

CF Earnings Call Transcript

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Quarter: 2

Operator: Good day, ladies and gentlemen, and welcome to the CF Industries First Half and Second Quarter of 2025 Earnings Conference Call. [Operator Instructions] I would now like to turn the presentation over to the host for today. Mr. Martin Jarosick with CF Investor Relations. Please proceed, sir.

Martin A. Jarosick: Good morning, and thanks for joining the CF Industries earnings conference call. With me today are Tony Will, President and CEO; Chris Bohn, Executive Vice President and Chief Operating Officer; Bert Frost, Executive Vice President of Sales, Market Development and Supply Chain; and Greg Cameron, Executive Vice President and Chief Financial Officer. CF Industries reported its results for the first half and second quarter of 2025 yesterday afternoon. On this call, we'll review the results, discuss our outlook and then host a question-and-answer session. Statements made on this call and in the presentation on our website that are not historical facts are forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or implied in any statements. More detailed information about factors that may affect our performance may be found in our filings with the SEC, which are available on our website. Also, you'll find reconciliations between GAAP and non-GAAP measures in the press release and presentation posted on our website. Now let me introduce Tony Will.

W. Anthony Will: Thanks, Martin, and good morning, everyone. Yesterday afternoon, we posted results for the first half of 2025 in which we generated adjusted EBITDA of \$1.4 billion. These results reflect outstanding operational performance by the CF Industries team against the backdrop of a tight global nitrogen supply-demand balance. We are also executing well on our strategic initiatives. The Donaldsonville Carbon Capture and Sequestration Project began operating in early July and is running at designed rates and progress on the new Blue Point joint venture is well underway. And we continue to return substantial capital to shareholders. Over the last 12 months, we have returned approximately \$2 billion. This includes repurchasing more than 10% of our outstanding shares since last July. Given our world-class operating performance, the favorable global nitrogen industry dynamics, the financial benefits we generate from our strategic initiatives and our ongoing capital return programs, we are well positioned to create value for shareholders over both the near and longer terms. With that, I'll turn it over to Chris to provide more details on our operating results. Chris?

Christopher D. Bohn: Thanks, Tony. For the first half of 2025, we continue to differentiate CF Industries from peers through safety and operational excellence. We had 3 recordable incidents in the first 6 months of 2025 and 0 loss time days. This is particularly impressive given our scale and level of activity in the first half. Through the end of June, we produced 5.2 million tons of gross ammonia, representing a 99% utilization rate. For the full year, we expect to produce approximately 10 million tons of gross ammonia. The third quarter, as is typical for CF will have lower production volumes in the first 2 quarters due to planned maintenance activity. Turning to our strategic initiatives. We started up our Donaldsonville Complex Carbon Capture and Sequestration Project in July. The carbon dioxide dehydration and compression unit has ramped up very well and we achieved full nameplate capacity within the first week. In addition to reducing carbon dioxide emissions by up to 2 million metric tons per year or earn a significant return from this project. We are generating 45Q tax credits and selling

low-carbon ammonia for a premium. For the Blue Point project, we, along with JERA and Mitsui, have been building out the project team and have begun ordering long lead time items. We also continue to evaluate opportunities to further derisk the project by leveraging best-in-class capabilities. For example, the joint venture signed an agreement with industry leader, Linde, to build and operate the air separation unit which will supply nitrogen and oxygen for the ammonia production process. We remain excited about the compelling growth opportunity at Blue Point, given the tightening of the global nitrogen supply-demand balance, and the interest that has been generated in the ultra low carbon ammonia that will be produced there. With that, let me turn it over to Bert to discuss the global nitrogen market. Bert?

