engrofertilizers

Analyst Briefing
1H 2014
Business Results

Urea Market Environment

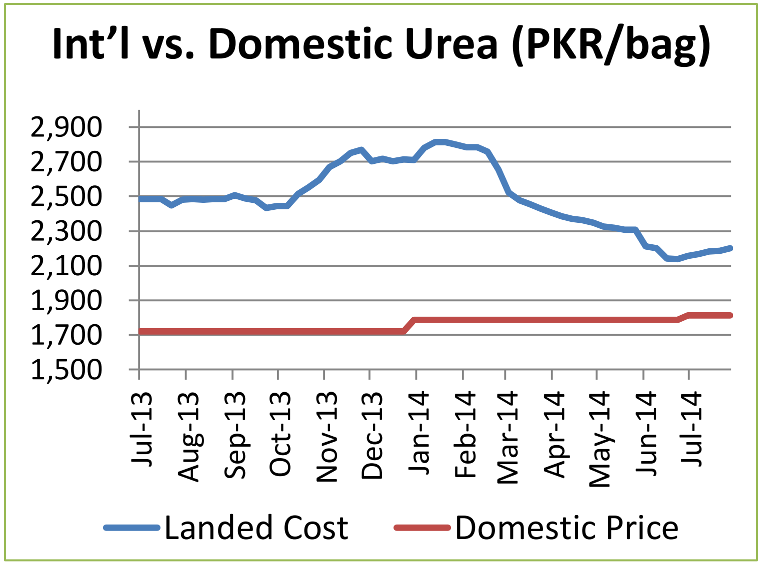
- Domestic urea production rose by 5% on a YoY basis in 1H 2014 ; led by better gas supply
- Overall urea sales slipped by 5% in 1H 2014 vs 1H 2013 (from 2.7 MT to 2.6 MT)
  - GoP price enforcement led to temporary dealer uncertainty on no/low dealer margins
  - Slight delay in wheat harvest also rolled 2Q demand forward into July
- Divergent trend was witnessed in branded vs. imported urea sale post Jan 2014 price equalization. Farmer preference for local product was evident
  - Nearly all branded urea was sold (+4% YoY) with only 63 KT closing inventory
  - Imported urea sales were lower by 225 KT (-43% YoY) with closing inventory at 295 KT

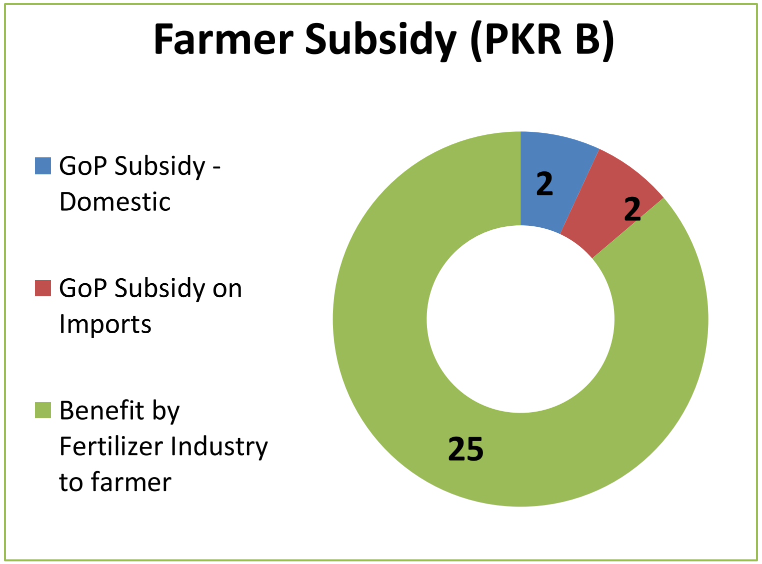
Urea Industry (MT)	1H 2014	1H 2013
Opening Inventory	0.3	0.4
Production	2.3	2.2
Imports	0.4	0.2
Sales	2.6	2.7
Closing Inventory	0.5	0.2

Urea Industry (MT)	2Q 2014	2Q 2013
Opening Inventory	0.4	0.2
Production	1.2	1.2
Imports	0.1	0.2
Sales	1.2	1.4
Closing Inventory	0.5	0.2

