

TESTIMONY OF DEREK FUZZELL

Good morning. My name is Derek Fuzzell. I am the Chief Administrative Officer of LSB Chemical Company, a subsidiary of LSB Industries, Inc., and the parent company of El Dorado Chemical Company. I have been with LSB for 15 years and I am intimately familiar with the operations of El Dorado Chemical Company, and with our company's decision to build an ammonia plant at the El Dorado site. I appreciate the opportunity to appear here today, and to tell you why it is so important to our company that the antidumping order against ammonium nitrate from Ukraine stays in place for the next five years.

El Dorado Chemical Company, in El Dorado, Arkansas, is one of only two remaining U.S. producers of fertilizer grade ammonium nitrate. LSB does not produce fertilizer grade ammonium nitrate at any other location, but this is the principal product that we produce at our El Dorado plant. Although we have ammonium nitrate prilling capacity at our plant in Cherokee, Alabama, that plant is now mothballed, and, given the contraction in the market, we do not expect that plant to be brought back on stream. El Dorado is the place and the only place where we make high density ammonium nitrate ("HDAN").

The El Dorado plant has been upgraded in recent years, and has been retrofitted to meet environmental requirements, so that it can operate at its maximum capacity. However, although this plant is quite efficient and environmentally sound, under current conditions it has a serious challenge. El Dorado's HDAN is produced using anhydrous ammonia that we purchase. This has, of course, always been the case. However, until about mid-2010, the price of ammonia tracked the price of natural gas closely enough that there was not a significant disadvantage to purchasing rather than producing

ammonia for an input. In the last few years, however, the price of natural gas in the United States has moderated significantly, but the price of ammonia has increased dramatically due to the supply and demand balance for that product. One major reason for this shift is that producers of ammonia are captively consuming more of their production for upgraded products leaving less available to purchase on the open market. As a result, El Dorado has been at a significant cost disadvantage in our production of HDAN. While the Ukrainian parties have quoted at length from our public filings concerning the benefits of natural gas price improvements, our statements have been very specific to the positive impacts on our UAN and anhydrous ammonia production at our other plants. Agricultural grade ammonium nitrate, however, is a whole different story, as we must rely on purchased ammonia at El Dorado, and our public filings make this clear. Making HDAN with purchased ammonia has severely challenged our HDAN business at El Dorado.

Last year, we began to explore the possibility of constructing an ammonia plant on site at El Dorado, to supply our HDAN production and restore profitability to our HDAN operations. The construction of the plant will cost \$250-\$300 million. This is an investment that is crucial to the financial viability of our HDAN operations at El Dorado. The decision was based on our expectation that gas prices will remain moderate (although they are projected to increase from present levels), while ammonia prices are projected to remain high and volatile. You might ask why we would decide to expend this type of capital to enable us to produce a product for a shrinking market. Not a bad question. The answer is that, while the ammonium nitrate market has contracted and may become smaller, we believe that there will continue to be a core market for this

product, that our location is particularly well suited to serving it, and that our plant can produce it quite efficiently. We are certainly concerned about whether the new security regulations will cause further contraction, but we have significant investment in the current facilities, and believe that if we can supply our own ammonia to the plant, we will be able to supply a significant share of the market, even if it should contract further.

For us, however, the next few years are critical. We have filed our permits for the ammonia plant. However, we will not be able to build it if we do not receive those permits, obtain adequate financing, and if our expectations that our customers will continue to take our products at a reasonable price are not met. This means that, if this order is lifted and there is a significant influx of cheap Ukrainian HDAN, our ability to move our product at a reasonable price, or even to obtain financing could be jeopardized. Given the history with Ukraine and the trading companies who sell ammonium nitrate into the U.S., lifting this order right now would be like burning a bridge while we are standing on it. We at least need the opportunity to get to the other side. Our ammonia plant is projected to be up and running, best case, in late 2015, and we do not yet have all the pieces in place to ensure that it can be built. You can understand why we are concerned about the lifting of this order.

You might ask, well, couldn't El Dorado just make other products, or sell the ammonia from the new plant. I know the Ukrainians seem to be suggesting that we can just make other products or that we would rather make other products at El Dorado. This is not the case. The ammonia to be produced at El Dorado is intended for our HDAN production, the primary product produced at El Dorado. Any "leftover" volumes available to sell on the open market are expected to be small. We also produce some

Industrial Grade AN at El Dorado, and our ammonia production will benefit that product as well. In this regard, I also want to note that the idea that somehow any underutilization of our capacity is due to decisions to shift HDAN production to other products is misguided. In fact, we have not, as the Ukrainians suggest, diverted HDAN production to other products.

I hope that this has helped you to understand why we need this order to remain in place. Thank you for your attention and I would be happy to answer your questions.