Bert A. Frost: Thanks, Chris. throughout the first half of 2025, the global nitrogen supply-demand balance continued to tighten. Strong global nitrogen demand led by North America and India had to contend with low global nitrogen inventories and production disruptions in key supply regions. This included geopolitical events late in the second quarter that temporarily halted production in Egypt and Iran, as well as 2 facilities in Russia. CF Industries team navigated these dynamics exceptionally well, especially as the North American spring application season lasted longer than normal. Backed by a strong production we leveraged our leading logistics and distribution capabilities to capture incremental opportunities well into July. For example, last month, we continue to make spot UAN sales at in-season prices, as supply from other sources was largely unavailable after the strong spring application season. As a result, our UAN inventory at the end of June was the lowest we have seen entering the third quarter in the last decade. This led us to delay our UAN fill program until next week, which is the latest we have ever launched. The delay has given us time to better understand customer requirements and communicate that fill prices will be significantly higher than 2024, given the tight global supply-demand balance. Farmer economics in North America have been an industry concern as the price of corn has not kept up with the price of inputs. However, we expect nitrogen demand in the region to remain robust. The corn to soybean ratio favors corn and farmers will be incentivized to optimize yield, supporting resilient demand for this nondiscretionary nutrient. In fact, our ammonia fill and fall prepay programs which were closed at the beginning of July, saw a strong uptake from customers. In the near and medium term, we believe the global nitrogen supply and demand balance will remain tight. Global nitrogen inventory is low and the global demand is expected to be strong. Brazil and India alone are likely to require more than 8 million metric tons of urea imports through the end of the year, while the Northern Hemisphere, which will begin purchasing for 2026 applications. The global industry, even with the needed urea exports from China does not have excess capacity to easily meet this demand. In fact, India closed its most recent tender at a price much higher than expected. Additionally, natural gas availability in Egypt, Iran and Trinidad has become chronic problems for their nitrogen industries. And the high natural gas prices in Europe and Asia continue to challenge nitrogen producer margins in those regions. These structural challenges are further exacerbated by the uncertainty created by geopolitical events. Longer term, we expect the global nitrogen supply-demand balance to tighten further through the end of the decade as projected, new capacity growth is not keeping pace with demand growth for traditional fertilizer and industrial applications. We also believe demand for low carbon ammonia for new applications, such as power generation, will only further tighten the global supply-demand balance. We are seeing this transition now. With the Donaldsonville CCS project operational, we will ship our first cargo of low-carbon ammonia in the coming weeks and at a premium. We have steady demand today and growing interest in Donaldsonville low-carbon ammonia volumes for new applications in addition to the longer-term demand for ultra-low carbon volumes from Blue Point. With that, Greg will cover our financial performance.

Gregory D. Cameron: Thanks, Bert. For the first half of 2025, the company reported net earnings attributable to common stockholders of \$698 million or \$4.20 per diluted share. EBITDA and adjusted EBITDA were both approximately \$1.4 billion. For the second quarter of 2025, we reported net earnings attributable to common stockholders of \$386 million or \$2.37 per diluted share. EBITDA and adjusted EBITDA were both approximately \$760 million. As you will recall, we have begun consolidating the Blue Point joint venture into our financial statements. This is reflected in both our first half and in second quarter 2025 financial reporting. On a trailing 12-month basis, net cash from operations was \$2.5 billion and free cash flow was \$1.7 billion. This includes a net benefit in the second quarter from the Blue Point

project as capital contributions from our joint venture partners exceeded the project's capital expenditures. This will be the case for some time as we build cash in the joint venture ahead of expenditures. We returned approximately \$280 million to shareholders in the second quarter of 2025, including \$202 million to repurchase 2.8 million shares. We remain committed to a balanced capital allocation strategy, investing in growth through the Blue Point joint venture while returning substantial capital to our shareholders. With the nitrogen and oxygen agreements with Linde that Chris mentioned, the cost of the Blue Point project is expected to be \$3.7 billion. CF Industries portion of the project along with the wholly owned common facilities, is expected to total approximately \$2 billion over the next 4 years. Over that same time frame, we have \$2.4 billion authorized for share repurchases. We expect to complete the \$425 million remaining on the current authorization before the end of the year. At that point, we will begin the \$2 billion authorization. Finally, with the startup of the Donaldsonville CCS project, we will deliver incremental EBITDA and free cash flow beginning of the third quarter. We expect EBITDA and free cash flow to be north of \$100 million annually from the tax incentives and product premiums. This is a significant step towards the 2030 mid-cycle projections we shared at Investor Day of \$3 billion in EBITDA and \$2 billion in free cash flow. With that, Tony will provide some closing remarks before we open the call to Q&A.;

W. Anthony Will: Thanks, Greg. Before we move on to your questions, I want to thank the entire CF team for their contributions to an outstanding first half of 2025. We are delivering world-class operational performance across all aspects of our business. and most importantly, doing so safely. I want to acknowledge Ashraf Malik, our Senior Vice President of Manufacturing and Distribution, who recently announced his intention to retire in the spring of 2026. I recruited Ashraf into CF from our GrowHow joint venture in 2011. He was my right-hand person when I ran manufacturing as he also was for Chris when he ran it. Appropriately, Ashraf took over as Head of Manufacturing when Chris moved into the CFO role in 2019. Ashraf is an experienced leader who has helped drive our culture of safety and operational excellence. We're fortunate to have him with us for the next 9 months, but I do want to take this opportunity to personally thank him for his many contributions and to congratulate him on a tremendous career. Although CF Industries has been around for almost 80 years. In a couple of days, we'll be marking the 20th anniversary of our company's IPO. Over the last 20 years, CF Industries has built an extraordinary high-margin, focused business where we consistently execute at the highest levels, a global leader in every sense of the word. Our balanced approach to capital allocation, driving disciplined growth while executing consistent share repurchases has increased shareholder participation in our assets and the cash flow they generate. As you can see on Slide 13, we have driven a nearly threefold increase in nitrogen capacity per share since 2010 and this approach has led to superior shareholder return compared to all industry participants and even broader comparison groups. CF Industries is well positioned to build on this track record in the years ahead. In the near and medium term, industry dynamics remain very favorable for our low-cost North American production network. Longer term, we are investing in much-needed low-carbon ammonia capacity and have \$2.4 billion authorized for continued share repurchases. Taken together, we expect to continue to drive strong cash generation and create substantial shareholder value. With that, operator, we will now open the call to your questions.