UREA MARKET ENVIRONMENT

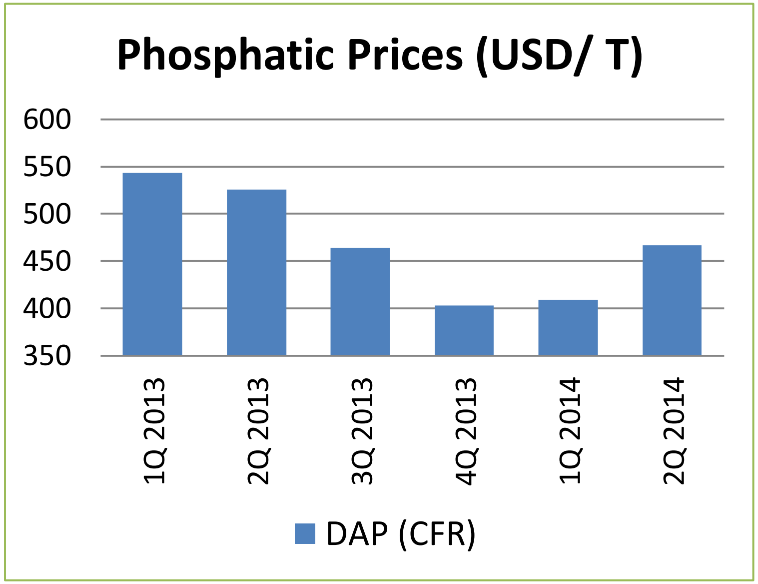
- Int'l urea prices (benchmark China) averaged USD 332/ton (CFR) in 1H 2014, equivalent to local cost of PKR 2,485/bag (inclusive of ancillary charges) vs local price of PKR 1,786/bag
- Latest prices are around USD 299/ton (CFR) which translates to PKR 2,241/bag
- Local prices are now PKR 1,813/bag after PKR 25/bag hike effective July 03, 2014
- With decline in international prices and lower sale of imported urea, subsidy burden on national exchequer was reduced
- The benefit passed on by the local producers to the farmers in 1H 2014 is around PKR 25 B

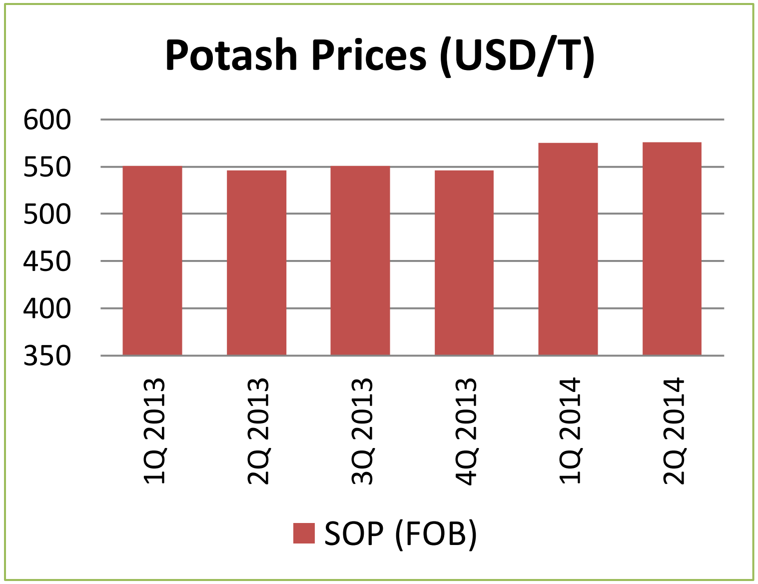




ZARKHEZ MARKET ENVIRONMENT

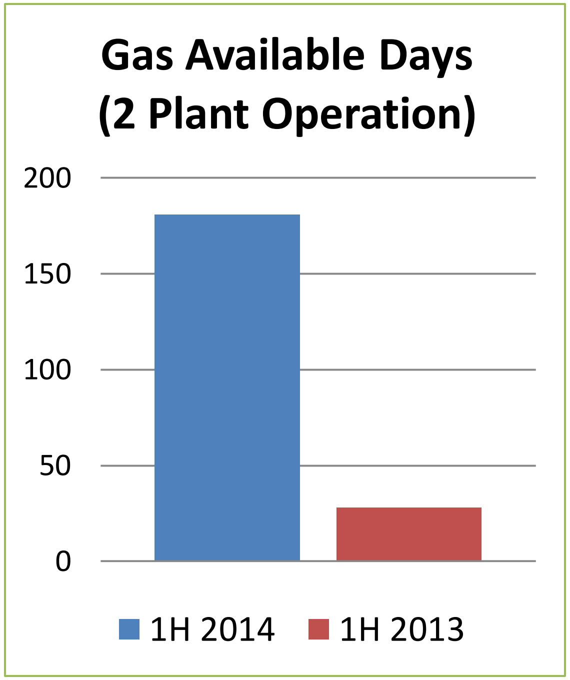
- In 1H 2014 international DAP prices averaged USD 438/ton (CFR), 18% lower YoY and SOP prices averaged USD 575/ton (FOB), +5% YoY
- Phosphate market grew by 2% in 1H 2014 while the Potash market grew 45%
- PKR 14 B subsidy on phosphatic and potash fertilizers (PKR 400/bag for DAP and SOP) was announced by the government on June 17, 2014
- Limited clarity on mode and timing of subsidy significantly dampened sales in the latter part of June otherwise growth could have been higher
- Confusion still remains on the exact implementation mechanism for the subsidy which is expected to be cleared in time for the Rabi season at the earliest





