |
| Cost of natural gas (U.S.$) | $ 0.10/MMBtu | (6) | (0.05) |
| Phosphate | | | |
| Price of phosphate (MAP & DAP equivalent) | $ 5.00/tonne | 3 | 0.03 |
| Potash | | | |
| Price of potash | $ 5.00/tonne | 5 | 0.04 |
| Exchange rate from C$ to U.S.$ | C$ 0.01 | 1 | 0.01 |

**Based on average outstanding shares as at December 31, 2000*