Operator: [Operator Instructions] And today's first question comes from Richard Garchitorena with Wells Fargo.

Richard Garchitorena: You're progressing on the Blue Points, obviously, we've consolidated results. My question is on the outlook for returns. Obviously, we had the Big Beautiful Bill come out. I think there's some treatment of depreciation, which may be changing. Can you talk about how that impacts potentially the return calculations and how that may impact taxes from Blue Point and CCS?

Gregory D. Cameron: Yes. So it's Greg. I'll take that one first. So when we look at the joint venture, there's a number of items that are going to run through that P&L; from the tax side that we're going to need to be coordinated with our JV partners on it. Not only will our depreciation of the assets be important, the timing of the earnings to make sure we're maintaining our basis in the assets as well as the monetization of the 45Q credit. So we're in the process with our partners and with our advisers of modeling out those different variables. But what I can tell you, in particular, too, as we look at the depreciation, what we had in our original expectation within the model was already on an accelerated

basis. So if you get to day 1 complete amortization, depreciation of the assets, we don't expect it to materially change the overall returns of the project that we've shared with you before. But we'll continue to model that out over the next few years and make sure that we understand how all these variables interplay against each other.

Operator: And the next question comes from Edlain Rodriguez with Mizuho.

Edlain S. Rodriguez: I mean, Tony, just kind of when you look forward into 2026 and beyond, I mean, again, given where crop prices are and where fertilizer prices are like what are you thinking there? I mean, again, kind of there's a disconnect between prices and put cost for farmers. So how do you see that develop over the course of next year?

Bert A. Frost: Good morning Edlain, this is Bert. And that is the question in the industry today, is how does the farmer solve the calculus of planting and at the end, profitability. Fertilizer represents about 25% of the input costs for a crop. And so nitrogen, even less so of that 25%, then you've got diesel equipment, crop insurance, feed, crop protection. And the big question is land rent and land value. The majority of farmers today are renting a portion of some places all of their land and at \$200, \$300, \$400 an acre, that's where the push has to come, we believe in that calculus. We're a global product, globally traded, globally moved, globally valued product in the context of urea, UAN and ammonia. And so we compete for imports and exports with the world. And so the U.S. farmer in the same vein for corn, soybean, cotton, wheat, whatever product has to compete, and I think it will be some economizing with different subparts of that calculus that I gave. But nitrogen is the nondiscretionary nutrient and will have to be applied. And I think then farmers plant and apply for yield, and they earn their way out of this difficult market.

W. Anthony Will: Bert, I totally agree on that, which is, I think once you've gone through the -- all of the other expenses that you talked about, you are going to go ahead and try to optimize yield because it's the last couple of bushels that will actually make the difference in terms of profitability or not. And so at least with respect to nitrogen, we continue to see and expect full application rates because that's really how you're going to get profitable. It's not trying to save a couple of bucks by reducing your nitrogen application. Now P&K; is a different story, but at least nitrogen, we expect to go down.

Operator: And the next question is from Joel Jackson with BMO Capital Markets.

Joel Jackson: Can you talk about a report that came out yesterday around the time you reported, it seems like maybe if it's true, you've got a few days or a week of no loading happening at D'ville. Is that about demand, but your -- you had a huge quarter, of course in Q2, volume is so good, demand so good, you're out of inventory. Does that speak about the strong dynamic for yourselves market? Is there any production problems and you can elaborate?

Christopher D. Bohn: Yes. So Joel, this is Chris. I'll start. So the report was incorrect in the sense that it said that it was an operational issue with our loading at the Donaldsonville facility. We continue to have full access to loading production and utilization there, as you can see in the second quarter, continues to be outstanding. I'm going to let Bert talk to some of the inventory levels and some of the customer direction that we've done that was probably more the source of that than it was operational.