GAS UPDATE

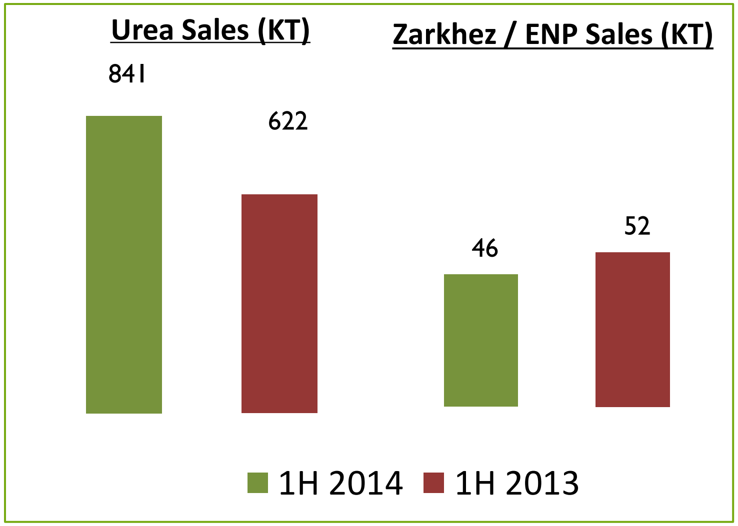
- Both plants are operating since July 2013 due to availability of gas from Guddu
- Gas supply from SNGPL meanwhile was reduced in May 2014 due to diversion to the power sector
- Mari SML contract is extended for another year
- The industry continues to absorb much of the cost impact of hike in GIDC effective December 31, 2013
- Fuel GIDC hiked by PKR50/MMBTU to PKR 150/MMBTU (effective July 1, 2014)
- Going against Fertilizer Policy 2001 and contracts entered into with fertilizer companies (including EFERT), GoP has decided to levy GIDC on fixed price contracts. Engagement with GoP underway / legal recourse considered
- EFert continues to engage with Mari and SNGPL for implementation of concessionary gas price on Mari
- Long Term Gas Allocation (specifically KPD) to the fertilizer sector is pending with GoP for ratification



Business Highlights

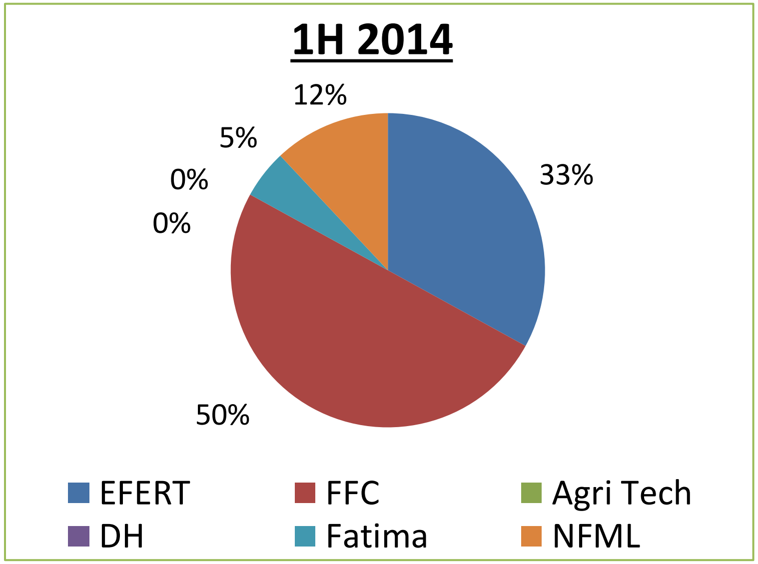
- Engro Fertilizer Ltd PAT stood at **PKR 3,375 M** vs PKR 1,425 M in 1H 2013
- In 2Q 2014, PAT rose to **PKR 1,938 M** vs PKR 1,437 M in 1Q 2014 and PKR 779 M in the corresponding quarter last year
- Better profitability was primarily led by higher production / sales and lower financial charges
- 1H 2014 production was 847 KT (vs 617 KT in 1H 2013) despite an 18 day planned turnaround at Enven and a few forced outages at the base plant
- 1H 2014 urea sales were 35% higher on a YoY basis at 841 KT