Bert A. Frost: Several figures for issues at play, Joel, with the dynamic nature of this spring application. And in the summer, we just did not have the inventory due to high demand in some of the previous remarks of being one of the last companies standing with available supply. So every day, we had full. And in Donaldsonville, this is a reflection of team dynamics and discussion on how we work collaboratively, but the urea product manager, along with production and allocation and logistics folks work together. We had 2,000 tons of inventory yesterday. We produced 7,500 tons per day at Donaldsonville and when you throw in Port Neal and Medicine now, we produced about 14,000 tonnes a day. So to have that low of an inventory, and you're loading 4 to 6 barges a day at 1,500 tonnes per barge you want to have inventory for consistent and reliable loading. So this was just a reflection of team coming together, making a decision and saying, let's build the inventory over the weekend, and then we'll be able to load barges more seamlessly as being sporadic. That's just good management and safe management for the team.

Operator: And our next question comes from Lucas Beaumont with UBS.

Lucas Charles Beaumont: Is there saw some cost pressure in the first half this year, both like on SG&A; and your controllable non-gas production costs, which were both sort of higher year-on-year. So could

you please just kind of talk us through what the drivers were there, if there's anything that was kind of more onetime and kind of think about the trajectory there going forward into the second half of next year?

Gregory D. Cameron: Yes, I'll start, and then I'll pass it to Chris. So let's start with SG&A.; Listen, I've been here now 13 months and continue to be impressed by the organizational structure we have and the operating efficiencies that the business has. And when I compare our SG&A; to any benchmark in the industry, we are a very lean organization. So any small movements in the number will -- small number will move that number on a percentage basis. This is specific to the quarter and specific to the second quarter, there was 2 discrete items to talk about. One was around our legal fees associated with us closing our Blue Point joint venture, not only with the partner, but all the other agreements we had to put in place. That was about half of the difference versus last year. And the second part of the difference was almost all of the employees here at CF are on some type of variable compensation. And given what we're seeing from the operating performance of the company, as well as the market pricing that is there we made an adjustment within the quarter for our expectation and how that variable incentive will pay out in the year. So those are the 2 main items that explain the SG&A; difference year-over-year. And as you think about it going forward, third quarter, fourth quarter probably look more similar to what we saw within the first quarter. Now on the cost side, I'll let Chris talk to it in particular, but just to make a couple of points as we try to analyze it. One, and you're right to do it ex gas, when you look at any 90-day period within the company, it's going to be impacted by timing of maintenance, either planned or unplanned. So we tend to look at things over a longer period of time. If I look at it over the first half, in fact, our controllable costs were down minimally low single digits versus last year. If you look at it, in particular, on the second quarter, you remember in the first quarter of last year, we had maintenance events associated with weather that drove an acceleration of our maintenance from the second quarter into the first quarter. So if I look at the variance in the second quarter of 2025, it has more to do with what happened in 2024 than '25. In fact, first quarter to second quarter, when you adjust for maintenance events is fairly similar.

Christopher D. Bohn: Yes. And just to add on to that. So as Greg mentioned, we do look at a longer time frame because it could just be timing when something hits. But during the quarter, we had really 2 events that drove up some of that controllable cost, and one was unplanned outages at a couple of facilities, even though we had very high utilization throughout the rest of the network, there were 2 facilities that had some extended unplanned downtime. And what that resulted in bringing it back to what Bert talked about with tight inventory, we had tight inventory at all our locations. And as a result, to meet some of the customer commitments we had, we had increased logistics costs, making those moves in order to service and provide the customers with their products. So a little bit some unplanned outages and then also the logistical moves, just given how tight inventory is in the industry.

Operator: And our next question comes from Jeff Zekauskas with JPMorgan.

Jeffrey John Zekauskas: On the DCS project, you talked about \$100 million benefit. And I think I get that, there's an \$85 a ton tax credit and maybe it's costing you \$35 a ton for various isolations of the CO₂. And so that gets you to an annualized rate of \$100 million. In general, these are tax credits. When does the cash come in? And how do you account for it? That is you take the tax credits on an ongoing basis. When do you get paid from the government? How does that work?

Gregory D. Cameron: Yes. So Jeff, it's Greg. I'll answer it 2 ways. One is from our financial statements and then from our tax cash payments. So on our financial statements, we will begin accruing this into our EBITDA as the gas flows and we've talked about that being an \$85, 45Q credit that we'll net about \$50 on up to 2 million tons, and we begin to see that in our third quarter reported financials as part of our EBITDA calculation. Now on the cash side, obviously, we won't settle up on our cash tax position until the later part of 2026 but we will begin to withhold our expectations around what we're going to receive back for the 45Q credit as early as our September payments that we make in, our estimated September payments that we make into the IRS. So you'll begin to see the cash benefits of that almost immediately. And then obviously, at the end, when we file our final return next year, it will all be part of that return.

Jeffrey John Zekauskas: Great. And just one follow-up. Can you talk about the theoretical relationship between the amount of ammonia made and the amount of CO₂ captured? Sometimes, when you read

the literature, it seems that CO2 capture should be much more in tonnage than the ammonia made? And what you have is something that's pretty close to 1:1. Can you describe what's going on?

W. Anthony Will: Yes, Jeff, let me start off with that, and then I'll turn it over to Chris. But all of our existing ammonia plants today are conventional steam methane reforming. And in general, you end up with about 1/3 of the natural gas used to drive the process from an energy and heat perspective. And about 2/3 of the natural gas goes into the actual process and the synthesis of ammonia. And so the total amount of gas, about 32 on average MMBTUS' per ton of ammonia will generate about kind of, call it, 1.8-ish, 1.7, 1.8, 1.9, depending upon the plant in question, tons of CO2 per ton of ammonia. With the existing process, though, because we're not doing flue gas capture on SMRs, you can only capture about 2/3 of that, which is related to the process side of the equation. And then Donaldsonville is one of our large upgrade facilities, and when you're making urea either as granular or as part of DEF or going into UAN. You have to use a lot of that process CO2 to make urea. So you actually have to use it downstream in the process and therefore, it's not available for CCS. When we move to Blue Point, because it's a different process, auto-thermal reforming we can capture a much, much higher percentage of the CO2, in that case, probably close to like 95% to 98%.

Christopher D. Bohn: I'm not sure there's much I can add to that.

Operator: And the next question is from Chris Parkinson with Wolfe Research.

Christopher S. Parkinson: Great. I'd love to hear your thoughts on the current supply side dynamics into the second half and into '26. I mean there's been essentially everything there have been attacks on Russian facilities, geopolitics, gas shortages in Eastern Europe and Trinidad. I mean, there's literally been everything. But -- and ultimately, demand has been stable to solid on the other side of that. But how should investors be thinking about the sustainability of these dynamics into 2026. And have you seen actually anything improved? Or are we still essentially at the status quo?

Bert A. Frost: Chris, this is Bert. And this has been an incredibly interesting market for the aspects that you articulated tax, geopolitical tax being tariffs, gas shortages and just issues in high demand than on the opposite side. So starting with the tariffs. We've been in this discussion since March, it was going to be April. And so that delayed imports or even cut imports into North and into United States for Q2. And we are exiting Q2 and into Q3 inventory that needs to be rebuilt in the United States and Canada. And so we are doing our best at CF in terms of running as we do at very high rates and being efficient and moving our product. But as I mentioned in an earlier comment, nitrogen and fertilizer is a global commodity that moves based on price and based on needs. And we're now entering the peak season for the Southern Hemisphere and you're seeing India step in yesterday closing 2 million tons. That's the first time they've been able to close that ton, but at prices in the \$500, \$2,500, \$30 range, very attractive compared to historical values. And so you've got high demand in the Southern Hemisphere. And when I talked about in my prepared remarks, Brazil needing probably 1 million tons a month for the next several months. to satisfy their first planting and then getting ready for their second crop that gets planted in January. And then you've got to quickly pivot to the Northern Hemisphere entering 2026 for Europe and North America. And I think that's going to be a very hard or a very difficult calculation to close because of our inventories and the need, the imports and the disruptions of tariffs. And then you go to the gas shortages that were created during the conflict in Iran and the cutoff of gas to Egypt, a low gas supply in Trinidad, just between, I'd say, those 3 areas just regarding what we lost just between Egypt and Iran over 1 million tons. And so then you have China entering the market with an additional 5 million tonnes, it doesn't close the balance. This is why we're constructively positive in the market for Q3 and Q4, but into '26 with the current pricing dynamic that we're experiencing. Couple that with the low gas prices that North America that we're seeing at \$3 makes for a very attractive position for CF.

Christopher S. Parkinson: And just if I may parlay that question into another, the second half is setting up pretty well in terms of ASPs and obviously, we'll have to have our own views on operations and ultimately, volumes sold. But if you we tend -- if you set up favorably on the free cash flow side, just even given the historical 60%, 70% at times, how should investors be thinking about the uses of cash? Because on the one hand, obviously, a lot of people are going to be looking for buybacks. At the other, you are entering a CapEx cycle with Blue Point and there have been some debate on basically derisking at least the beginning of that cycle. So how should we be balancing those 2 views under the presumption that free cash flow should be a little bit better as we progress throughout the year?

W. Anthony Will: Yes. I would say, in general, Chris, we do have \$2.4 billion open to buy on share repo. And we have, I think, a pretty good view of what expenditures look like for Blue Point going out initially. And these kind of projects, they start off a little on the slower side and then start accelerating then the big spend is really kind of year 3 and 4 as you're paying for all of the deliveries of the large modules and doing the construction work to put them together and get the plant kind of commissioned. But in general, as we're generating kind of more cash than what maybe an LRP would look like or even what the expectation of certain market segments look like, then we will probably go ahead and deploy that capital against the share repurchase more expeditiously than otherwise we might pace it out.