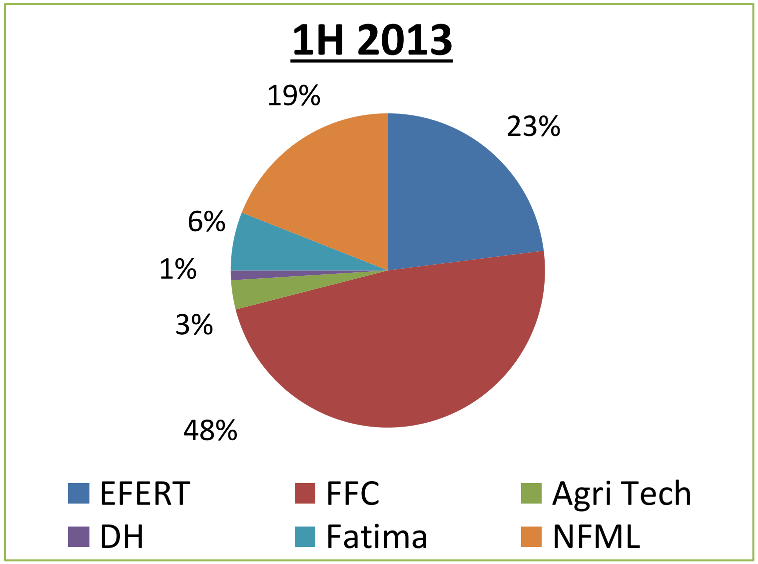
Engro Fertilizers	1H 2014	1H 2013
Revenue (PKR B)	27.7	20.5
EBITDA (PKR B)	10.0	9.2
PAT (PKR B)	3.4	1.4
EPS (PKR)	2.61	1.25



BUSINESS HIGHLIGHTS

- On the back of higher product availability and sales we were able to increase our market share from 23% to 33%
- EFert market share in branded urea also rose to 37% from 28% a year ago
- EFert reported its highest ever production of 1.79 MT in a 12 month period (Jul 13-Jun 14)
- EFert has already crossed 1 MT production as of 30th July for the calendar year





Other Highlights

- TRIR remained at a low of 0.03 with only 1 recordable injury in the first six months
- PKR 3.2 B Sukuk issued to refinance expensive Engro Corp loan. Any subsequent Engro Corp loans arising as a result of IFC conversion will also be refinanced promptly
- PKR 8 B was offered as early repayment to restructured lenders as specified in the restructuring agreement
- Out of the above-mentioned PKR 8 B sweep amount, PKR 4.9 B has already been paid and documentation is in process. The remaining PKR 3.1 B is expected to be repaid in the remaining part of the year
- IFC has converted USD 5 M worth of debt to equity (21 M Shares) in July and likely to convert the remaining USD 4 M of convertible debt in due course

Business Highlights

Financials (PKR M)	1H 2014	1H 2013
Sales (KT)	842	623
Revenue	27,658	20,519
COGS	(17,784)	(12,036)
Gross Profit	9,873	8,483
Selling & Distribution Expense	(1,970)	(1,484)
Financial/Other Charges	(4,002)	(5,238)
Other Income	1,002	291
Profit Before Tax	4,903	2,052
Income Tax	(1,529)	(627)
Profit After Tax	3,375	1,425
EPS (PKR)	2.61	1.25

- Lower urea margin due to incomplete pass through of GIDC hike (Dec 2013) resulting in lower Gross Profit per ton
- Significant decrease in Financial Charges due to debt repayment
- Higher Other Income due to much improved liquidity

OUTLOOK

- Local urea demand is expected to remain stable vis-à-vis 2013 because of stable commodity prices and agricultural output
- Imported urea stocks have started moving again since a gap in prices appeared in July 2014 after domestic urea prices were hiked and price of imported stock was not
- With low branded urea inventories, declining stocks with NFML and lower-than-needed Kharif imports by GoP (shortfall mainly due to decision to divert network gas to power plants), we foresee a tight urea supply position in 3Q
- Fresh round of urea imports likely to be in place in time for Rabi and peak wheat sowing season
- Continuation of temporary gas allocation of 60 MMSCFD from Mari is uncertain however we are making all attempts to have it continue flowing as long as possible


Q & A
Thank You