Operator: The next question is from Kristen Owen with Oppenheimer.

Unidentified Analyst: This is Mason Manor on for Kristen. I just wanted to follow up on the carbon capture at Donaldsonville question, in particular, the contribution of the credits in Q3, understanding that the 45Q for enhanced oil recovery is different from the permanent sequestration credit. Can you just help us understand the economics of the EOR credit? And is there any additional costs related to that process? Or should we just think about the similar flow-through just off that lower credit value?

Christopher D. Bohn: Yes. Thanks. This is Chris. Mason, I would start with that our base case assumptions for not only the Donaldsonville, but also the Blue Point in Yazoo City is that it goes to Class 6 permanent sequestration. And as far as the tax law, that particular allocation of 45Q at \$85 per metric ton did not change. The EOR data up from \$60 to \$85 per metric ton. And as you may know, we've begun sequestering at Donaldsonville while Exxon is in the process of getting their Class 6, utilizing the EOR and putting in permanent geological frustration through EOR. That does allow us potentially to go from the \$60 to \$85, however, we don't believe that, that's going to really make any type of difference from our economics as we have equivalent economics, whether it's EOR or the Class 6 permit. The one thing I would mention is Exxon was granted a draft Class 6 permit for its Rose-CCS project in July and the comment period for that with the EPA ended earlier this week. And so it's our expectation that we'll be moving to that Class 6 relatively soon here before the end of the year.

Operator: The next question is from Vincent Andrews with Morgan Stanley.

Vincent Stephen Andrews: I'm wondering, I think the press release talked about an expectation that China will not export further this year, at least after 3Q. So just curious what's driving that view, if it's anything in particular you're picking up on the ground with your sources in China?

Bert A. Frost: So we've been fairly consistent with our Chinese expectations that there is exportable tons available. The issue with China today is a lot of those tons are prilled urea and prilled urea is not desired by many places outside of India, Mexico, a few other Asian countries. And so what they offered to initiate our initial volume target was 2 million tons through Q3, and then they start building for their spring season through Q4 and Q1 of next year. Subsequent to that, they announced an additional 1 million tons. And again, our commentary is that those are tons that are needed with the losses that have taken place in different parts of the world and the high demand position that the world is in, bringing those Chinese tons an additional 1 million, so to hit 3 million tons. But so far, they've been underperforming in terms of those exports out in June and July. So we'll see if they're able to hit those numbers. There was a rumor that India might be able to buy some Chinese tons. Those were -- I would say forbidden, but they were not to be exported to India that might still happen. And so constructively positive for world supply, not impacting, I think, pricing. They have since raised the minimum price in China for both the prills and the granular product. So we'll see what happens over the ensuing months.

Vincent Stephen Andrews: What about for the fourth quarter? It sounds like you don't expect it for the fourth quarter?

Bert A. Frost: Further announcements, that's all I'm going on is no.

Operator: And our next question comes from Matthew Dale with Bank of America.

Unidentified Analyst: Look, I know you made some comments about insufficient nitrogen supply additions. But what do you make of some of the larger capacity functions for urea that CRU has kind of noted or flagging coming to the market in the next 5 years in China. It's kind of the prevailing assumption that China won't build that or it just won't get exported given some of the current policies?

Bert A. Frost: You have several factors going on in world supply and demand and focusing on the supply side, there are plants in Russia, Iran and Turkey totaling about 2.7 million tons. And then the 4

plants in China, I think you're referencing, targeting 2.6 million tons that are scheduled to start up in the ensuing, I'd say, this year and next year and then some ongoing construction. But you've had plants taken offline and then the gas issues that we've talked about in different parts of the world. So as you look at overall growth in the 1% to 1.5% growth each year that we see in the need for urea against, that's a 200 million ton supply, you need 2 world-scale plants to 3 per year to be built just to stay steady with the growth. And so again, coupled with the restrictions, whether that be Europe or Trinidad or different parts of the world that have gone offline, we don't see that keeping pace. And you're seeing that reflected today in continued strong demand, Brazil is a great example. Brazil is going to be 9 million tons. It has steadily grown year after year, with, again, yield accompanying that, whether that be corn, wheat or cotton, yields improving, they're going to need additional and they don't have any urea plants coming on. They've talked about with Petrobras bringing several of those plants back online, that's going to take some time. And we're seeing India, even though they built these new plants, they're not operating to expectations. And so they're underperforming in terms of their total production based on expectations. So you go world around the world, Ukraine is not operating, Pakistan is not operating. You got different parts that are driving the supply shortage and demand increasing.

Christopher D. Bohn: I would just add to that on Bert's comments that generally in China, when new production is going on, a lot of times that is replacement of old, less efficient or higher particulate matter plants that are going offline. So it's a bit of a replacement. Additionally, our view on the tightening S&D; balance from a nitrogen perspective, specifically ammonia is based on, there's a lot of upgrade urea plants that are going in to consume that ammonia. So as we see this tightening of the ammonia market, part of it is just new upgrade plants going in both here in the U.S. and globally that are consuming that ammonia and tightening that market even more. And then coupled with what Bert said, with European production continuing to be challenged, we expect that to continue as well. So I think it's still going to be a very tight market as we move through the end of this decade.

Unidentified Analyst: I appreciate that. And one more, I guess, if we think about the blue and green ammonia market, how much do you think ultimately could get moved into, say, Asian energy markets for shipping, right? Like what's the -- how much tonnage can that ultimately be?

Christopher D. Bohn: Yes. I would say the base case right now between now and 2030, we're looking at is probably 3 million tons of low-carbon ammonia would be moving in there, primarily for power generation. However, with that, I think what we're seeing with our announcement actually moving forward is more interest from other parties who are contacting not only Bert but also bidding through different areas for low carbon production, both in power gen, and then you're also seeing a little bit more starting to grow in the marine side. I still think the marine side is a bit further out than 2030, but you are beginning to see ammonia engine vessels being constructed.

Operator: And the next question comes from Ben Theurer with Barclays.

Benjamin M. Theurer: Just wanted to understand a little bit better the sequential dynamics in ammonia. If we take a look at 2Q versus 1Q, it feels like the gas price came down, but at the same time, gross margin was actually significantly worse on a sequential basis. So I just want to understand what's been happening here and how we should think about the back half of the year as it relates to -- assuming gas prices where they are right now, what that should do to your Nutrien adjusted gross margin per ton?

Gregory D. Cameron: Yes. No, no, I'll start and pass it over to Chris. This is Greg. So as we talked about before, and Chris talked about in particular, with some of the unplanned outages we saw as well as the distribution cost of moving product around to meet customers' needs that ran through, particularly in the ammonia segment into the second quarter.

Christopher D. Bohn: Yes. And we also, as Greg mentioned earlier, we look at it more than just on a quarter-by-quarter, given some of the timing. And now as we look at the back half of the year, as we mentioned in our prepared remarks, Q3 is generally a little bit heavier of a turnaround period. So we may see a couple of hundred thousand tons less of gross production of ammonia during that period as well.

Bert A. Frost: And on the movement of the product, Q3 is generally an industrial export quarter with Q4 being more ag based. We've built a very solid order book for Q4 for weather dependent, but the weather always cooperates with CF Industries. So we're going to see that be a positive time of -- and the pricing has been very positive and the demand uptake very positive.

Operator: The next question is from Andrew Wong with RBC Capital Markets.

Andrew D. Wong: Maybe a topical question for today to start. What's your view on how a Russia and Ukraine truce or some sort of p-settlement could impact on natural gas prices and also on the nitrogen market?

Bert A. Frost: Yes. I have several Russian friends and Ukrainian friends. And I am I would take it to peace. I would love to see peace break out, and this situation ends. And it bothers me that we take it economically, and that I understand that's a reflection of our business. The Russian tons that are coming to the United States, it amazes me that we are sending bombs and missiles there but bringing fertilizers here. So I would hope that, that is addressed in some form or fashion. But the impact on natural gas, that's not going to come back anytime soon as the Nord Stream system is not going to be rebuilt anytime soon. The frustration, I believe, with the European NATO allies and the purchasing of Russian product, whether that be gas or in the form of nitrogen probably is not going to come back anytime soon. There's tariffs and sanctions coming that will only increase on Russian product. And so I think for the world, you're going to see much more North American natural gas moving to Europe and other places, and we're going to see on Bcf type basis probably going from 15 in the United States up to the mid-20s in the next several years. On a nitrogen basis, again, it's a world, it's a globally traded commodity. I think the pricing and the product moves as relation to product needs as well as the values communicated. Russian product is traded at a discount to Brazil and India. I expect that to continue for a while. And then we see what happens with these peace talks. But hopefully, that progresses before we have to talk about other issues.

Christopher D. Bohn: Yes. I would just add just on the energy front, anything -- it have to be solved relatively quickly to stop some of the pressure that's already in motion, specifically for European producers given the maintenance activity that these plants require the working capital and the demand timing as you're building production for 2 points of the year of demand. So I think from our perspective, what we see from a European curtailment and shutdown is expected to continue no matter what happens just given the time frame it would take in order to build back Nord Stream or bring in more Russian LNG through that time frame.

Andrew D. Wong: Okay. I appreciate all that. And then maybe just switching over to Europe. With the implementation of CBAM, can you just talk about how you see that impacting the markets, both in Europe and globally. And how does that change to all of Europe at the marginal cost better?

Christopher D. Bohn: Yes. So I'll start, and I'll see if anybody else wants to add in. But right now, just to put in context, CBAM in a transitional phase where right now, importers have to report their carbon intensity. So it goes into place in January of next year. And there's quite a few details that are still being worked out that our hope is by the end of the year here. The specifics to that particular program are put in place. But what it will allow us, based on today where it's roughly an \$80 per metric ton carbon tax on producers that we should begin to see with our low carbon ammonia coming out of Donaldsonville something that's probably in the \$25 per metric ton benefit. That continues to increase through the years that by 2030 would be equivalent of \$100 per metric ton advantage that low carbon production out of Donaldsonville would have. So from our perspective, it's going to be something that -- we haven't really worked into all of our models of upside, and that's why we feel confident that we've been probably overly conservative, but will be something that will be an advantage and almost our carbon arbitrage opportunity for CF as we're able to move our product in there.

Bert A. Frost: Yes, I agree with Chris. In terms of how we're looking at CBAM, but also working with our existing operating units in the U.K. and planning to send low-carbon ammonia to produce low carbon ammonium nitrate for that market as well as other customers, industrials as well as fertilizer producers. We see a tremendous opportunity in the near term with the products we're already making due to our CCS and longer term with the Blue Point operation.

W. Anthony Will: And I would just add, we are seeing a -- as Bert commented in his remarks, we're seeing demand in a premium for the low-cost -- the low-carbon intensity product already today, that's even before you get into the CBAM situation. So this has been a great kind of initiative for us, not only because the 45Q makes it a really highly accretive investment the CO2 capture and dehydration compression injection, but also because on top of the 45Q we're getting paid incrementally

differentiated product margin for the attribute. So this is just another step up as Chris said, which will add to that with the CBAM that wasn't worked in or expected in any of the initial calculations around Blue Point.

Andrew D. Wong: And maybe just the other part of the question just on the nitrogen market itself, like what is the impact there and on EU in its marginal cost role?

Bert A. Frost: The impact, I assume what you're asking for is what's the impact on low carbon product to the market?

Andrew D. Wong: No, just in general, like EU right now is the marginal cost setter kind of, right, with the high cost as -- does that raise your cost profile? Does it change like how the market works and maybe they're a different part of the market now or kind of that?

Bert A. Frost: Yes. I think what it's going to do is it is going to raise the cost of the product going into Europe, obviously, as you're having to pay for that carbon tax that's there. But I don't think it changes anything with European production. So as demand grows there and you're seeing that constraint, that's why we're very strongly believe that you're going to have to incent new production globally to be bid in and what we've seen recently with the exception of our project, a lot of these other projects that were in FID state have either deferred those FIDs or canceled the projects all together. So we see the back half of this decade just getting tighter and that's at the same time that we'll be bringing on our production. So we think the cost curve from that perspective, given demand growth will probably move up along with some of these other carbon initiative globally.

Operator: And the next question comes from Aron Ceccarelli with Berenberg.

Aron Ceccarelli: What is CF's perspective on nitrogen fixation products? Do you see these products as a growing risk to traditional nitrogen producers? Or do you expect farmers to adopt them as a complementary solution? And perhaps additionally, would CF be interested in entering the nitrogen fixation market?

Bert A. Frost: This has been a topic, nitrogen fixation, microbials, biologicals, different applicated -- applied products for years. And I've been following this phase for a couple of decades and there have been many new entrants and we have a lot of access to farmers. We have paid attention to the studies from the various universities and I would say today, it's a questionable segment. They haven't performed as advertised, they've been tried in their variables. I've talked to 2 farmers most recently with all the variables controlled being water, the only variable being weather, but water seed, crop protection, fertilizer being constant and the variable being the active products. And at times, they work and at times, they don't. Are we interested? Well, we follow these things because it has an impact on our business. We want to align with the retailers and farmers that are doing best practices and so far, we haven't seen the performance as advertised.

W. Anthony Will: The other thing I would just add to that is, our expectation is that the value associated with any kind of, as Bert said, biological or other approach, is really to drive increased yield as opposed to a cost reduction based on nitrogen. If you think about a couple of hundred pounds of nitrogen going down per acre, even at relatively strong values for nitrogen, it's worth a lot more to the grower to increase yield by 3% or 4% than it is to try to take 5% of the nitrogen off the field. There's just more dollars associated with the end grain. And so we don't really see this as a necessarily as a competing technology, more of a value enhancement to the grower.

Operator: Ladies and gentlemen, that is all the time we have for questions today. I would now like to turn the call back over to Martin Jarosick for any closing remarks.

Martin A. Jarosick: Thank you, everyone, for joining us, and we look forward to seeing you at the upcoming conferences.

Operator: The conference has now concluded. Thank you for attending today's presentation, and you may now disconnect your lines.